

# **Risks of internationalization of SMEs in relation to the EU**

**Diploma thesis**

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## **Abstract**

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Small and medium-sized enterprises of the EU gain the opportunity to trade their goods and services, or both across the borders of the EU. Thus, the importance of studying the internationalization process has become with the increasing competitiveness very important. This diploma thesis deals with risk of the internationalization process of small and medium-sized enterprises that is a process of entry to the foreign markets. Moreover, it deals with what is the role of the European Union in the internationalization process. The goal of the thesis is to identify the risks of the internationalization process of small and medium-sized enterprises and to find out if the European integration helps small and medium-sized enterprises in this process. The suggested recommendations are intended to show how to support the small and medium-sized enterprises in the internationalization process.

## **Keywords**

Internationalization, small and medium-sized enterprises, barriers of entering foreign markets, public support in international trade.

## **Abstrakt**

KLIMUSOVÁ, Kamila. *Risks of internationalization of SMEs in the relation to the EU*. Brno, 2015. Diploma thesis. Mendel University in Brno.

Malé a střední podniky Evropské unie dostaly příležitost obchodovat jejich zboží a/nebo služby přes hranice EU. Tím se začala zvyšovat konkurence a roste i důležitost zkoumání internacionalizačního procesu. Tato diplomová práce se zabývá riziky internacionalizačního procesu malých a středních podniků, tedy procesu jejich pronikání na zahraniční trhy. Dále se tato práce zabývá rolí Evropské unie v internacionalizačním procesu. Cílem práce je identifikovat rizika internacionalizačního procesu malých a středních podniků a zjistit, zda evropská integrace pomáhá malým a středním podnikům v tomto procesu. Vytvořená doporučení si kladou za cíl ukázat, jak by malé a střední podniky měly být podpořeny v rámci procesu internacionalizace.

## **Klíčová slova**

Internacionalizace, malé a střední podnikání, bariéry při vstupu na zahraniční trhy, veřejná podpora v mezinárodním obchodě.

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## List of abbreviations

BRIC	Brazil, Russia, India, China
EU	European Union
EEA	European Economic Area
FYROM	Former Yugoslav Republic of Macedonia
SME	Small and medium-sized enterprises
FDI	Foreign direct investment
SBA	Small Business Act

# 1 Introduction

Globalization and internationalization are getting intensified recently. It influences most of the people and most of the enterprises all over the world in everyday life. In Europe the process of internationalization has intensified with the openness of borders among the European Union and beyond the European Union so then an important area has started to be a trade with third countries, countries outside the EU. The European Union has started to dedicate to this important part of a trade and it has endeavored to support the small and medium-sized enterprises to become more competitive. EU offers financial support but as well as the non-financial to this enterprises.

Small and medium-sized enterprises (SMEs) gain the opportunity to trade their goods, services or both across the borders, out of their country of origin. The European Union tries to help the European SMEs with the difficulties, which can appear within the international trade. Small and medium-sized enterprises play in the process of internationalization a big role. Their advantages are speed and elasticity in reaction to the market changes, but disadvantage, which the SMEs have, is often lack of capital.

The financial crisis has influenced the international trade quite heavily. The European Union realized that the support of SMEs is one of the instruments how to stand the crisis. Key factors, which are connected to the internationalization process of SMEs, are identifying risks of this process and the given support. A lot of barriers can be found within the international trade and SMEs are aware of them. The barriers are for example political situation in the countries of trade, different culture or complications connected with paper work (bureaucracy).

The importance of studying the internationalization process has with the increasing competitiveness become very important. It has become the topic of the day, and it is important not to forget about this process. Hence, this thesis will be devoted to the internationalization process, identifying the risks of the internationalization process, and to the role of the EU within the internationalization process.

## 2 Objectives of the thesis

The main goal of the thesis is to identify the risks of the internationalization process of small and medium-sized enterprises (SMEs) in selected countries of the EU and to find out whether the European integration helps to the SMEs in this process.

Determination risks of the internationalization process of SMEs will be studied. Main reasons that cause problems of the internationalization process will be identified. The main goal will be divided into several partial objectives.

First partial objective will be to find out what are the barriers of the internationalization of European SMEs. Second partial objective will be to find out what is the most used mode of entry to the markets outside the EU. These objectives will be seen throughout the European SMEs as a whole, and then it will be focused on chosen SMEs within the Union. The chosen SMEs will come from a questionnaire survey.

Lastly, the influence of the European Union on the internationalization process will be studied. Therefore, the partial goal will be to find out how the European SMEs perceive the European Union within the trade with the countries outside the EU and if these SMEs use some support that come from the EU within the internationalization process.

## 3 Overview of the internationalization process of SMEs in relation to the EU

The process of globalization leads to internationalization and economies around the world have started to be more interdependent. The competition has risen with the increasing internationalization and small and medium-sized enterprises have to face risks that are brought with this process. The European Union tries to help the EU SMEs to become more competitive and face the growing rivalry.

### 3.1 Globalization and Internationalization

In today's world we meet a term globalization in almost every step we make and the term internationalization is connected very tightly to this as well. World market is accessible by large multinational companies as well as small and medium-sized companies.

*"The Term 'Globalization' has been used by different authors in different ways. In simple terms, globalization refers to the process of integration of the world into one huge market. It calls for a removal of all types of trade barriers among different countries. Even political and geographical barriers become irrelevant."<sup>1</sup>*

Globalization of business is the result of developments in different fields, such as technology and science, expansion in varied aids to trade and interdependence of countries. The thoughts of globalization can be viewed that the entire world is a single market.<sup>2</sup>

The globalization is the world process, which makes the world, its national unions, its national systems, more uniform, more integrated and more reliant. The globalization is the process where the world becomes "smaller" because the time that is necessary to transfer goods, information or people from one place to the other is constantly shortening.<sup>3</sup>

Even there is still lack of a model for analysis the causes and features of globalization, it could be appeared for example as the internationalization of division of labor, whereby different aspects of the same production process are located in different parts of the world; the internationalization of R&D, and the worldwide sourcing of scientific knowledge; the growth in foreign direct surpassing the growth in trade flows among advanced countries; an increasing proportion of world trade etc.<sup>4</sup>

There exist a lot of reasons that small and medium enterprises could have a chance in the process of globalization. The assumptions of SMEs are that they are subjects that could be flexible and they can react quickly on the customers' re-

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<sup>1</sup> International Business and New Trends, 2007

<sup>2</sup> International Business and New Trends, 2007

<sup>3</sup> PICHANIČ, Mezinárodní management a globalizace, 2004

<sup>4</sup> WELFENS, Internationalization of the Economy and Environmental Policy Options, 2001

quirements. And they can keep their finances low budgetary on account of their rational behavior.<sup>5</sup>

*"The internationalization of the economy has accelerated in the 1980s and 1990s as growing international portfolio investment and foreign direct investment have reinforced the global interdependence of markets and locational competition."*<sup>6</sup>

## 3.2 Internationalization of the firms

If a firm would like to be successful in entering the international markets then it needs to identify its position relative to the competition in the market. So as the suitable strategies can be adopted, and the firm could be competitive, it is by knowing if it is a market leader, challenger, nicher or follower.<sup>7</sup>

### 3.2.1 Innovation Model

Bilkey and Tesars' innovation model has been the first concept to develop the four-stage expansion process (Johanson and Wiedersheim-Paul) to six stages in 1977. The internationalization is perceived as a progressive process that is achieved by the market experience within the firm. Additionally innovations within the firm also determine a transition to the next stage. The six sequent stages which characterize the managerial attitudes in the export developing process of the firm are:

1. Management has no interest in exporting, not even in the case of an unsolicited order.
2. Management would pursue an unsolicited order but is not willing to enquire into feasible exporting possibilities.
3. Management actively enquires into feasible exporting possibilities. This stage could be skipped if unsolicited orders were received.
4. The firm exports to countries with a low psychic distance on a trial basis.
5. The firm has gained experience in exporting to a particular country and optimizes its export behavior to the changing currency rates, tariffs, and another situation context.
6. Management enquires into feasible exporting possibilities to countries with a higher psychic distance.<sup>8</sup>

### 3.2.2 Uppsala Model

Uppsala model was described by Swedish economists J. Johanson, F. Wiedersheim-Paul and J. E. Vahlne. This model was developed at the end of the 1970s by the practice of Swedish production firms. According to this model, the increasing in-

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<sup>5</sup> KISLINGEROVÁ, NOVÝ. Chování podniku v globalizujícím prostředí, 2005

<sup>6</sup> WELFENS, Internationalization of the Economy and Environmental Policy Options, 2001

<sup>7</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

<sup>8</sup> CHRISTOFOR, Ascendents of Venture Firms' Internationalization, 2008

international business experience is linked to the international development. It can be distinguished between four different modes of international market entrance where the successive stages represent higher degrees of international involvement. Hence, the usual process of internationalization can be divided into four gradual stages which are:

1. irregular export activities,
2. companies export via independent representatives (agents),
3. establishment of their sales subsidiaries,
4. investment into production activities in the foreign markets.<sup>9</sup>

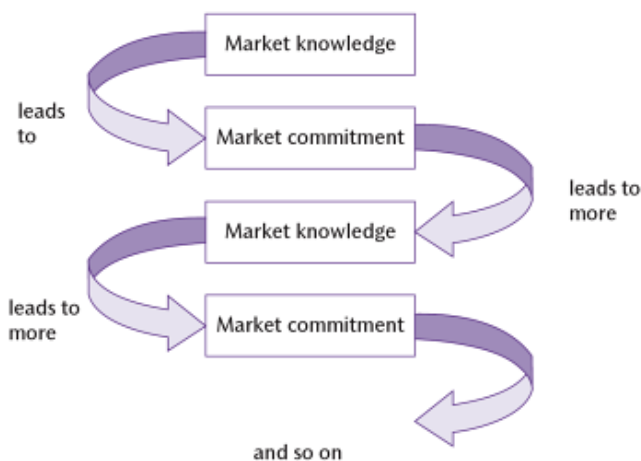


Figure 1 The Uppsala Model<sup>10</sup>

The Uppsala Model suggests that firms take logical steps when they start internationalization. These steps are based on their gradual acquisition and use of information are gained by foreign markets and operations, which determine gradually greater levels of market commitment to more international business activities. The concept of market commitment can be explained by an example: foreign direct investment means higher market commitment than exporting or licensing. The resources located in a particular market present a firm's commitment to the market. Market commitment is formed by two factors: the amount of resources committed and the degree of commitment. The amount of resources relates to the size of investment in a particular market. The degree of commitment applies to the difficulty of finding an alternative use for the resources and transferring them to an alternative use.<sup>11</sup>

At the end of the 1980s, J. S. Welch and L. Roustarinen developed the Uppsala Model. According to them there are five factor of globalization and internalization is influenced by the product (product portfolio, industrial property and ser-

<sup>9</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

<sup>10</sup> FRYNAS, MELLAHI, Global strategic management, c2011

<sup>11</sup> FRYNAS, MELLAHI, Global strategic management, c2011



vices), the selected mode of entry into international markets (export, licensing, franchising, direct investment), the target market (political and cultural environment, geographical distance), by the company's organizational structure (an export department international divisions), and human resources (international business knowledge, experience, education of the staff). This extended model can be applied to the transnational firms. It can foresee globalization, etc. compared to the former model.<sup>12</sup>

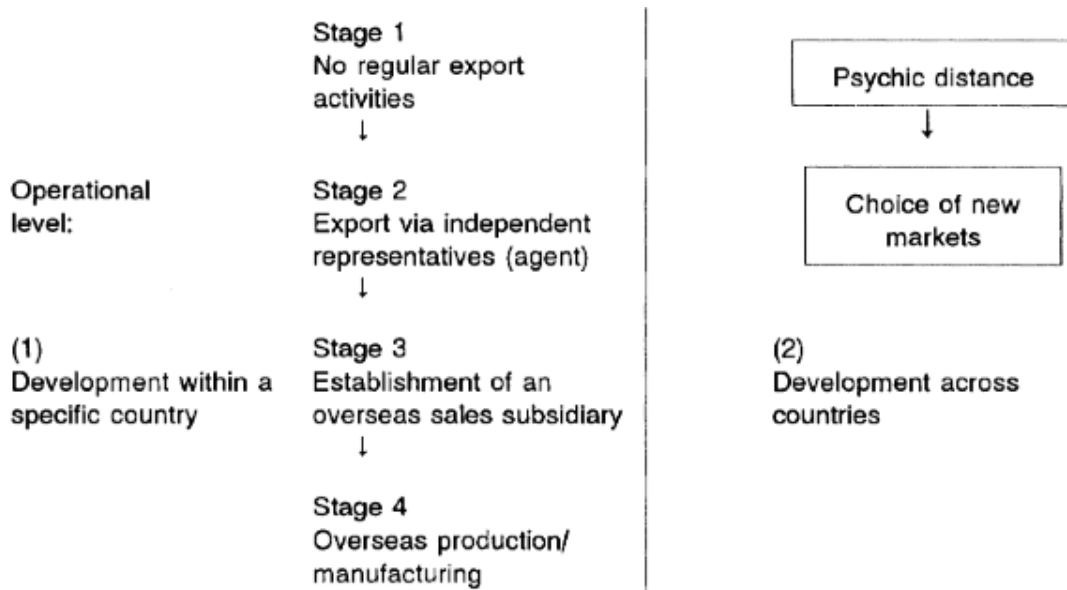


Figure 2 Operational level of the U-Model<sup>13</sup>

Figure 2 shows the operational level of the U-Model. Firstly, current business activities differ about the market experience gained. The second pattern predicts the entry to new markets with psychic distance. If knowledge of transactions can be transferred from one country to another, then firms with an extensive international experience are likely to perceive the psychic distance to a new country in shorter time than firms, which have little international experience.<sup>14</sup>

Some theoreticians have objections that there are also firms that start their international activities very early, at birth or very early in their life, what is not described by the Uppsala model and Innovation model. For these firms, it has started to be used a term Born Globals.

<sup>12</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

<sup>13</sup> ANDERSEN, On the internationalization process of firms - a critical analysis, 1993

<sup>14</sup> ANDERSEN, On the internationalization process of firms - a critical analysis, 1993

### 3.2.3 Born Globals

Born Globals is a term used for the firms that start international activities very early, at birth, or soon afterward. Afterward they sell a high share of their output abroad. Other definition of Born Globals could be that these are the firms that make foreign investment very early, either to serve customers or to procure inputs. The Born Globals sell niche products at low information, transportation and adaptation costs to expert customers dispersed throughout the world. Acquiring foreign customers is for Born Globals the same as acquiring domestic ones. Contrary to the Uppsala internationalization process model, the Born Globals expand abroad quickly. It is shown there that entering foreign markets is not necessarily a slow and laborious process. Because the Born Globals sell to customers with whom they share product-specific knowledge, then there is no remaining uncertainty and risk about the size and characteristics of their demand to be resolved through additional sales. Therefore, there is no reason to expect the subsequent changes to the initial entry mode that are predicted by the Uppsala model.<sup>15</sup>

## 3.3 Forms of entering the foreign markets

*"Foreign Direct Investment: any foreign investment which serves to establish lasting and direct links with an undertaking whose capital is employed to carry out an economic activity. Such investments may enable shareholders to participate in the management or control of a company."*<sup>16</sup>

If any company wants to enter a different national market then it must determine the best mode how to enter. Each mode has its advantages and disadvantages, according that managers must carefully decide what is the best option for their company. There could be found five primary choices of entry mode: exporting, licensing, franchising, joint venture with a host country company and setting up a wholly owned subsidiary in the host country.<sup>17</sup> The entry modes will be explained below.

### 3.3.1 Exporting

Export is often understood as a non-investment intensive form of entering a foreign market. It is usually when a company starts its internationalization, and it does not want to spend a lot of its sources.<sup>18</sup>

Exporting is both the quickest and simplest way how to enter a foreign market. The level of risk and commitment is minimized as well. It is so because the investment of managerial and financial resources is low comparatively with the oth-

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<sup>15</sup> HENNART, The Accidental Internationalists: A Theory of Born Globals, 2014

<sup>16</sup> Europa: Summaries of EU legislation [online], 2014

<sup>17</sup> HILL, JONES, SCHILLING. Strategic management: theory : an integrated approach, 2014

<sup>18</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

er modes of foreign market entry e.g. the joint ventures require a lot of resources. The other circumstances why a firm chooses exporting as a mode of entering the foreign market might be that there is no political or economic pressure to manufacture abroad or if a substantial commitment is inadvisable because of political risk, or uncertain or otherwise unattractive markets.<sup>19</sup>

### 3.3.2 Licensing, Franchising

Licensing in the field of trading is used for the permission to take advantage of the intellectual property item which is granted to a person who would be otherwise excluded from using it. *"A license can be granted only by the owner of an absolute right to the intellectual property item. This right justifies the owner to restrict anyone in the use of intellectual property. He may use all legal proceedings for it, claim a compensation for damage addressing the court, etc. The owner may, of course, grant an approval to another person, i.e. grant a license."*<sup>20</sup>

Advantages of licensing are following:

- entry to difficult markets,
- low commitment of resources and low capital risk,
- improved delivery and service levels in local markets,
- information on the product performance and competitor activities in different markets at little cost.<sup>21</sup>

*"Disadvantages of licensing are:*

- *disclosure of accumulated competitive knowledge and experience,*
- *creates possible future competitors,*
- *lack of control over licensee operations,*
- *passive interaction with the market*
- *possible exclusion of some export markets,*
- *organizing licensing operations: cost of adaptation, transfer and control."*<sup>22</sup>

Franchising is based on a complex and constant relationship between franchisor and franchisee. It is a form of contract that is made between parties - franchisor and franchisees. The franchisor is that who grants a franchise and authorizes respective franchisee who contrary receives a franchise to make use of his trade name and/or trademark, logo, brand name, method of operation including know-how in its widest form (all of his marketing program, system of accounting, management etc.). Furthermore, a franchisor provides sales support, different forms of technical assistance, material support and raw materials. In this type of contract

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<sup>19</sup> BRADLEY, International marketing strategy, c2005

<sup>20</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

<sup>21</sup> BRADLEY, International marketing strategy, c2005

<sup>22</sup> BRADLEY, International marketing strategy, c2005

the franchisee accepts an obligation to pay a franchising fee to the franchisor and also to follow the franchisor's commercial policy or strategy.<sup>23</sup>

### 3.3.3 Joint ventures

*"A joint venture is a business organization established by two or more companies that combines their skills and assets. It may have a limited objective (research or production) and be short lived. It may also be multinational in character, involving cooperation among several domestic and foreign companies. Joint ventures differ from mergers in that they involve the creation of a new business firm, rather than the union of two existing companies."*<sup>24</sup>

There exist three types of international joint venture:

1. Joint venture that is formed by two businesses that conduct business in a third country. An example of this type is - a U.S. oil firm and an UK oil firm may form a joint venture for oil exploration in the Middle East.
2. Formation of a joint venture with local private interests, e.g. Honeywell Information Systems of Japan was formed by Honeywell, Inc., of the United States and Mitsubishi Office Machinery Company of Japan to sell information systems equipment to the Japanese.
3. Joint venture includes participation by local government. For example, it could be that Bechtel of the United States, Messerschmitt-Boelkow-Blom of West Germany, and National Iranian Oil (representing the government of Iran) formed Iran Oil Investment Company for oil extraction in Iran.<sup>25</sup>

The benefits of a joint venture could be that a company may feel it is a beneficial to have a local partner that has knowledge of a host country's competitive conditions, such as business system, language, culture, political system etc. Another benefit could be seen as a sharing a risk and costs with a local partner if there are seen any of them on a high level. Furthermore in some countries the joint venture can be just the only possibility to enter the country because of the political conditions.<sup>26</sup>

### 3.3.4 Wholly owned subsidiaries

If a company wants to set a wholly owned subsidiary then it must bear all the costs and risks in comparison with the joint ventures (the costs and risks are shared), licensing (the licensee bears most of the costs and risks). Hence, this method of serving a foreign market is generally the most costly. Besides this, acquisition is an option how to diminish the risk of learning to make business in a new culture.

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<sup>23</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing: theory, practices and new trends, 2010

<sup>24</sup> CARBAUGH, International economics, 2009

<sup>25</sup> CARBAUGH, International economics, 2009

<sup>26</sup> HILL, JONES. Essentials of strategic management, 2012

Even this type bears a whole set of additional problems, as an example could be trying to marry divergent corporate cultures.<sup>27</sup>

*"A wholly owned subsidiary is one in which the parent company owns 100% of the subsidiary's stock. To establish a wholly owned subsidiary in a foreign market, a company can either set up a completely new operation in that country or acquire an established host country company and use it to promote its products in the host market."*<sup>28</sup>

### **Acquisition or merger**

When one firm acquires a foreign-based firm that hold information, brands, assets, distribution networks or skilled management is called acquisition. The information, brands etc. can be used to improve the output of the first firm. A key influence in acquisition strategies is the possibility of reducing unit costs. It emerges from better distribution and marketing arrangement and also from better research and development work as applied to manufacturing. Economy of scale can be achieved by such centrally coordinated arrangements.<sup>29</sup>

Some of the disadvantages of foreign acquisitions are that there are differences in language and culture that could make difficulties in the integration of two management teams. Then new foreign management can cause fear to employees or marketing mistakes can be taken by misperception about the new foreign markets.<sup>30</sup>

Merger typically refers to two companies that connect together to become one. It is a combination of two or more firms in which the assets and liabilities of the selling firm or firms are absorbed by the buying firm. Despite the buying firm may be a significantly different organization after the merger, the original identity of it is maintained. In stock purchase transaction, the seller's shares are not necessarily combined with the existing company of the buyer. They are often kept separate as a new subsidiary or operating division.<sup>31</sup>

### **Green field investment**

*"A green field investment is the establishment of a new operation form by constructing new facilities from the ground up. In addition to building new facilities, most parent companies also create new jobs in the foreign country by hiring new employees."*<sup>32</sup>

An advantage of the green field investment is a construction of a plant that corresponds with the technological needs of a mother company, i.e. spatial needs, and technological connection. The architectonic appearance and the environmen-

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<sup>27</sup> HILL, JONES. Essentials of strategic management, 2012

<sup>28</sup> HILL, JONES. Essentials of strategic management, 2012

<sup>29</sup> BRADLEY, International marketing strategy, c2005

<sup>30</sup> BRADLEY, International marketing strategy, c2005

<sup>31</sup> SHERMAN, HART, Mergers & Acquisitions: From A to Z, 2006

<sup>32</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

tal criteria and requirements are also other factors, which cannot be forgotten. Additional benefits are creating the own corporate culture and there is no need of a firm from a host country, which would organize the overtaking. Contrary there are disadvantages, such as quite long time that is needed for realization and preparation and that is costly, moreover that firm needs to finance it by cash (real money).<sup>33</sup>

### 3.4 Measuring the internationalization

The concept of a method of evaluating the success of SMEs on foreign markets uses multidimensional indicators. The overall performance is measured as the sum of all indicators that are:

- share of a firm's turnover generated by international activity,
- absolute and relative profitability of the internationalization activities,
- level of achievement of the objectives defined for internationalization,
- general opinion of an SME's managers on the degree of success of the firms' internationalization.<sup>34</sup>

There is the Internationalization Index, which shows the part of the foreign subsidiary companies on the total number of subsidiaries of the particular firm.<sup>35</sup>

### 3.5 Motivation factors of the internationalization

The main driving forces for firm to go international are found within the firm, manager's strengths and weaknesses play quite important role. The external environment has not the main effect on the international activities, but firms' capabilities and resources that might be appropriately combined to succeed in international markets. Hence, the speed and intensity of internationalization can be stressed through programmes aimed at enhancing managers' capabilities and skills.<sup>36</sup>

The motivation factors could be different. Usually, it is a mixture of factors. The motivation is divided into two groups - reactive and proactive. Proactive motivations represent stimuli to attempt strategic change. Reactive motivations influence firms that respond to environmental shifts by changing their activities over time. In a different way, proactive firms go international because they want to, whereas the reactive go international because they have to.<sup>37</sup>

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<sup>33</sup> PICHANIČ, Mezinárodní management a globalizace, 2004

<sup>34</sup> PEPRNÝ, KUBÍČKOVÁ, ROVNÝ, Method of evaluating the success of the small and medium-sized enterprises, 2010

<sup>35</sup> CIHELKOVÁ, Světová ekonomika: obecné trendy rozvoje = World economy : general trends in its development, 2009

<sup>36</sup> HOLLENSSEN, Global marketing: a decision-oriented approach, 2007

<sup>37</sup> CZINKOTA, RONKAINEN, International marketing, 2012

*"Proactive motives represent stimuli to attempt strategy change, based on the firm's interest in exploiting unique competences (e.g. special technological knowledge) or market possibilities. Reactive motives indicate that the firm reacts to pressures or threats in its home market or in foreign markets and adjusts passively to them by changing its activities over time."*<sup>38</sup>

In figure 3 below there are several proactive stimuli, which can be recognized, these are profit advantage, unique products, technological advantage, exclusive information, economies of scale and market size.

Proactive Stimuli	Reactive Stimuli
• Profit advantage	• Competitive pressures
• Unique products	• Overproduction
• Technological advantage	• Declining domestic sales
• Exclusive information	• Excess capacity
• Economies of scale	• Saturated domestic markets
• Market size	• Proximity to customers and ports

Figure 3 Proactive and reactive stimuli<sup>39</sup>

Reactive stimuli could be explained that the firms would go rather international than they would find new other ways. It is a respond to changes and pressures in the business environment; there are competitive pressures. Firms may fear losing domestic market share to competing firms or losing foreign markets permanently to new competitors. Nevertheless, lack of preparation may result in a rushed market entry and quick ending.<sup>40</sup>

According to the table above, the reactive stimuli are - competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets and proximity to customers and ports.

The examining that shows a relation between the size of an enterprise and its motives could be seen in figure 4, the Czech SMEs were examined in the study. The key motive for most of the micro-enterprises, as well as small enterprises responded would be foreign demand for their products, classified as reactive stimuli. Whereas the medium-sized companies responded that the key motive to enter foreign market would be an increase in sales that is classified as proactive stimuli. So given these facts both stimuli (reactive and proactive) motivate the Czech SMEs to enter foreign markets.<sup>41</sup>

<sup>38</sup> HOLLENSSEN, Global marketing: a decision-oriented approach, 2007

<sup>39</sup> CZINKOTA, RONKAINEN, International marketing, 2012

<sup>40</sup> CZINKOTA, RONKAINEN, International marketing, 2012

<sup>41</sup> KUBÍČKOVÁ, VOTOUPALOVÁ, TOULOVÁ, Key Motives for Internationalization Process of Small and Medium-Sized Enterprises, 2014

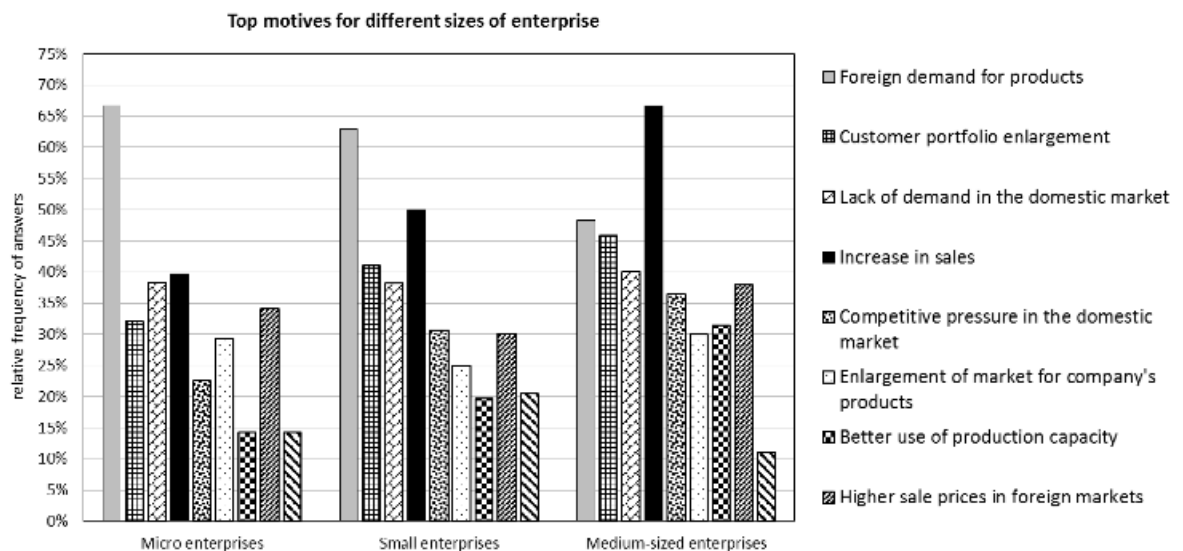


Figure 4 Top motives for different sizes of enterprise<sup>42</sup>

### 3.6 Barriers of the internationalization

Involvement in the internationalization process cannot be understood just as advantageous process. There are also many barriers with which firms have to face.

Barriers classification can be divided into two parts: internal and external. The internal barriers are that, with which are associated organizational resources/capabilities and company approach to export business and they are divided into following:

- Functional barriers fall into a lack of managerial time to deal with exports, lack of excess production capacity for exports, inadequate/untrained personnel for exporting, shortage of working capital to finance export.
- Informational barriers - there belong limited information to locate/analyze markets, identifying foreign business opportunities, inability to contact overseas customers and problematic international market data.
- Marketing barriers are divided further into:
  - product (developing new products for foreign markets, meeting export product quality standards/specs, meeting export packaging/labeling requirements, adapting export product design/style),
  - price (difficulty in matching competitors' prices, offering satisfactory prices to customers, granting credit facilities to foreign customers),

<sup>42</sup> KUBÍČKOVÁ, VOTOUPALOVÁ, TOULOVÁ, Key Motives for Internationalization Process of Small and Medium-Sized Enterprises, 2014



- promotion (adjusting export promotional activities),
- logistics (unavailability of warehousing facilities abroad, excessive transportation/insurance costs),
- distribution (difficulty in supplying inventory abroad, maintaining control over foreign middlemen, obtaining reliable foreign representation, accessing export distribution channels, complexity of foreign distribution channels).<sup>43</sup>

External barriers stem from the home and host environment within which the firm operates. These barriers are:

- Governmental barriers are separated into unfavorable home rules and regulations and lack of home government assistance/incentives.
- Procedural barriers (unfamiliar exporting procedures/paper work, problematic communication with overseas customers).
- Task barriers - these are different foreign customers habits/attitudes, keen competition in overseas markets.
- Environmental barriers are divided into:
  - political-legal (political instability in foreign markets, strict foreign rules and regulations and the high tariff and nontariff barriers),
  - economic (poor/deteriorating economic conditions abroad, foreign currency exchange risks),
  - sociocultural (different sociocultural traits, unfamiliar foreign business practices, verbal/nonverbal language differences).<sup>44</sup>

In 2009 OECD released a report about barriers and drivers to SME internationalization. It identified top ten barriers, which were ranked by SMEs. These barriers are:

1. shortage of working capital to finance exports,
2. identifying foreign business opportunities,
3. limited information to locate/analyze markets,
4. inability to contact potential overseas customers,
5. obtaining reliable foreign representation,
6. lack of managerial time to deal with internationalization,
7. inadequate quantity of and/or untrained personnel for internationalization,
8. difficulty in matching competitors' prices,
9. lack of home government assistance/incentives,
10. excessive transportation costs.<sup>45</sup>

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<sup>43</sup> LEONIDOU, An Analysis of the Barriers Hindering Small Business Export Development, 2004

<sup>44</sup> LEONIDOU, An Analysis of the Barriers Hindering Small Business Export Development, 2004

<sup>45</sup> OECD, Top Barriers and Drivers to SME Internationalization, 2009

### 3.7 Risk factors

Not only barriers are connected with the increasing internationalization, but also risk factors are associated. Risk factors can be connected with the country where the enterprises would like to enter or connected with the business partner in another country etc.

#### Political risk

The political risks include the risk of nationalization, monetary restriction, force majeure, and transfer risk. Possibility of market entry as well as the level of risk connected with the market entry is formed by the independent states and their governmental institutions and international organizations, they constitute the political environment. The monetary restrictions influence decisions about the mode of market entry, but the decision of whether to enter the market. Another part of the political risk is force majeure that includes risk of war, strikes, acts of terrorism or catastrophes.<sup>46</sup>

Transfer of money from one country to another is connected to transfer risk. There could occur a situation where exporters and investors are disabled to receive their payments from country because governments are forced to freeze the outflow of money from the economy. To minimize problems of transfer risk, the firms for example should know the country's situation in details.<sup>47</sup>

#### Country risk

This type of risk is very closely connected to political risks but to be more precise it covers the country's overall macroeconomic and socioeconomic situation. Consequently it is connected with the overall stability of the country. The protection that could be used to avoid this risk could be the insurance provided with public support. Firms should also always check ratings published by national and international ranking institutions where could be find the level of risk that is in different countries.<sup>48</sup>

#### Commercial risk

The commercial risk group consists of these risks:

- failure of export customers to pay due to contract dispute, bankruptcy, refusal to accept the product or fraud,
- delays and/or damage in the export shipment and distribution process,
- difficulties in obtaining export financing."<sup>49</sup>

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<sup>46</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>47</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>48</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>49</sup> HOLLENSSEN, Global marketing: a decision-oriented approach, 2007

It follows that the commercial risk is connected with the business partner in another country. To minimize these risks different tools can be used, e.g. payments in advance, insurance, analysis of business partners, etc.<sup>50</sup>

### Financial risk

Representatives of financial risk are the exchange rate risk and interest risk. International transactions usually involve two or more currencies so then there comes a risk with possible changes of exchange rates, which could be different in time of signing the contract and the time of payment. Thence, the overall profitability of the transaction for both parties of the contract can be significantly influenced. The tools how to lower the exchange rate risks are - diversification of international activities, as company work in different areas, thus currencies; various financial instruments are other option to reduce this risk, such as currency swaps, futures; identify payment conditions in contract (payment in advance, currency of the payment etc.) or use leasing or forfaiting.<sup>51</sup>

When the export contracts are pre-financed and the company takes credit to pre-finance, the interest risk occurs. The payment could be in the domestic currency or foreign currency; then any change in interest rates changes the profitability of the contract. Pre-delivery payments or fixed interest rates stated in the credit contracts can ensure minimizing the interest risk.<sup>52</sup>

## 3.8 European SMEs

The definition of an enterprise is following: *"An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. It includes, in particular, self-employed persons and family businesses engaged in craft or other activities and partnerships or associations regularly engaged in an economic activity."*<sup>53</sup>

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Figure 5 SMEs threshold

Source: European Commission: ENTERPRISE AND INDUSTRY [online], 2014

<sup>50</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>51</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>52</sup> MACHKOVÁ, KRÁL, LHOTÁKOVÁ. International marketing, 2010

<sup>53</sup> European Commission: ENTERPRISE AND INDUSTRY [online], 2014

The small and medium-sized enterprises in the European Union are differentiated according three criteria that are staff headcount, annual turnover and annual balance sheet. The thresholds can be seen in figure 5 above. SMEs are the enterprises with fewer than 250 employees and whose annual turnover does not exceed 50 million euro, or balance sheet total does not surpass 43 million euro.

According to the classification above, in 2013 there were 21.2 million SMEs in the non-financial sector in the EU28. It is counted as 99.8% of all enterprises in this sector, 66.8% of total employment (88.9 million employees) and 57.9% of the total value added generated by the non-financial business sector. The value added was €3.666 trillion that is equivalent to 28% of EU GDP). Since 2008, small and medium-sized enterprises have fared very differently across countries; size class and sectors and clear fracture lines have emerged.<sup>54</sup>

	Micro	Small	Medium	SMEs	Large	Total
<b>Number of enterprises</b>						
Number	19,969,338	1,378,374	223,648	21,571,360	43,517	21,614,908
%	92.4%	6.4%	1.0%	99.8%	0.2%	100%
<b>Employment</b>						
Number	38,629,012	27,353,660	22,860,792	88,843,464	44,053,576	132,897,040
%	29.1%	20.6%	17.2%	66.9%	33.1%	100%
<b>Value added at factor costs</b>						
Million Euros	1,362,336	1,147,885	1,156,558	3,666,779	2,643,795	6,310,557
%	21.6%	18.2%	18.3%	58.1%	41.9%	100%

Figure 6 SMEs and large enterprises: number of enterprises, value added and employment in the EU28 in 2013

Source: A Partial and Fragile Recovery [online], 2014

Compare a number of SMEs with other countries, e.g. there are about 18 million SMEs in United States of America (data refer to 2011) and 3.9 million in Japan (data refer to 2012). But according to the GDP, the number of SMEs in the EU28 is very similar to the United States (1.65 and 1.63 SME enterprises per million of GDP).<sup>55</sup>

<sup>54</sup> Source: A Partial and Fragile Recovery [online], 2014

<sup>55</sup> Source: A Partial and Fragile Recovery [online], 2014

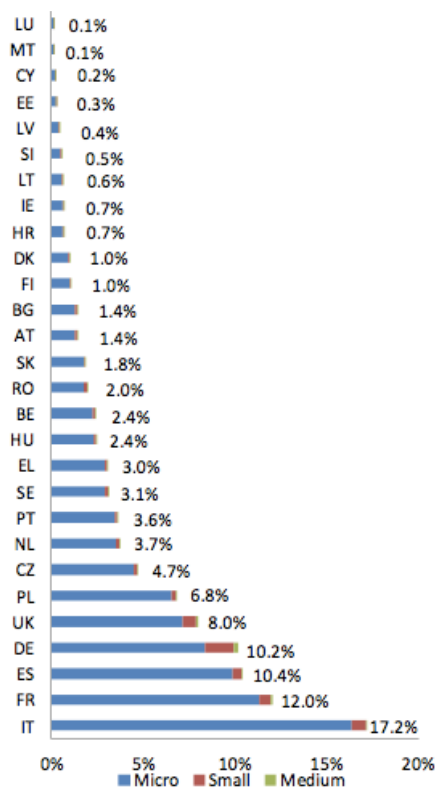


Figure 7 SME enterprises 2013 (% of EU28 total)

Source: A Partial and Fragile Recovery [online], 2014

There are 92.4% micro-enterprises of all enterprises in the EU28. The most of micro-enterprises of the total of EU is in Italy, then France and Spain.

The economic sectors that are substantial in relation to all SMEs in the EU28 are these: "manufacturing", "construction", "professional", "scientific and technical activities", "accommodation and food and wholesale and retail trade, repair of motor vehicles and motorcycles." These sectors account for approximately 78% of all SMEs in the EU28; these 5 sectors play a big role in Italy, Czech Republic, Poland, Slovakia, Slovenia and Romania. The sector "retail/wholesale sector in the largest in almost all EU member states.<sup>56</sup>

The problem, which appears as the most frequent is finding customers. All types of SMEs (micro, small, medium) have difficulties with finding customers. As the other problem, which is mentioned, is access to finance. Micro-enterprises are affected by this problem the most, but the variability is shown among the countries also. Countries like Slovakia, Greece, Italy Spain experiences significant difficulty in accessing finance, while SMEs in Sweden, Czech Republic, Finland identify this problem relatively infrequent.<sup>57</sup>

<sup>56</sup> Source: A Partial and Fragile Recovery [online], 2014

<sup>57</sup> Source: A Partial and Fragile Recovery [online], 2014

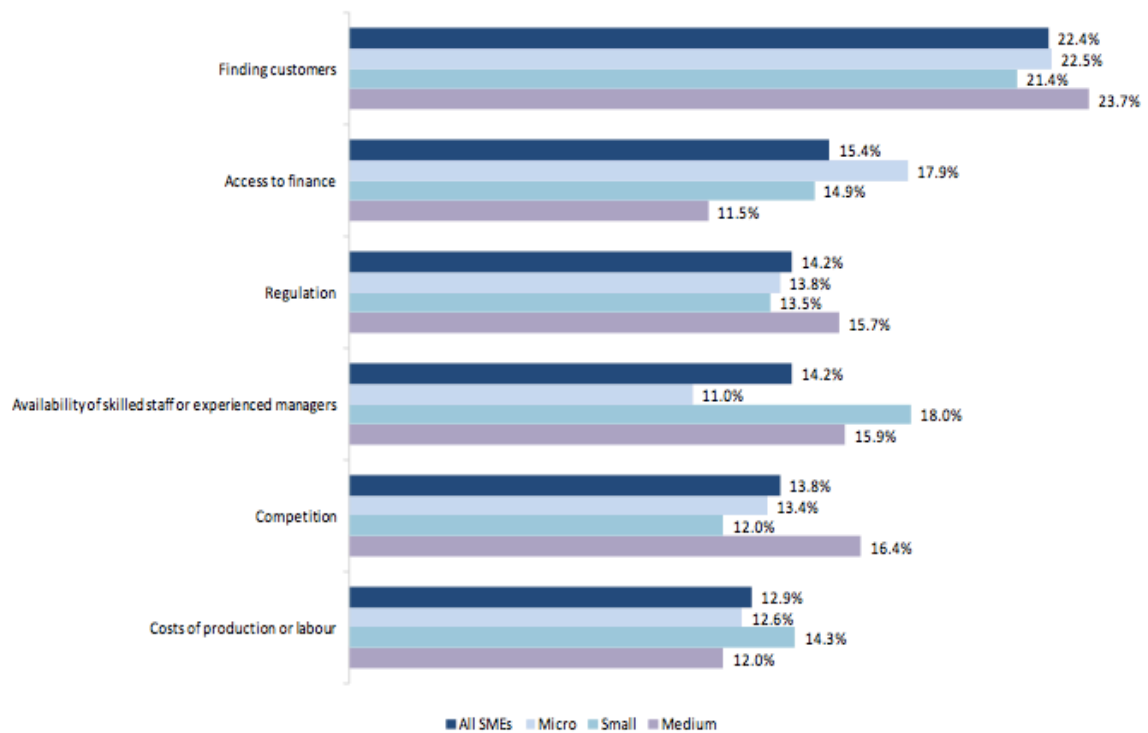


Figure 8 Most pressing problems facing SMEs in the EU28 in 2013

Source: A Partial and Fragile Recovery [online], 2014

### 3.9 The European support in the internationalization process

*"The EU has evolved during the process of globalization by aiming for the harmonious development of world trade and fostering fairness and sustainability. It actively encourages the opening of the markets and the development of trade in the multilateral framework of the World Trade Organization. At the same time, it supports developing countries and regions through bilateral relations with a view to involving them in world trade using preferential measures."<sup>58</sup>*

#### 3.9.1 EU support of the SMEs

The European Union supports the internationalization process of EU SMEs by financing and or running dedicated support organizations. Most of the services that are organized by the EU are available to SMEs in all EU member states. There are four groups of EU support:

- general programmes,
- EU Business centres and bilateral programmes,
- financial services,
- EU sponsored cluster/network initiatives.<sup>59</sup>

<sup>58</sup> Europa: Summaries of EU legislation [online], 2014

<sup>59</sup> Study on Support Services for SMEs in International Business [online], 2013

### **General programmes**

The most and the largest general programmes are Your Europe Business Portal and the Enterprise Europe Network, the latter is the largest network of business and innovation support organizations for the benefit of EU SMEs, there are also specific services for entering third country markets. In addition, the European Commission offers a number of online services specifically focused on trading issues. The Eurostars programme run by organization EUREKA offers financial support. It focuses on the development of new products and access to markets. Other programmes are run; there were mentioned just few.<sup>60</sup>

### **EU Business centres and bilateral programmes**

Some of the EU Business centres were built in China, India and Thailand and provide support to EU SMEs that would like to do business in these countries. Various types of services can be found there, with a focus on non-financial support instruments. More centres offered by EU can be found, e.g. in Japan and South Korea.<sup>61</sup>

### **Financial services**

A few EU wide institutions focus on providing financial support to EU SMEs, such as the European Bank for Reconstruction and Development or the European Investment Bank. For example, there is the JEREMIE programme, which offers indirect support through national and regional authorities. As an example of this support micro-loans, guarantees, funds and credit insurance could be mentioned.<sup>62</sup>

### **EU sponsored cluster/network initiatives**

The most and important in this point is the European Business & Innovation Centre that offers various business incubation services to EU SMEs wishing to internationalize, such as a soft landing club. Another programme which could be mentioned is the East Invest programme that supports regional investment and trade facilitation for SMEs from Armenia, Azerbaijan, Georgia, Moldova and Ukraine, there is a network of local contacts and networking services that helps EU SMEs doing business.<sup>63</sup>

## **3.9.2 Support programs of the EU to the SMEs**

The EU offers different types of support programs to the SMEs. The support programmes were created to strengthen the SMEs, to achieve greater involvement of the European SMEs in the international trade, as well as to strengthen the position

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<sup>60</sup> Study on Support Services for SMEs in International Business [online], 2013

<sup>61</sup> Study on Support Services for SMEs in International Business [online], 2013

<sup>62</sup> Study on Support Services for SMEs in International Business [online], 2013

<sup>63</sup> Study on Support Services for SMEs in International Business [online], 2013

of the EU. Some of the programmes are for instance Small Business Act, Trade policy serving the Europe 2020 strategy, Global Europe and many more.

### **Small Business Act (SBA)**

The SBA was adopted in 2008 and reflects the importance and centrality of SMEs to the European economy. The SBA strives to foster SME development and remove obstacles to SME growth. It does not constitute a legal requirement, but a series of guidance measures that can be idiosyncratically adapted to suit each country's specific needs while simultaneously achieving a degree of harmonization across the EU. The ten principles are:

1. Entrepreneurship (creating an environment in which entrepreneurs and family business can thrive and entrepreneurship is rewarded)
2. Second Chance (ensuring that honest entrepreneurs who have experienced bankruptcy are promptly given a second opportunity to succeed)
3. Think Small First
4. Responsive Administration (making public administrations responsive to the needs of SMEs)
5. State Aid and Public Procurement (adapting public policy tools to suit SME needs - facilitating SMEs' participation in public procurement and ensuring better access to State Aid for SMEs)
6. Access to Finance (facilitating SMEs access to finance and developing a legal and business environment conducive to the specific requirements of SMEs, including timely payments in commercial transactions)
7. Single Market (helping SMEs to benefit more from the opportunities offered by the Single Market)
8. Skills and Innovation (promoting the enhancement of skills in the SME workforce and all forms of innovation)
9. Environment (enabling SMEs to transform environmental challenges into economic opportunities while acting sustainably)
10. Internationalization (encouraging SMEs to benefit from the growth of global markets and to support them in this pursuit)<sup>64</sup>

### **Small Business, Big World- a new partnership to help SMEs seize global opportunities**

A strategy aimed to help small and medium-sized enterprises in expansion of their business outside the European Union. This new strategy was adopted in 2011. The Commission stated that the crisis in Europe can be tackled by exporting to expanding third markets so that SMEs need to be supported in doing international business beyond the EU.

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<sup>64</sup> Source: A Partial and Fragile Recovery [online], 2014



The objectives of this strategy were:

- to provide SMEs with easy accessible and adequate information about the possibilities of expansion their business outside the EU,
- to improve the coherence of support activities,
- to fill existing gaps in support services,
- to establish a level playing field and to provide equal access for SMEs from all EU member states,
- to improve the cost effectiveness of support activities.<sup>65</sup>

### **Trade policy serving the Europe 2020 strategy**

*"European trade policy aims to increase the EU's competitiveness. It offers a framework to deepen strategic economic relations and defend European interests worldwide. Its objectives must be adapted to the new global challenges and to the new strategy for the sustainable growth of the EU by 2020."*<sup>66</sup>

The European trade policy must contribute to the objectives of the Europe 2020 strategy, in consideration of the impact of international trade on the sustainable growth of the European Union.<sup>67</sup>

The development of an open trade policy and international investment flows should:

- contribute to the intelligent growth of the EU,
- be accompanied by social policies in the EU and worldwide,
- contribute to green growth in the EU and worldwide.<sup>68</sup>

These objectives can be met by strengthening trade relations between the EU and its strategic partners. Another objective that trade policy must take into account is the objectives of the EU's external action.<sup>69</sup>

### **International investments: towards a comprehensive European policy**

This policy should be based on new powers attributed to the EU to remove the obstacles to Foreign Direct Investment (FDI) transactions. Whilst the EU is the leading issuer of and global destination for FDI, emerging markets are becoming more and more active in this section.<sup>70</sup>

After the Lisbon Treaty was adopted, the European Union has exclusive competence of introduction of the growing liberalization of FDI transactions. A policy should enable to improve the treatment of foreign investors in the EU and as well

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<sup>65</sup> Study on Support Services for SMEs in International Business [online], 2013

<sup>66</sup> Europa: Summaries of EU legislation [online], 2014

<sup>67</sup> Europa: Summaries of EU legislation [online], 2014

<sup>68</sup> Europa: Summaries of EU legislation [online], 2014

<sup>69</sup> Europa: Summaries of EU legislation [online], 2014

<sup>70</sup> Europa: Summaries of EU legislation [online], 2014

the facilitation of the access for European investors to markets of the third countries.<sup>71</sup>

*"European investors in third countries should be able to benefit from a favorable and stable environment, particularly in countries where the legal, political or economic conditions are insufficient to guarantee the certainty of investments."* Hence, at the present time, Bilateral Investment Treaties are concluding by EU countries with third countries so that their investors will be well treated and it will be guaranteed. Nevertheless unequal conditions of competition are created between European investors.<sup>72</sup>

A common negotiation agenda is identified by the Commission. The principles, which should frame its future negotiations as regards international investments, are following:

- **Selection criteria for partner countries**  
These criteria take into account the guarantees offered to European investors (fair and predictable treatment, political and institutional stability, economic potential, etc.) and the degree of trade cooperation.
- **Treatment of investment-related fields**  
All transactions concerning the acquisition or establishment of enterprises (costs of fund transfers, payments, intellectual property rights, etc.).
- **Investment protection standards**  
The fair treatment of investors, legal certainty, the principle of proportionality of public action and also expropriation rights and the freedom to transfer funds.
- **Implementation of commitments concerning FDI**  
For example to guarantee transparency or the proper regulation of litigation.
- **States' international responsibility**  
In particular concerning the payment of financial compensation.<sup>73</sup>

### **Global Europe: Competing in the world**

The Commission proposed an ambitious programme for the competitiveness of the European Union and its businesses that emphasized open markets. Basics of the programme are the opening up of the principal markets outside Europe, the rejection of protectionism in Europe and bringing together of the EU's internal and external policies. EU's commitment to multilateralism should offer the elimination trade barriers in a stable and sustainable manner, promotion of a faster and more comprehensive trade liberalization, where the driving force would be the Free Trade Agreements (FTAs).<sup>74</sup>

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<sup>71</sup> Europa: Summaries of EU legislation [online], 2014

<sup>72</sup> Europa: Summaries of EU legislation [online], 2014

<sup>73</sup> Europa: Summaries of EU legislation [online], 2014

<sup>74</sup> Europa: Summaries of EU legislation [online], 2014

## 4 Methodology

This diploma thesis is divided into two main parts. In the first part, there will be an overview of the current theoretical knowledge from the world and also from the Czech Republic. In the second part, standard scientific research methods will be used, primary and secondary data will be used in this part as well.

In the first part, named Overview of the internationalization process of the SMEs in relation to the EU, will be worked with the secondary data from Czech and mainly foreign specialized publications, scientific article etc. to get the theoretical background.

Afterward in the second part of the thesis an analysis of secondary data will be provided. Mainly these data were collected from the reports of European Commission (Internationalization of European SMEs, 2010; Opportunities for the internationalization of European SMEs, 2011; A Partial and Fragile Recovery, 2014; 2014 SBA Fact Sheet: Czech Republic, 2014) and also the data from Eurostat and the report of Ministry and trade of the Czech Republic were used.

Another section of the second part of the thesis was the collection of primary data that was done in use of a questionnaire survey. The questionnaire was sent to the SMEs in the Czech Republic to find out what barriers are perceive by SMEs and if the SMEs feel the support of the EU in the internationalization process, when SMEs are supported by the EU if they go or they would like to go international, mainly trade with countries outside the EU. The SMEs in the Czech Republic was chosen as a sample of European SMEs. For the collection of questionnaires was used the software developed by Mendel University called Umbrela. After the collecting, the acquired data were appraised.

The primary data were based on the method of a questioning that is one of the methods of marketing research. The absolute frequencies were used; they give a total number of occurrence and the relative frequencies that show the relative occurrence.

The formula for the absolute frequencies ( $n_i$ ) is:<sup>75</sup>

$$\sum_{i=1}^k n_i = n \quad (1)$$

The formula for the relative frequencies ( $p_i$ ) is:

$$p_i = \frac{n_i}{n} \quad (2)$$

where  $n_i$  express the absolute frequency in the exact group and  $n$  express the size of the examined set, and  $k$  is the number of groups. Absolute and relative frequencies were expressed with the help of graphs and tables.<sup>76</sup>

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<sup>75</sup> FORET, STÁVKOVÁ, Marketingový výzkum: jak poznávat své zákazníky, 2003

<sup>76</sup> FORET, STÁVKOVÁ, Marketingový výzkum: jak poznávat své zákazníky, 2003

Before the questioning survey, the hypotheses were determined in diploma thesis. These hypotheses were tested after acquiring of primary data. In the beginning the null hypothesis (tested)  $H_0$  was always defined, subsequently the alternative hypothesis  $H_1$  was set. The null hypothesis is a statement that wants to be challenged. It is defined as the absence of dependency between variables. If the null hypothesis is rejected then the alternative hypothesis is accepted. This testing is done in help with the p-value that sets the lowest level of significance for rejection of the null hypothesis. It is needed to set the level of significance  $\alpha$  that is the probability of incorrect rejection of the null hypothesis.

Decision of rejection of null hypothesis:

- $p \leq \alpha$  - if the p-value is lower than the level of significance  $\alpha$  then the null hypothesis  $H_0$  is rejected in the level of significance  $\alpha$  and the alternative hypothesis  $H_1$  is accepted,
- $p \geq \alpha$  - if the p-value is higher than the level of significance  $\alpha$ , the null hypothesis  $H_0$  is not rejected in the level of significance  $\alpha$ .<sup>77</sup>

The contingent analysis was used to define the dependency of variables; this was done with a help of contingency tables. These tables store absolute and relative counts describing frequencies across levels of two or more factors.

Two-way contingency tables generally have rows and columns which do respond to the number of levels of the row factor and the column factor. Body of the contingency table is filled with observed counts. There are also marginal counts that are formed by summing up all observed counts for a specific level of the row or column factor. Total count is obtained when either all row or all column marginal counts are added up.

Chi-square statistics (quadratic or squared contingency)  $\chi^2$  is a quantity calculated from observed counts stored in the contingency table. Its primary purpose is to provide numerical evidence to the existence of dependencies between two categorical variables. In each cell of the contingency table, there is corresponding expected value and observed value. The formula is:

$$\chi^2 = \sum_{i=1}^k \sum_{j=1}^k \frac{(n_{ij} - n'_{ij})^2}{n'_{ij}} \quad (3)$$

where  $n_{ij}$  are observed counts in each cell of the contingency table,  $n'_{ij}$  are expected counts of each cell of contingency table that are formulated as  $n'_{ij} = \frac{n_i n_j}{n}$ , where  $i$  means the row number in the contingency table and  $j$  is the column number in the contingency table,  $n_i$  is sum of the frequencies in each row and  $n_j$  is sum of frequencies of each column in the contingency table,  $n$  represents the range of observed file.<sup>78</sup>

<sup>77</sup> BUDÍKOVÁ, KRÁLOVÁ, MAROŠ, Průvodce základními statistickými metodami, 2010

<sup>78</sup> FORET, STÁVKOVÁ, Marketingový výzkum: jak poznávat své zákazníky, 2003

## 5 Internationalization of SMEs in relation to the EU

Small and medium-sized enterprises in the EU feel increasing competition with the increasing internationalization. Certainly there are risks and barriers appearing within this process and the SMEs do not want to undergo uncertainty but, on the other hand, the exploring new markets can bring many advantages. Moreover, the EU tries to make the whole process for SMEs easier, it helps them with entering the markets outside the EU help and becoming more competitive among SMEs all over the world.

### 5.1 Internationalization

According to the study Internationalization of European SMEs, 25% of SMEs within the EU27 export, of which about 50% also go beyond the Internal Market (13%).<sup>79</sup>

In addition:

- 7% of SMEs within the EU27 are involved in technological cooperation with a foreign partner,
- 7% are a subcontractor to a foreign partner,
- 7% have foreign subcontractors,
- 2% of SMEs are active in foreign direct investment.<sup>80</sup>

The link between the level of internationalization and size of the company is following. *"The larger the company, the more it tends to internationalize."* If the division of companies is according to their size - such as micro, small and medium-sized, then it was found out that 24% of micro, 38% of small and 53% of medium-sized SMEs are active for exports.<sup>81</sup>

The size of the SME's home country population has a role in the internalization also. It could be found a negative correlation between the size of a population of the home country of SME and its level of international activity. Countries such as the Czech Republic, Sweden, Denmark, Estonia and Slovenia have much higher percentage of exporters than the EU average of 25%. So then bigger countries, such as Germany, France and UK take place below average.<sup>82</sup>

*"Not many of the internationally inactive SMEs are planning to start international activities in the foreseeable future. Few non-internationalized companies show any intention to start international operations. Only about 4% of all SMEs have concrete plans to start such activities."*<sup>83</sup>

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<sup>79</sup> Internationalization of European SMEs [online], 2010

<sup>80</sup> Internationalization of European SMEs [online], 2010

<sup>81</sup> Internationalization of European SMEs [online], 2010

<sup>82</sup> Internationalization of European SMEs [online], 2010

<sup>83</sup> Internationalization of European SMEs [online], 2010

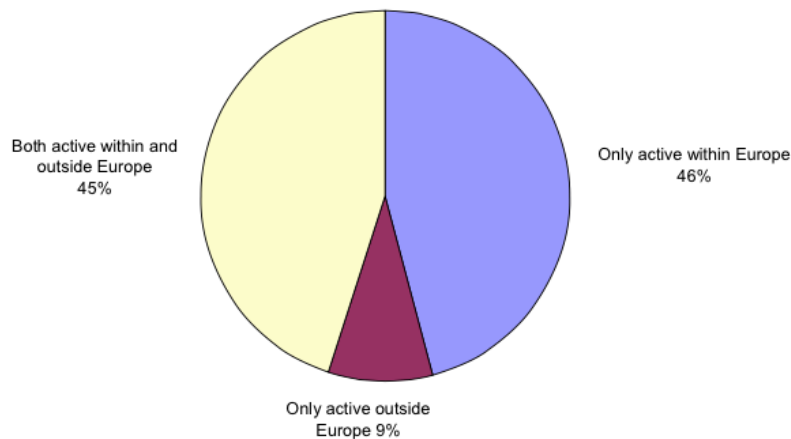


Figure 9 Europe or beyond, percentage of internationalized SMEs active in various markets  
Source: Opportunities for the internationalization of European SMEs [online], 2011

The European SMEs work in different markets. Almost equal percentage (about 45%) are SMEs that operate only in European market and SMEs which trade in Europe and also outside Europe. The smallest part, which is about 9%, is taken by SMEs that are active outside Europe. This third part is five times smaller than the other(s). There could be found a lot of barriers that SMEs are aware of. Hence, that it makes difficult to enter the markets outside of Europe.

### 5.1.1 Barriers for the internationalization as perceived by SMEs

The most important barriers of SMEs are:

- internal barriers
  - price of their product or service
  - the high cost of internationalization
- external barriers
  - lack of capital
  - lack of adequate information
  - lack of adequate public support
  - costs of or difficulties with paperwork associated with transport.<sup>84</sup>

*"Lack of capital and lack of adequate public support score even higher with reference to EU-EEA markets than with reference to third markets. This might be related to the fact that generally somewhat larger and more experienced SMEs are active in third markets. Both barriers are more important the smaller the SME is."*<sup>85</sup>

Public support is relatively important for those SMEs, which use a support that is provided. But compare it to the general SMEs are not well aware of public support programmes for internationalization. Furthermore, these instruments are

<sup>84</sup> Internationalization of European SMEs [online], 2010

<sup>85</sup> Internationalization of European SMEs [online], 2010

not much used - it is less than 10% of the internationally active SMEs that use them.<sup>86</sup>

The study Opportunities for the internationalization of European SMEs looks in particular at the support provided to SMEs in reaction to seven key target markets: Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine. Additionally some sections of the report consider the opportunities presented in five other target markets, such as Armenia, Azerbaijan, Belarus, Georgia and Moldova.<sup>87</sup>

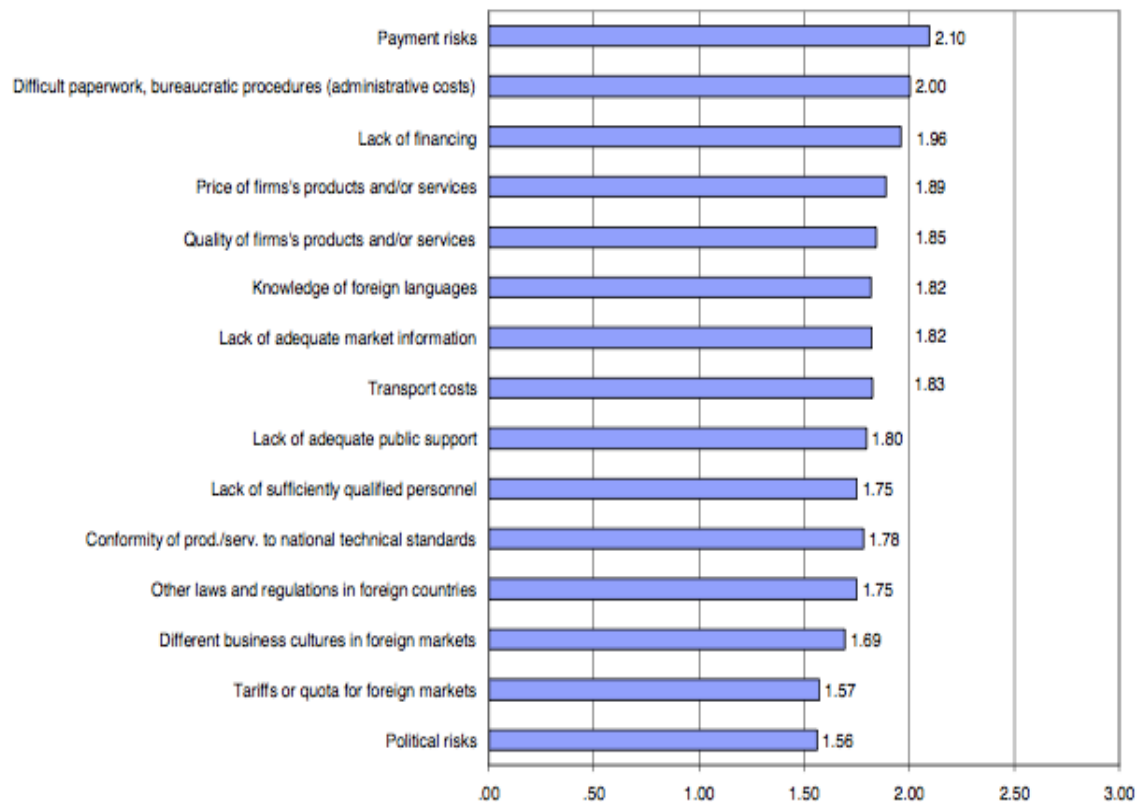


Figure 10 Barriers perceived to be most important by internationalized EU SMEs, index of importance of barriers of third markets

Source: Opportunities for the internationalization of European SMEs [online], 2011

According to the study mentioned above, the European SMEs found some issues in non-financial business support, such as lack of adequate market information, laws and regulations in foreign markets and different national technical standards. The three most important barriers for doing business in markets outside the single market are:

- payment risk,
- administrative costs - difficult paperwork, i.e. bureaucratic procedures,
- lack of financing.

<sup>86</sup> Internationalization of European SMEs [online], 2010

<sup>87</sup> Opportunities for the internationalization of European SMEs [online], 2011

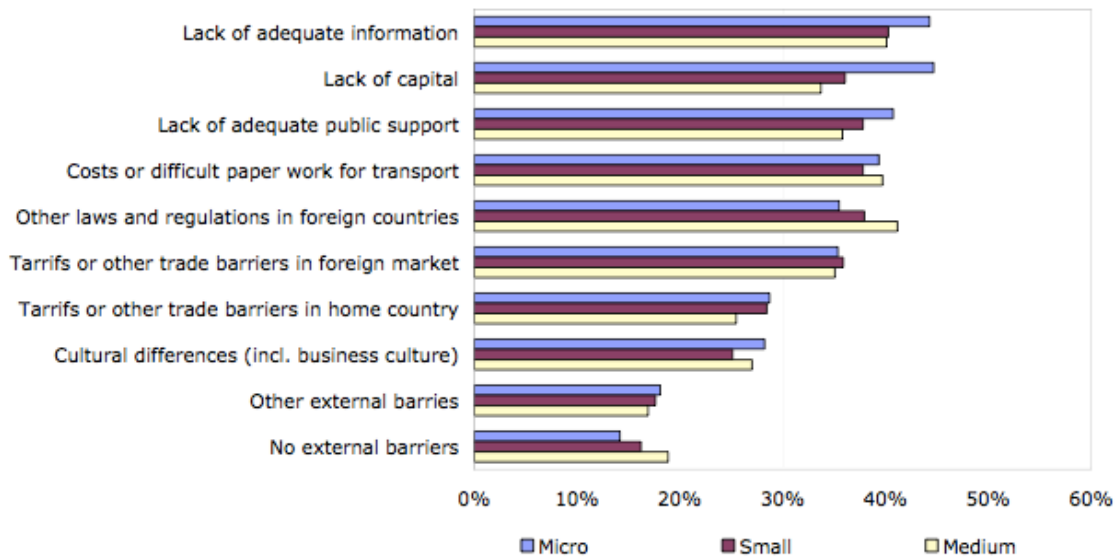


Figure 11 Barriers related to the business environment for the enterprises on non-EU-EEA markets, by size class (percentage of SMEs that state important)  
Source: Internationalization of European SMEs [online], 2010

Another study (Figure 11) shows that there are slight differences among the size of the enterprises. The micro-enterprises find the most difficult in trade with third countries the lack of capital and lack of adequate information. Compare it to the medium-sized enterprises these concern the laws and regulations in foreign countries as one of the greatest barriers.

### 5.1.2 SMEs international business activities

The international business activities that SMEs use are import, export, technical cooperation, subcontractors and foreign direct investments (FDI). In the figure below the exact business activity is divided into three parts – firstly there are SMEs that are active in this activity, secondly there is a percentage of SMEs that plan to start this activity and finally in the last part there are SMEs that do not use this business activity. The involved SMEs are from the 33 European countries, so it goes beyond the borders of EU. In addition to the EU countries there are Croatia, Iceland, Liechtenstein, FYROM<sup>88</sup>, Norway, Turkey. This study was published before 2013 when Croatia entered the EU so that time it was not a part of EU.

As it can be seen in figure 12, the most used business activities are import and export. Focus on export there is 26% active European SMEs that is many times more than the foreign direct investment. Exporting is the simplest way how to enter foreign markets as well as it is the quickest way. In comparison, the FDI costs a lot of money and takes more time to get to the international market.

<sup>88</sup> Former Yugoslav Republic of Macedonia



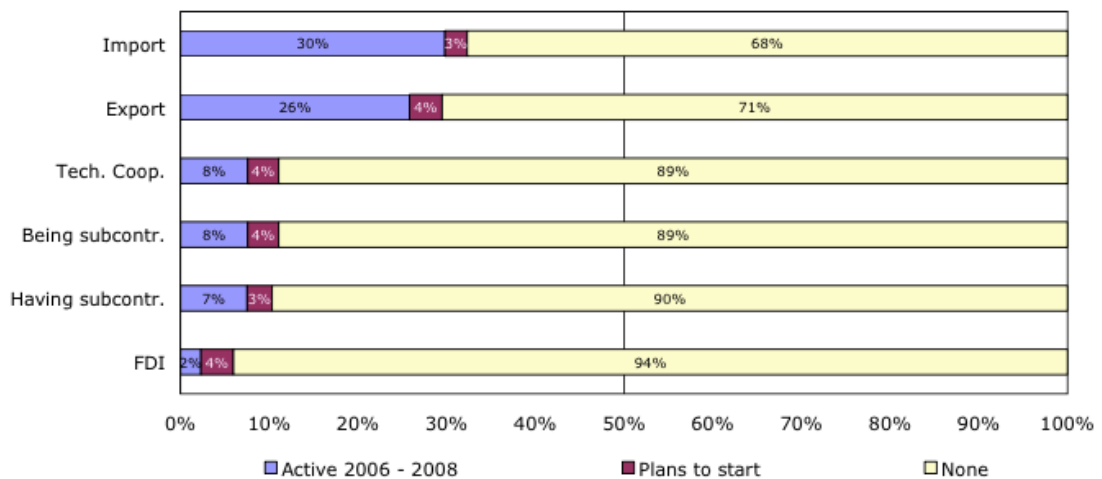


Figure 12 Percentage of European SMEs involved in international business activities, having concrete plans to start such activities or none at all. For various modes of internationalization, all 33 countries (EU27 + non-EU-members refers to Croatia, Iceland, Liechtenstein, FYROM, Norway, Turkey)  
 Source: Internationalization of European SMEs [online], 2010

Figure 13 shows just European SMEs in EU27 involved in international activities. This figure can be compared with the figure above, which had shown the international business activity in Europe. These two figures show almost the same percentage of the activities; there are not so great differences between the EU27 and other group that contain EU27 plus six more European countries.

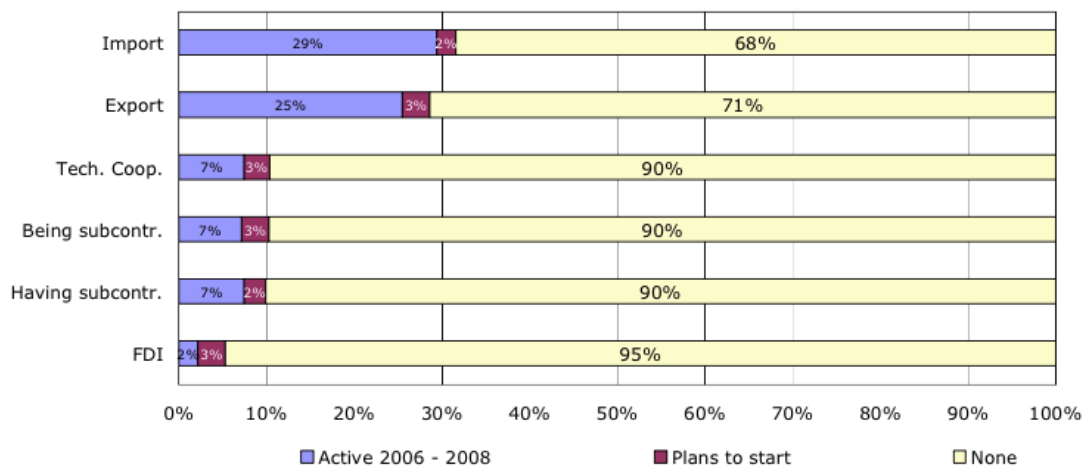


Figure 13 Percentage of European SMEs in EU27 involved in international business activities, having concrete plans to start such activities or non at all. For various modes of internationalization  
 Source: Opportunities for the internationalization of European SMEs [online], 2011

In the following figure, there are differences between EU member states and non-EU members. The non-EU member states reported higher percentage of international activities. Combining all studied international activities in the last line of the picture, there can be seen that 49% of SMEs in the six non-EU members do any of the international activity and 5% less, that means 44%, of SMEs within the EU do any international activity.

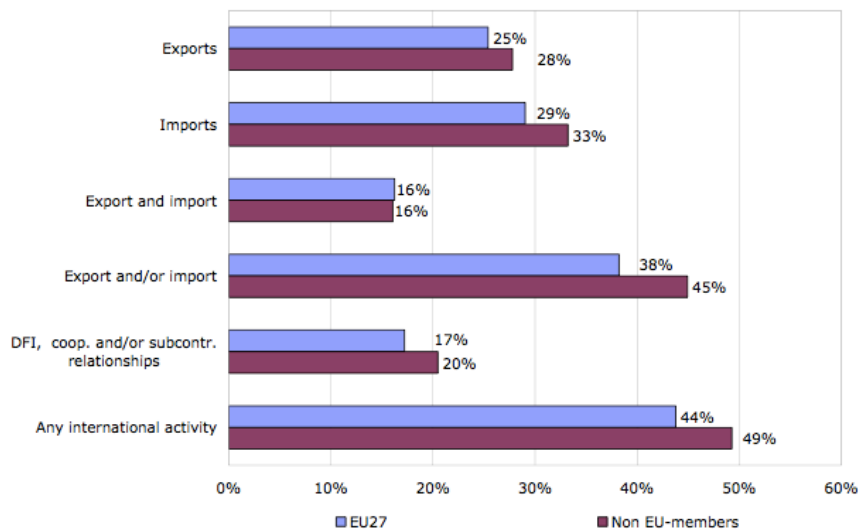


Figure 14 Incidence of import and export and other modes of internationalization (percentage of SMEs, EU Member States and non-EU-members\*)

\* non-EU-members refers to Croatia, Iceland, Liechtenstein, FYROM, Norway, Turkey

Source: Internationalization of European SMEs [online], 2010

The main sector groups with the highest percentages for each mode of internationalization are:

- export - wholesale and manufacturing,
- FDI - business services,
- technical cooperation - business services,
- having foreign subcontractors - transport and communication.<sup>89</sup>

The business services use the most the foreign direct investments and technical cooperation. It is more useful for services to have e.g. its subsidiary because they can operate right in that place they need; the exporting would not be the right choice in this sector.

<sup>89</sup> Internationalization of European SMEs [online], 2010

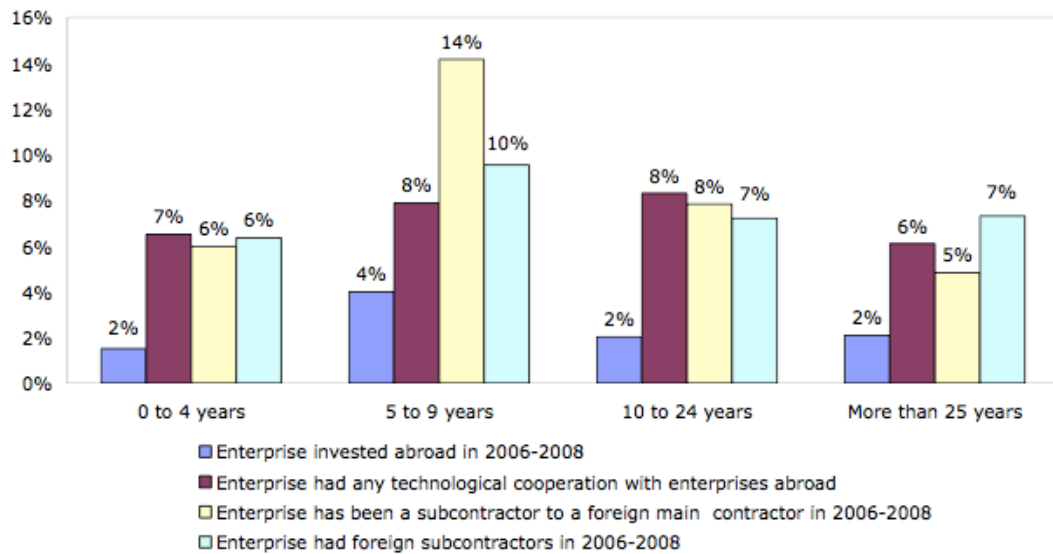


Figure 15 Percentage of SMEs engaged in four types of international business activities in 2006-2008, by age of firm

Source: Internationalization of European SMEs [online], 2010

The age of SMEs could play a role for different types of international trade. The SMEs that have between 5th and 9th year of their activity intensify their international activity, they show the highest incidence. With increasing age of the enterprises the involvement in the international business activities is decreasing.

### 5.1.3 Export of European SMEs

The actual overview of the European countries can be found in the figure below. There is a comparison between exports inside the European Union (Intra EU27) and outside the EU (Extra EU27). This figure covers just 27 EU member countries. It does not include Croatia, which entered the EU in July 2013.

There are differences between the intra and extra exports. Country, where are SMEs that export the most inside the EU, is Luxembourg while Ireland has the biggest share of exporting SMEs outside the EU. The lowest numbers are shown for Slovakia and the Czech Republic SMEs exporting extra EU27.

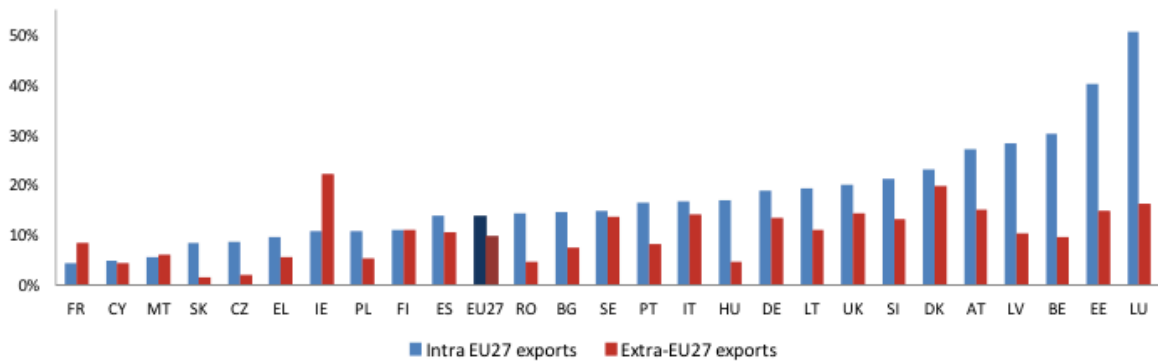


Figure 16 Share of exporting SMEs in the EU27, industry sectors  
 Source: A Partial and Fragile Recovery [online], 2014

The age of the enterprises has shown as important in exports. With increasing age, the enterprises are however relatively much more involved in export.



Figure 17 Percentage of SMEs with exports in 2006-2008 by age of firm  
 Source: Internationalization of European SMEs [online], 2010

### 5.1.4 Exporting regions

In the figure below, there is a division between European countries, three sections can be found - EU15, EU12 and non-EU. EU15 represents 'old' 15 member states that are Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and United Kingdom, Austria, Finland and Sweden. States that belong to EU12 are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria and Romania; states that enter the EU after 2004. The non-EU countries are Croatia, Iceland, Liechtenstein, FYROM, Norway and Turkey. A detailed description of the exact regions of table below can be found in ANNEX I.

<i>Export regions</i>	<i>EU15</i>	<i>EU12</i>	<i>non-EU</i>	<i>Total</i>
Cross border regions	49%	46%	35%	47%
Other European Union	76%	83%	57%	76%
Russia	12%	7%	2%	10%
Other European countries	30%	20%	24%	27%
Middle East	17%	3%	16%	14%
North Africa	19%	1%	3%	14%
Other Africa	14%	1%	7%	11%
Japan	8%	1%	10%	7%
China	11%	3%	8%	9%
India	9%	0%	4%	7%
Other Asia	9%	2%	12%	8%
North America	21%	3%	12%	17%
Brazil	9%	1%	1%	7%
Other South and Central America	12%	3%	5%	10%
Australia/New Zealand	10%	0%	3%	8%
Total	100%	100%	100%	100%
Total N, unweighted	1957	1129	447	3533

Figure 18 Major world regions for exporting for EU15, EU12 and non-EU countries (percentage of exporters, as more answers could be given, columns do not total)

Source: Internationalization of European SMEs [online], 2010

*"Regions as Middle East, Africa, Japan, China, India, other Asia, South and Central America and Australia and New Zealand are all rather important for SMEs in the old 15 Member States, but not (yet) for the 12 new Member States. Only Japan and other Asia are more important for the non-EU countries than for the EU Member States as export market."*<sup>90</sup>

*"Emerging markets such as Brazil, Russia, India and China (BRIC) are only served by 7% to 10% of exporting SMEs."*<sup>91</sup>

<sup>90</sup> Internationalization of European SMEs [online], 2010

<sup>91</sup> Internationalization of European SMEs [online], 2010

<i>Export regions</i>	<i>Manu- fact- uring</i>	<i>Con- struc- tion</i>	<i>Whole- sale trade</i>	<i>Retail trade</i>	<i>Trans- port &amp; comm.</i>	<i>Busi- ness services</i>	<i>Per- sonal services</i>	<i>Total</i>
Cross border regions	52%	48%	48%	39%	55%	47%	44%	47%
Other European Union	81%	62%	72%	66%	85%	82%	77%	76%
Russia	12%	6%	6%	7%	31%	9%	3%	10%
Other European countries	35%	34%	30%	22%	44%	17%	19%	27%
Middle East	14%	9%	13%	5%	30%	12%	29%	14%
North Africa	17%	8%	14%	10%	28%	11%	11%	14%
Other Africa	10%	21%	7%	13%	27%	7%	7%	11%
Japan	7%	9%	2%	1%	25%	5%	13%	7%
China	12%	13%	9%	2%	30%	5%	6%	9%
India	11%	1%	1%	1%	27%	5%	6%	7%
Other Asia	9%	5%	4%	3%	28%	7%	4%	8%
North America	23%	9%	6%	9%	38%	21%	16%	17%
Brazil	6%	2%	7%	2%	29%	7%	3%	7%
Other South and Central America	10%	1%	3%	12%	33%	6%	4%	10%
Australia/New Zealand	12%	2%	4%	3%	26%	5%	4%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Total N, unweighted	1484	148	363	459	157	651	271	3533

Figure 19 Major world regions for exporting by sector (as more answers could be given, columns do not total)

Source: Internationalization of European SMEs [online], 2010

If we exclude the cross-border regions and other EU, then the other European countries are relatively important for almost all sectors, the highest percentage of export is for transport and communication sector. As one of the most important export region, which is not the European, is North America.

Share of export flows from EU27 has changed from year 2000 and 2010. The seven key target markets (Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine) as the share of exports to these countries in overall EU exports has risen. The increase in export to these countries was by 9%, from 17% in year 2000 to 26% in 2010. In contrast, the EU27 external export has been diminishing. It has decreased by 10% during ten years.

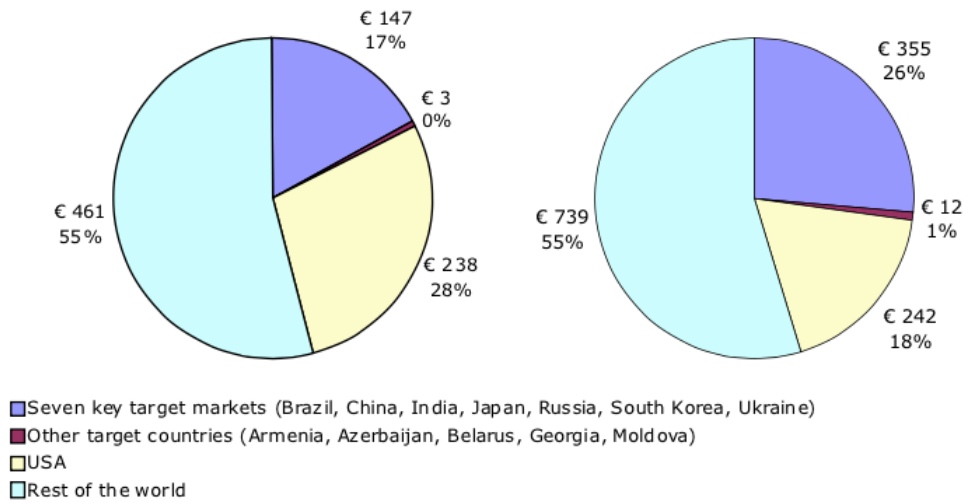


Figure 20 Share of EU27 external export (value in billion euro) for 7 key target countries and USA, 2000 (left) and 2010 (right)

Source: Opportunities for the internationalization of European SMEs [online], 2011

### 5.1.5 Support of European SMEs

*"Many of the SMEs that are active in third markets learn about existing support programmes mainly through their own Internet search or through business organizations. The most important source of information on the actual content of the relevant support programmes for enterprises are:*

- *chamber of commerce,*
- *trade associations and*
- *fellow entrepreneurs.*"<sup>92</sup>

Almost three-quarters of all internationalized SMEs are not aware of public support. 20% of SMEs are aware of public support, but they are not using it. The SMEs that take advantages of public support are about 7%, the financial and non-financial support. Just about 1% of SMEs use both types of support and about 3% of SMEs use only financial and the same percentage the non-financial support. The figure below describes it visually.

<sup>92</sup> Opportunities for the internationalization of European SMEs [online], 2011

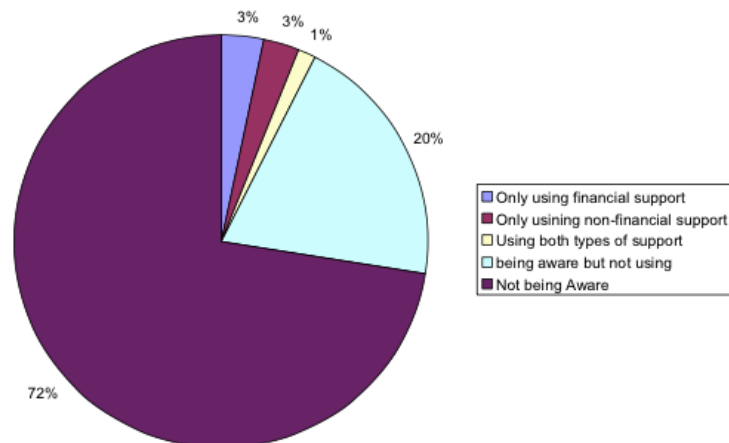


Figure 21 Awareness and use of public support measures for internationalisation, percentage of all internationalized SMEs

Source: Opportunities for the internationalization of European SMEs [online], 2011

The public support where European SMEs expect most effect (for the seven key target markets - Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine) are related to:

- assistance with identifying business partners in these countries (61% expect this measure to be effective or very effective),
- providing adequate information on market opportunities (61%),
- providing adequate information on rules and regulations (58%).<sup>93</sup>

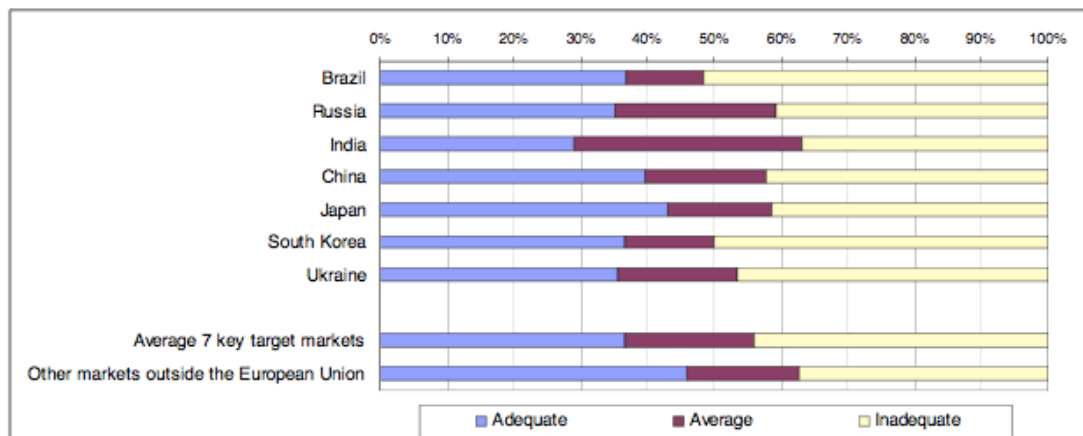


Figure 22 Existence of adequate support facilities for key target markets, perception of SMEs

Source: Opportunities for the internationalization of European SMEs [online], 2011

<sup>93</sup> Opportunities for the internationalization of European SMEs [online], 2011



Effects:	percentage
Would not have started business activities without support	25%
Started international business activities earlier because of support	25%
Having more international business activities earlier because of support	42%
No immediate effect	23%
Other effect	8%
Do not know / no answer	2%

Figure 23 Effect of using support measure (more answers possible)

Source: Opportunities for the internationalization of European SMEs [online], 2011

There was mostly some effect of using support; 42% have more international business activities earlier because of the support and 25% would not have started business activities if there will be no support etc. For 23% there was no immediate effect.

Type of effect of support provided	1 Not at all	2 Some- what	3 Very much	Average score
Met customers/partners that otherwise we would have been unable to meet	23%	37%	37%	1.5
Increased our knowledge on how to enter new markets	22%	40%	37%	1.5
Better assessment of tangible business opportunities in target markets	22%	40%	35%	1.5
Improved the company's profile overseas	19%	48%	31%	1.4
Receiving more enquiries for our products or services	26%	46%	25%	1.2
Having more international customers	30%	45%	22%	1.2
Improved overseas marketing strategy	31%	40%	26%	1.2
Improved overseas market research skills	40%	39%	17%	0.9
Improved prospects of raising international funding	58%	26%	8%	0.6
Other benefit	53%	4%	10%	0.5
Improved prospects of securing financial guarantees	67%	21%	5%	0.4
Resolved a problem with a foreign contract	74%	16%	4%	0.3

Figure 24 The way effects of measure are obtained, i.e. intermediate effects, ranked by average score based on scale 1 = not at all, 2 = somewhat and 3 = very much

Source: Opportunities for the internationalization of European SMEs [online], 2011

Different types of effects were achieved for different offered support. Few of the most effective supports were for example increasing knowledge on how to enter new market, better assessment of tangible business opportunities in target markets or meeting customers/partners that otherwise they would have been unable to meet.

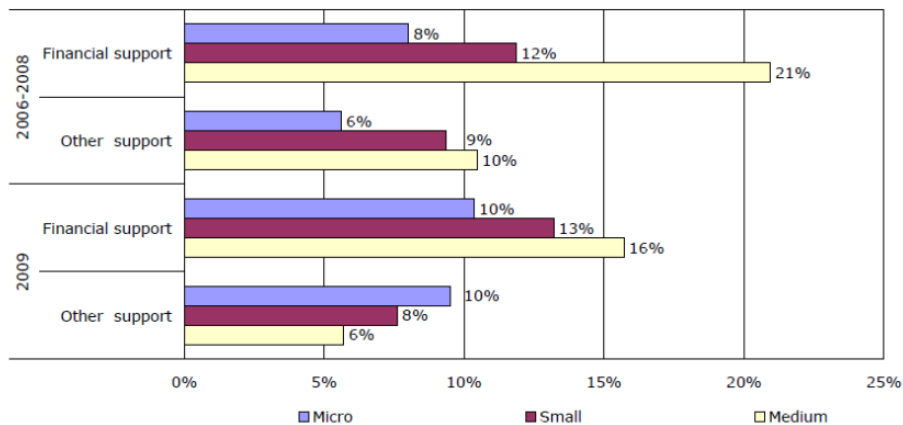


Figure 25 Use of government support for internationalization in 2006-2008 and 2009, percentage of internationally active SMEs, by size class

Source: Internationalization of European SMEs [online], 2010

The change of support for internationalization during years is in the figure above. There appeared a change for medium-sized enterprises that they decreased a use of support, both financial and other support, till 2009. On the other hand, the micro enterprises had started to use more the financial support and also the other support.

Country that used the public financial support the most was Austria, 47% of internationally active SMEs used the financial support in 2009. Turkey was in the second place with the 32%. The Czech Republic has placed in the last third of this table, with about 2% of use of support by the internationally active SMEs. The non-financial support was used the most by Slovenia; there were 23% of internationally active SMEs that used this support. Just 3% of Austrian SMEs used the non-financial support and the Czech Republic had not used the non-financial support at all. Detailed table could be found in ANNEX II.

### 5.1.6 SMEs in the Czech Republic

According the table below there were 1 124 910 small and medium-sized enterprises (the natural and legal together) in the Czech Republic in year 2013. That was 99.83% as a part of SMEs in portion of all active enterprises in the Czech Republic in 2013.<sup>94</sup>

<sup>94</sup> Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2013 [online], 2014

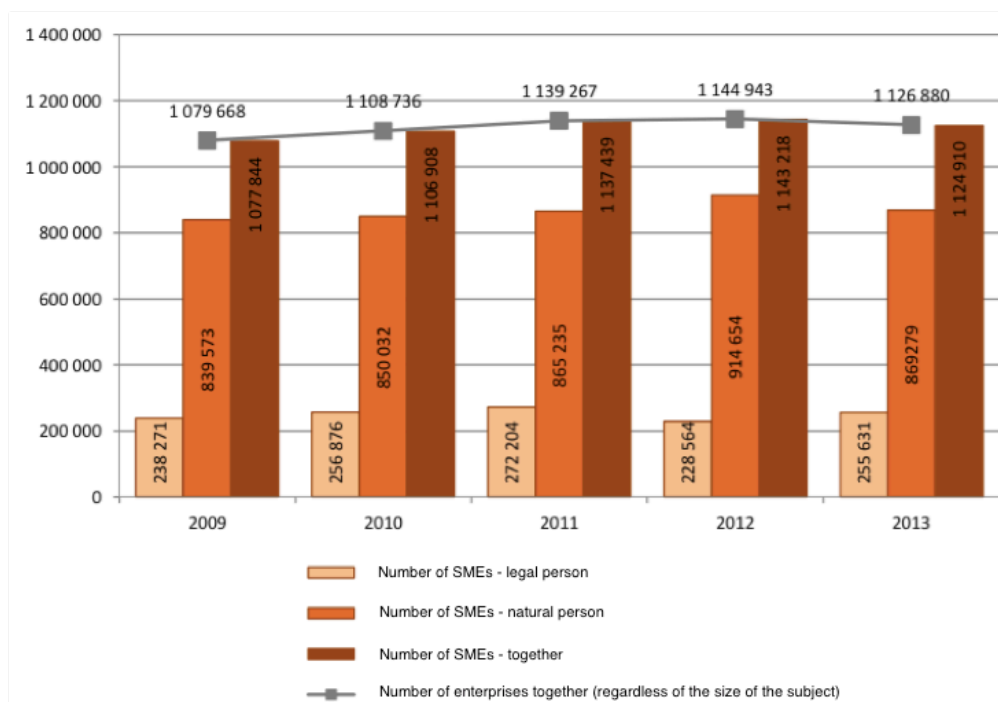


Figure 26 The evolution of SMEs in the Czech Republic<sup>95</sup>

The total number of SMEs in 2013 decreased in comparison to the year 2012 because the number of the natural persons had decreased although the number of the legal persons had slightly increased. Overall, a number of SMEs is on a similar level in years 2011 - 2013.

The other figure that can be found below shows that the micro-enterprises in the Czech Republic are the biggest group, it is 96.1% of all enterprises. The others - small and medium-sized companies - are in minority; there are 3.2% of small enterprises and there is just 0.6% of medium-sized enterprises. In comparison to the EU28 the proportion of enterprises in the Czech Republic is very similar with the EU28.

Another indicator of SMEs is number of employees, the total number of people that are employed by the SMEs. The comparison of proportion of Czech Republic and EU28 are following: there are about 68.8% employees in SMEs in the Czech Republic and it is almost the same proportion as in the EU-28, where is 66.9% of employed people in the SMEs. The remaining part of employees came under large companies.

<sup>95</sup> Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2013 [online], 2014

	Number of enterprises			Number of employees		
	Czech Republic		EU-28	Czech Republic		EU-28
	Number	Proportion	Proportion	Number	Proportion	Proportion
Micro	968 998	96.1%	92.4%	1 132 769	32.1%	29.1%
Small	31 850	3.2%	6.4%	637 865	18.1%	20.6%
Medium-sized	6 273	0.6%	1.0%	654 056	18.6%	17.2%
<b>SMEs</b>	<b>1 007 121</b>	<b>99.9%</b>	<b>99.8%</b>	<b>2 424 690</b>	<b>68.8%</b>	<b>66.9%</b>
Large	1 406	0.1%	0.2%	1 100 327	31.2%	33.1%
Total	<b>1 008 527</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3 525 017</b>	<b>100.0%</b>	<b>100.0%</b>

Figure 27 SMEs in the Czech Republic - basic facts<sup>96</sup>

Source: 2014 SBA Fact Sheet: Czech Republic [online], 2014

### 5.1.6.1 Czech SMEs according to the classification NACE

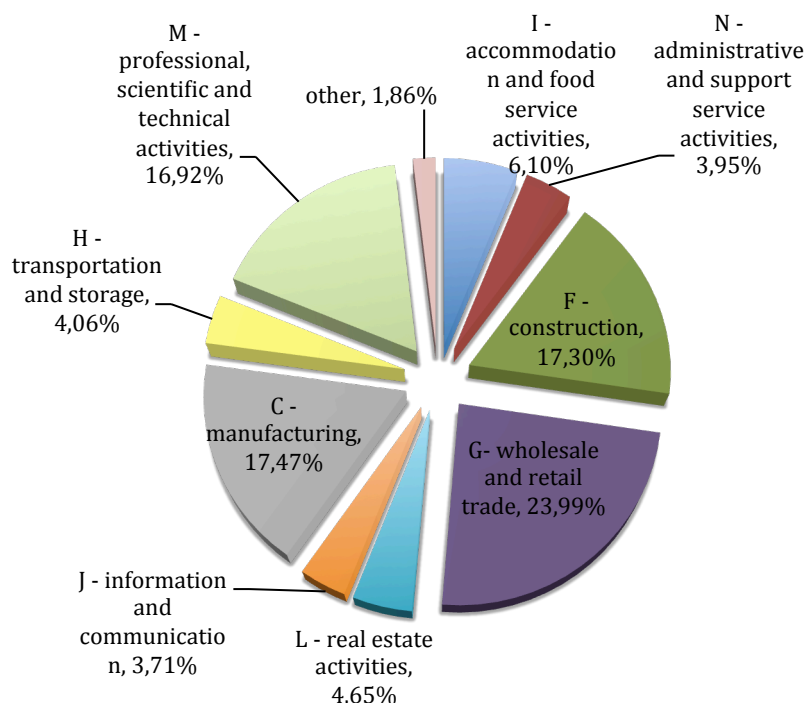


Figure 28 Business economy - structural profile in % according to NACE, 2010, Czech Republic

Source: own elaboration, input data are from Eurostat

<sup>96</sup> These are estimates for 2013 produced by DIW Econ, based on 2008-11 figures from Structural Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the larger non-market service sectors such as education and health. The Eurostat data can be harmonized and comparable across countries even the data may be different from those published by national authorities.

The classification of SMEs used in the questionnaire was collected from Eurostat. The classification can be seen above and the classification according to NACE was used. The biggest groups, that can be found for the Czech Republic, are whole and retail trade (G), construction (F), manufacturing (C), professional, scientific and technical activities (M). There are few more groups, such as real estate activities (L), accommodation and food service activities (I), etc.

## 5.2 Results of primary data

The primary data were collected by questionnaire survey. This survey was focused on findings related to barriers that SMEs see when they go international. Mainly the primary data were collected to find out how the SMEs perceive the EU and if they feel that EU supports them or not in their international trade, trade with countries outside the EU. The questionnaire was made in help with literature and reports, which were published by the European Commission. In ANNEX III, there can be found all questions that the questionnaire contained.

The questionnaire was sent to 1 486 SMEs in the Czech Republic. Contact details of Czech SMEs were taken from database Amadeus, which stores information about companies across Europe. The SMEs were chosen in similar proportion as the classification of Czech SMEs by NACE. There were 85 filled questionnaires, from which there were 22 questionnaires that said that they trade with the countries outside the EU and from them also 21 that also trade within the EU. There are 22 questionnaires where enterprises said they operate in the markets within EU and the rest that do no trade across the borders of their country. The return ratio of the questionnaires is 5.72%.

### Hypothesis 1:

*Null hypothesis ( $H_0$ ):* Perception of barriers that could impede to SMEs to enter the new markets in countries outside the EU is not dependent on business economy classification.

*Alternative hypothesis ( $H_1$ ):* Perception of barriers that could impede to SMEs to enter the new markets in countries outside the EU is dependent on business economy classification.

### Hypothesis 2:

*Null hypothesis ( $H_0$ ):* Perception of barriers that could impede to SMEs to enter the new markets in countries outside the EU is not dependent on the size of enterprises.

*Alternative hypothesis ( $H_1$ ):* Perception of barriers that could impede to SMEs to enter the new markets in countries outside the EU is dependent on the size of enterprises.

### **Hypothesis 3:**

*Null hypothesis ( $H_0$ ):* Operating of firms in the markets outside the EU is not dependent on its size.

*Alternative hypothesis ( $H_1$ ):* Operating of firms in the markets outside the EU is dependent on its size.

#### **5.2.1 Analysis of primary data**

The questionnaire was created for different three types of firms. The enterprises that are doing international trade across the borders of EU, then enterprises that are not in the market of third countries even they are planning to go there, and the last part of enterprises was which do not international trade with third countries and they are not planning to go there. There was done just one questionnaire and the filter questions ensured that each group had only those questions that were suitable for them.

The most used questions were closed questions, where was just one answer was correct. Then there were used the multiple choice questions where more answers were possible or there was a possibility to write own answer.

For a creating of the questionnaire survey the system Umbrella was chosen. It is a system produced by Mendel University in Brno, created for the purposes of surveys.

For the analysis of primary data Microsoft Office Excel and the program STATISTICA were used. All of the returned questionnaires were processed, there were not any incorrectly completed.

#### **5.2.2 Evaluation results of primary data**

According to the collected data, it is possible to interpret the results, which are connected to the Czech small and medium-sized enterprises. The returned ratio of the questionnaires was 5.72%.

##### **5.2.2.1 Division of the respondents**

Together 85 respondents filled in the questionnaire. There were 22 SMEs that operate in third markets so then 63 enterprises that do international business within the EU or they stayed just in their country market (i.e. Czech Republic). There were three enterprises that do not operate on third countries market but plan to enter the market of third countries in one year.

Respondents can be divided according to the size of enterprises that can be seen below in Figure 29. Three types of enterprises were in the questionnaire, according to the size of enterprises, the micro-enterprises (1-9 employees, turnover or balance sheet total not higher than 2 million euros), small enterprises (10-49 employees, turnover or balance sheet total not higher than 10 million euros) and medium-sized enterprises (less than 250 employees, turnover not higher than 50 million euros or balance sheet total not higher than 43 million euros). There were

54% of micro enterprises that is the biggest part of all SMEs Then there were 35% of small-sized enterprises and the smallest group was medium enterprises, which count for 11%.

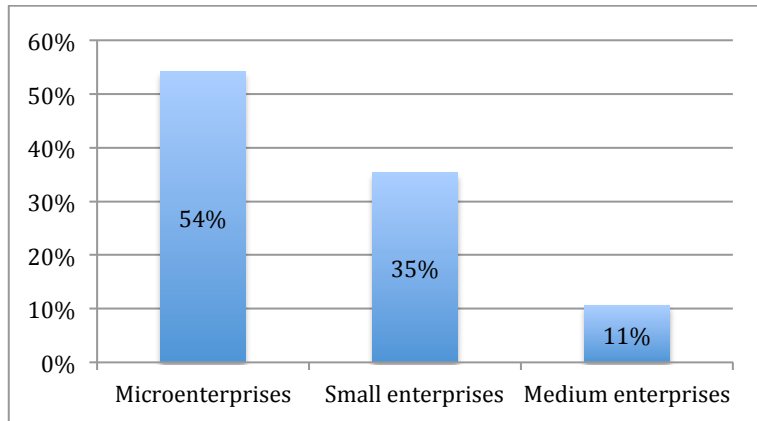


Figure 29 Respondents according to the size of enterprise

Source: own elaboration

The classification of respondents can be also done according to business economy classification NACE. The division was done according to proportional classification of the whole country, the Czech Republic. The exact percentage of the exact sector was applied. Bigger differences in received filled questionnaires are in the category M - professional, scientific and technical activities and the category other where different amount of questionnaires were received than sent, the proportion according to the classification.

Total amount of questionnaire were 85 of which 4 companies were from the administrative and support service activities (N), 1 company was from real estate activities (L), 4 companies of H - transportation and storage, 5 enterprises of J- information and communication, 5 companies of M - professional scientific and technical activities, 11 enterprises were from construction (F), 3 companies of accommodation and food service activities (I), 14 companies of wholesale and retail trade, 10 companies of C - manufacturing and the rest that is 28 enterprises said they are in category other.

Many enterprises chose the category 'other' as the option to which category their company belongs. It could be because they misinterpreted their category or they belonged to the several categories, and so their choice was not correct. There were 26 questionnaires sent at the category other. The database AMADEUS is not the most actual so the enterprises could change their area of operations, or they could do business in different fields so they could choose the option other.

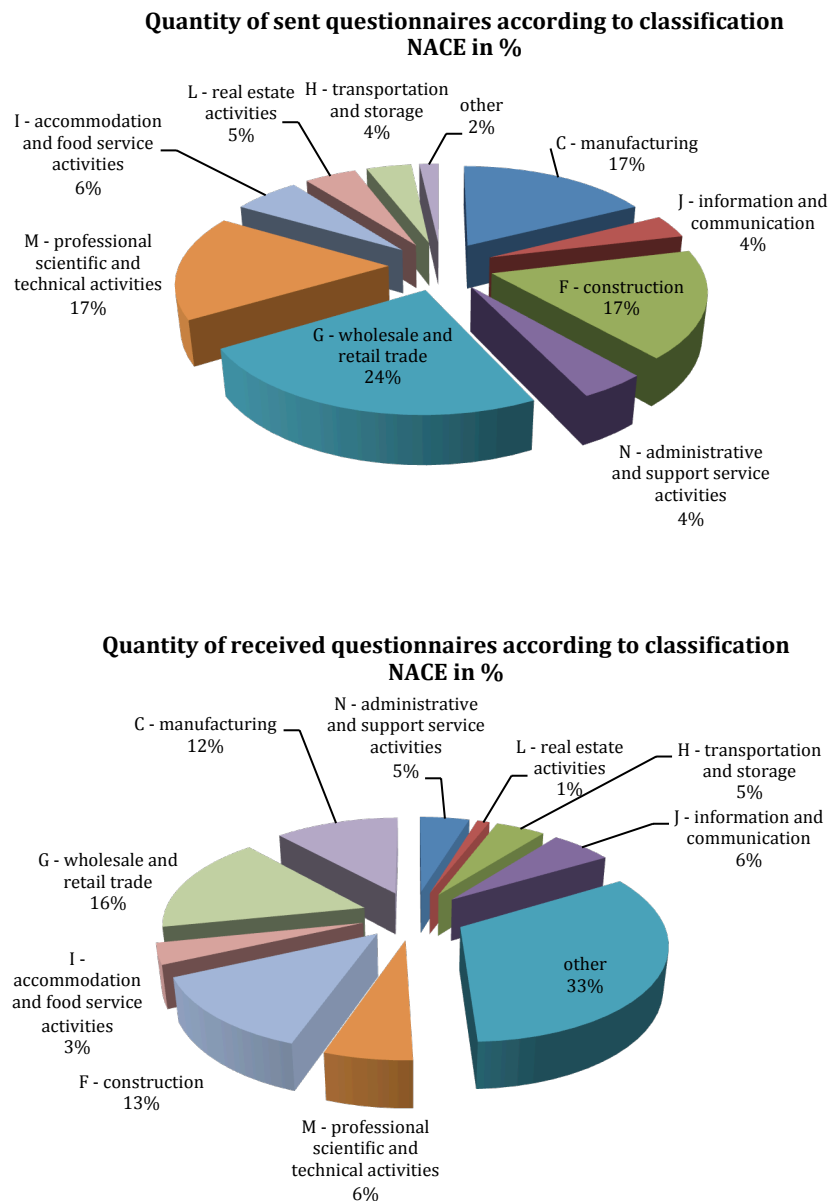


Figure 30 Comparison of quantity of questionnaires that were sent and received according to the classification NACE in percentage

Source: own elaboration

### 5.2.2.2 Czech SMEs in the international markets

In the survey there was just 1 firm that filled it operates in the market outside the EU but not in the markets within the EU. The rest of filled questionnaires - 22 companies - said they trade with third countries (outside the EU) and also within the EU. If the companies were not in the markets outside the EU, in 65% they do not operate on markets within the EU, just 35% of SMEs trade within EU and not outside the EU.



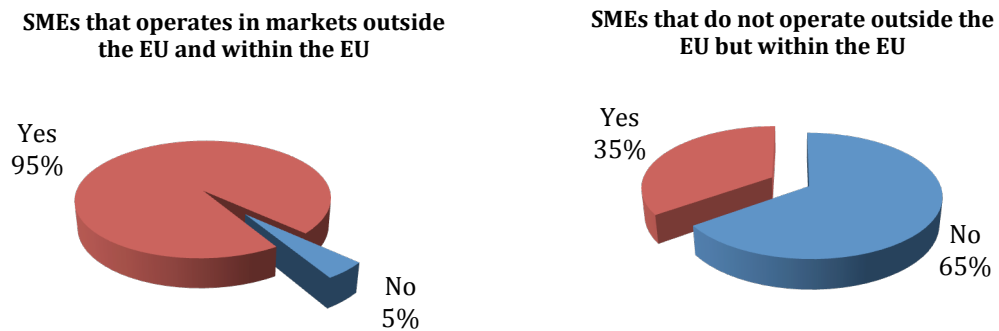


Figure 31 SMEs that operates in markets outside the EU and also within the EU compare to SMEs that does not operate outside the EU but within the EU  
Source: own elaboration

There were 26% SMEs of all filled questionnaires that operate in the markets outside the EU. The percentage division of the SMEs is mentioned below. This division is done according to the classification NACE, The most of the firms said they are in category other (45%) and other bigger groups were for example manufacturing (C) with 18% and 14% of SMEs were in group M - professional, scientific and technical activities.

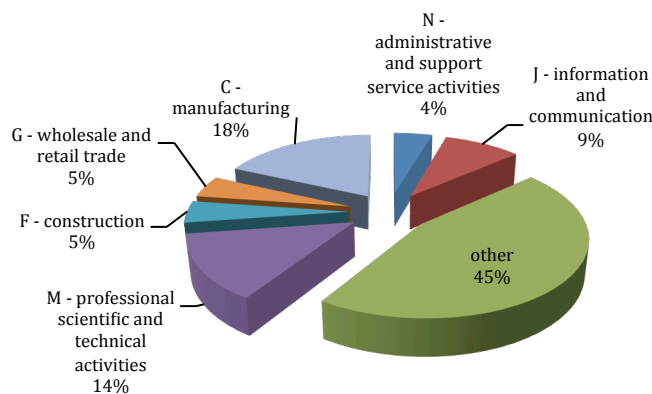


Figure 32 SMEs that operate in markets outside the EU according to classification NACE in %  
Source: own elaboration

Countries where the SMEs operate or plan to operate can be seen below in Figure 33. Mainly they are in Russia, Ukraine, China, and USA. This question was multiple-choice so then the SMEs could choose more markets where they trade. Also the option other was used, there were written other countries with which the SMEs trade, for example they were Canada, Egypt, Switzerland, etc.

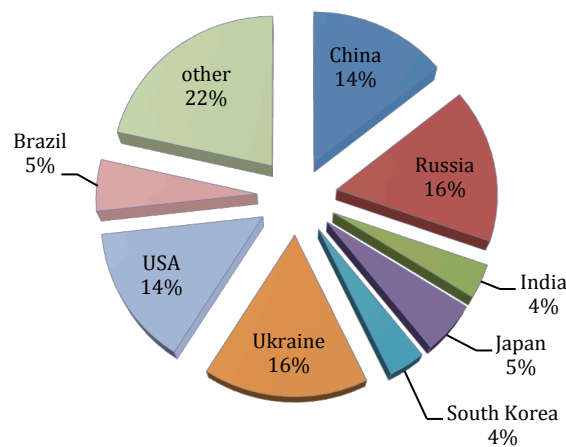


Figure 33 Markets where the SMEs operate or plan to operate  
Source: own elaboration

### 5.2.2.3 Forms of entering the foreign markets

The SMEs have a choice how to enter the foreign markets. They used the direct export the most; it was 74% of SMEs that used this option. Then the other option, with just 18%, was a form of low capital investment such as licensing, franchising. And the options that were used just by 4% were indirect export and FDI. Foreign direct investment is intensive capital investment, so then enterprises do not use this form that often.

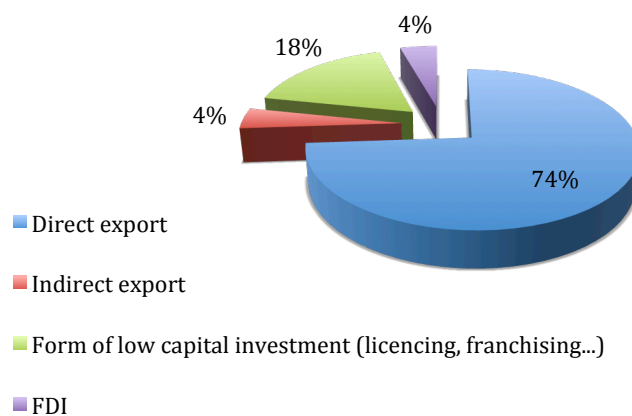


Figure 34 Forms of entering the foreign markets by the Czech SMEs  
Source: own elaboration

#### 5.2.2.4 The EU support

Firstly, there will be shown a perception the entry of the Czech Republic to the EU by the respondents. Most of the respondents that trade within the EU feel that entry the Czech Republic into the EU was not an incentive to start internationalize, to trade with the countries within the EU. Exactly, this perception had 81% of respondents. 19% of respondents thought that entry to the EU was an incentive to start trading with countries that are also members of the EU.

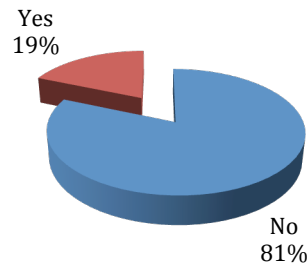


Figure 35 Perception of the entry of the Czech Republic into the EU as an incentive to trade with countries within the EU by the SMEs that trade within the EU

Source: own elaboration

Secondly, how the SMEs that operate in the markets outside the EU feel about the entry of the Czech Republic into the EU. There were just two enterprises that thought the entry to the EU was an incentive to start trading with the countries within the EU.

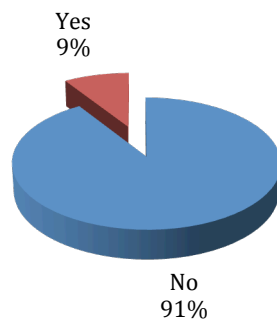


Figure 36 Perception of the entry of the Czech Republic into the EU as an incentive to trade with countries outside the EU by the SMEs that trade within the EU

Source: own elaboration

Entry of the Czech Republic into the EU was not an incentive to start trading with the countries outside the EU for none of respondents. Even the respondents are traders with countries outside the EU, they do not think the entry to the EU was an incentive to start trading across the borders of EU.

To summarize it, the most part of the SMEs think that entry of the Czech Republic was not an incentive to start trading with the countries nor within the EU nor outside the EU.

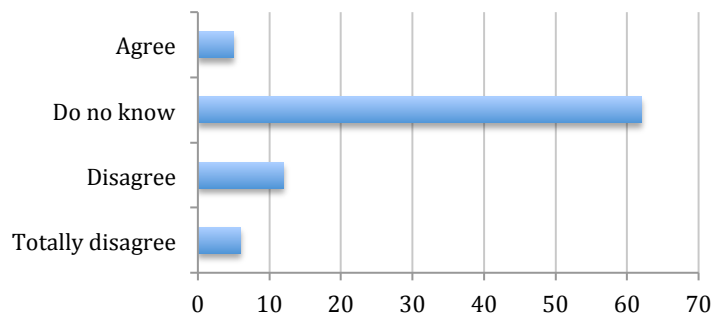


Figure 37 Count of SMEs of how they perceive the EU support of SMEs that trade with countries outside the EU

Source: own elaboration

Czech SMEs do not think that the EU supports enterprises that trade with the markets outside the EU. Most of SMEs do not know if the EU supports or not. It could be because they are not interested in international trade so then they have lack of information and the EU probably do not publish that to the general public.

#### 5.2.2.5 Barriers that impede the internationalization of the SMEs

Barriers that threat SMEs to go international, to start trading with the markets outside the EU, are shown in the figure below where are the counts of every barrier. Difficult paperwork, bureaucratic procedures (administrative costs) and the payment risk are the most stated barriers at least 20 times they were ticked by SMEs. Other barriers that SMEs see as the obstruction of going across the EU borders are lack of adequate market information and lack of knowledge of foreign languages. As the option other, there were written, for example, preferring local suppliers regardless the quality or price, EU sanctions against Russia, etc.

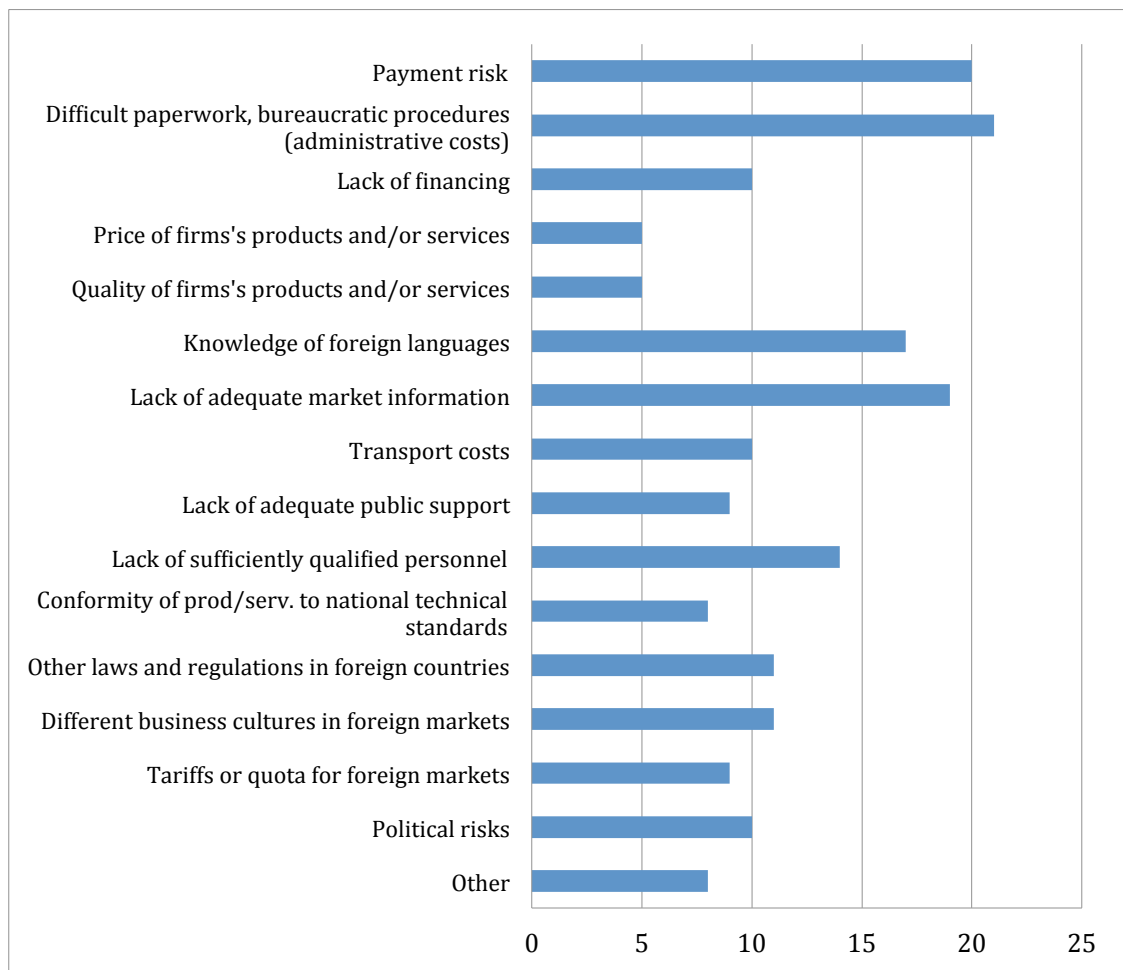


Figure 38 Barriers that impede SMEs to enter the markets outside the EU, in total counts  
Source: own elaboration

### 5.2.2.6 Public support used by Czech SMEs

There were only three respondents that used the public support for SMEs in trading with the countries outside the EU. One of the enterprises was from the manufacturing sector; the other from professional, scientific and technical activities and the last took the option other as a business economy classification. These three respondents used these types of support:

- grants and subsidies,
- staff training,
- seminars and workshops,
- sectoral program,
- trade mission, trade fairs and matchmaking events,
- identifying and arranging meeting with clients,
- advice and consultancy,
- business cooperation and networking,
- credit guarantee program.

### 5.2.3 Testing of hypotheses

Few hypotheses, which will be described below, were determined within this diploma thesis, and the results of the questionnaire survey were needed for verification of the hypothesis. Firstly, the null hypothesis was defined. This hypothesis, which was tested ( $H_0$ ) and subsequently the alternative hypothesis ( $H_1$ ) was set that is accepted only if the null hypothesis is rejected. The null hypothesis expresses independence between given characteristics and the alternative hypothesis expresses the dependence between these characteristics.

For a decision if to reject the null hypothesis or not, the p-value was used. The p-value was compared with the significance value  $\alpha$ . So then if the p-value was higher than the significance value  $\alpha$ , the null hypothesis ( $H_0$ ) cannot be rejected. Thence, the alternative hypothesis ( $H_1$ ) was accepted if the p-value was lower than the significance value  $\alpha$ , the null hypothesis ( $H_0$ ) was rejected. The 5% level was taken as the level of significance ( $\alpha = 0.05$ ).

#### **Hypothesis 1:**

*Null hypothesis ( $H_0$ ):* Perception of barriers that could impede SMEs to enter the new markets in countries outside the EU is not dependent on business economy classification.

*Alternative hypothesis ( $H_1$ ):* Perception of barriers that could impede SMEs to enter the new markets in countries outside the EU is dependent on business economy classification.

In the significance level  $\alpha = 0.05$ , the null hypothesis cannot be rejected because the p-value is equal to 0.104945 so then  $p > \alpha$ . According to these findings, there is not any evidence that could prove the dependence between the business economy classification and the perception of barriers.

#### **Hypothesis 2:**

*Null hypothesis ( $H_0$ ):* Perception of barriers that could impede SMEs to enter the new markets in countries outside the EU is not dependent on the size of enterprises.

*Alternative hypothesis ( $H_1$ ):* Perception of barriers that could impede SMEs to enter the new markets in countries outside the EU is dependent on the size of enterprises.

In the significance level  $\alpha = 0.05$ , the null hypothesis cannot be rejected because the p-value is equal to 0.757409 so then  $p > \alpha$ . It implies that there is not any evidence that could approve the dependence between the perception of barriers and size of enterprise.

**Hypothesis 3:**

*Null hypothesis ( $H_0$ ):* Operating of firms in the markets outside the EU is not dependent on its size.

*Alternative hypothesis ( $H_1$ ):* Operating of firms in the markets outside the EU is dependent on its size.

In the significance level  $\alpha = 0.05$ , the null hypothesis is rejected because the p-value is equal to 0.047246 so then  $p < \alpha$ . According to these findings, there is dependence between the size of enterprise and whether the enterprise is operating in the markets outside the EU or not.

**Hypothesis 1** and **hypothesis 2** were set to find out whether perception of barriers that could impede SMEs to enter the new markets in countries outside the EU can be influenced by different characteristics of enterprises. To be more specific, these characteristics are the business economy classification and the size of enterprises.

The perception of SMEs is not dependent nor on the size of enterprise nor on the sector in which the enterprise is.

**Hypothesis 3** was set to find out if there is a dependency between the size of enterprise and if the enterprise does trade in the markets outside the EU. This was chosen to confirm the statement of the report Internationalization of European SMEs from year 2010 that found out that there is the dependency between size of enterprise and its tendency to internationalize. The smaller company, the lower tendency to do trade in markets of third countries.

### 5.3 Recommendations

Based on a comparison of primary and secondary data some recommendations were conceived. Firstly, there were two approaches that should be compared as a whole. An overview of the European SMEs was mainly taken from the European Commission. Afterwards, an analysis of the final reports was made and then synthesis of gained data. There was also made an analysis of the questionnaire survey. The survey was done to get data that could be analyzed.

In both parts, there were most of the micro-enterprises among the European SMEs. The micro-enterprises have a bit different requirements, problems, etc. as the small or medium enterprises.

It was affirmed that mode of entry to the markets outside of the EU is exporting. In the secondary data and also in the primary data the result was the same, SMEs use the exporting as the most used mode.

Support that the Union brings to the small and medium-sized enterprises is not well noticeable, and most of the SMEs do not apply for the support even the EU offers it to the enterprises.

Barriers that enterprises see as the most difficult that they are exposed to are lack of adequate information, lack of capital, lack of adequate public support, costs or difficult paper work for transport, payment risk etc.

Regions of the international trade that were in the questionnaire survey as the most numerous - Ukraine, Russia, China, USA and few more in which was not that much incidence. As the result of secondary data, the main regions were Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine. In the survey within this thesis, there were not that many respondents so that it could be an issue why the result is similar just for few regions compare to the secondary data.

***Companies should have greater knowledge of benefits of internationalization, and they should have easier access to public support.***

There are not so many companies that go international, moreover they would do a trade across the border of EU. SMEs are not well aware of public support programmes for internationalization. It is less than 10% of the internationally active SMEs that use them. In the sample that was got from the questionnaire survey in the Czech Republic it was shown that it was about 14%.

Almost three quarters of all internationalized SMEs are not aware of public support. 20% of SMEs are aware of public support but they are not using it.

The financial support was used the most by Austria and the non-financial support was used the most by Slovenia.

Many of the SMEs that are active in third markets learn about existing support programmes mainly through their own Internet search or through business organizations. The most important source of information on the actual content of the relevant support programmes for enterprises are chamber of commerce, trade associations and fellow entrepreneurs.

The campaigns that would bring awareness of internationalization and public support should start and also steps that are written below could bring bigger awareness.

- To strengthen the existing programmes that are focused on internationalization so then enterprises would have greater knowledge, and they would start to use the support.
- Learn from Austria how to spread information about the financial support and how the Austria helps to SMEs to get it. The same about the non-financial support, other countries should apply similar campaigns as Slovenia to offer their SMEs easy access to this help.



***Export is one of the most important modes of entry, but there are also another types so then the support should be differentiated.***

One of the most used mode of entry to international markets is export. About 25% of European SMEs are involved in export and overall less than 20% of the SMEs are involved in FDI or technical cooperation or subcontractors. So then, most of the SMEs use the mode of exporting as the main technique.

The recommendation should be a division of the modes into two groups, one as exporting and second as the other modes. The division could ensure that special needs and characteristics of every mode could be detected and this division would achieve a specialization for every category of a mode.

The websites that deal with international trade would be divided into separate groups for different modes. So then, the SMEs could have further information about the mode that they are interested in and the website could contain better information about each mode.

For example - CzechTrade is the National Trade Promotion Agency of the Ministry of Industry and Trade. Its main task is to assist companies in development of mutual trade and cooperation. Through its foreign as well as local offices, the agency provides trade information, practical assistance to exporters and foreign buyers, consultancy, educational programmes; it assists companies throughout trade fairs. The web site can also publish advertisements of foreign companies willing to enter the Czech market or searching for a partner.

***Micro-enterprises, more than 90% of all SMEs that give job to almost 30% of all employees, should have its proper treatment.***

There are a lot of micro-enterprises in the EU, and the EU should pay attention to this number. Focus on micro-enterprises that see barriers such as lack of capital, lack of adequate public support and lack of adequate information.

The web sites, which could be focused just on micro-enterprises, not on all small and medium-enterprises, would be one of the options. The micro-enterprises have a bit different types of problems in the first place than other enterprises so then focus just on these could help them to stand the barriers and fight them.

Special treat for micro-enterprises should appear. Campaigns, consultancy, web pages - special information of their needs just for this type of SMEs could be to ensure that micro-enterprises would get the right treatment and to avoid that they would be fearful to go international.

***The incentive of EU and public support should be improved by news given by media to the general public.***

Czech SMEs do not think that the EU supports enterprises that trade with the markets outside the EU. Most of SMEs do not know if the EU supports or not, in the questionnaire survey it was 73% of all respondents. Attitude to this could be like

that because most of the SMEs are not interested in international trade so then they have lack of information and the EU probably do not publish steps of support to the general public.

The recommendation to the EU is to strengthen public relations. General public does not perceive the EU as the supporter of SMEs that trade with the countries outside the EU. It could help the EU in a broader way; it could help in a perception of the EU. The Union is targeting mainly to SMEs that trade or think that they would trade, and the general public do not see if there is any support or not.

Media could bring greater knowledge in the general public. For example, nowadays there is a national television channel in almost every country that is bringing news of its country. So then, there is missing a national television channel of EU. In the future, the EU could come to a political union but nowadays it is just incomplete monetary union, there are missing many steps to come to a political union. The recommendation of national news television channel of the EU could bring more news of what the EU is doing in different fields. One of the fields could be a trade and a part of it could be a trade with countries outside the EU. This could change the view of the European Union as a whole in the general public. Moreover, almost every household in the EU has its own television or more televisions so then it could be great stream of the publishing news.

### **The avoidance of the barriers that are perceived as most important by the European SMEs could be achieved by adopting of exact tools.**

Two of the most important barriers perceived by internationalized European SMEs are payment risk and lack of financing.

To minimize this risks some of the useful tools can be used, such as payments in advance, insurance, analysis of business partners, etc. A tool to avoid the payment risk is for example cash in advance and letter of credit.

Cash in advance is a protection of the exporter to avoid credit risk because payment is received before the ownership of the goods is transferred. Contrary this tool is not that attractive option for the buyer because it creates unfavorable cash flow, moreover the goods may not be sent even payment was made in advance.

Letters of credit are one of the most secure instruments available to international traders. It is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the letter of credit have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his bank to render this service. A Letter of credit is useful when there is a lack of reliable credit information about a foreign buyer, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. A Letter of credit also protects the buyer since no payment obligation arises until the goods have been shipped as promised.<sup>97</sup>

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<sup>97</sup> Chapter 1: Methods of Payment in International Trade [online], 2012

## 6 Discussion

To acquire the goals of this work, it was needed to go through some reports that were interested in the internationalization process inside the Union. Also, it was needed to gain knowledge about the trade of European SMEs with the countries outside the EU. This information was got from the websites of the European institutions and researches that were done by them. The European Commission was used as one of the sources, in its website there is one section devoted to SMEs, and a lot of data were found there.

In the other part, it was needed to make a questionnaire, to meet one of the goals of this thesis. This questionnaire was sent to small and medium-sized enterprises in the Czech Republic. The Czech Republic was chosen purposely as a sample of the European SMEs. The research what country should be chosen was done. It was found that Czech SMEs had decent return ratio contrary to other countries. It could be because Czech SMEs know the Mendel University in Brno and they could have already been participants of some other surveys within some other diploma theses. The questionnaire was made in the system UMBRELA that is run by Mendel University in Brno. Different types of literature and online sources were used to set the intelligible, well arranged and well-formulated questionnaire that assured information related to the goal of the thesis.

The respondents were divided into the groups. These groups were characterized by size (small and medium-sized enterprises), enterprises had to be from the Czech Republic and they were separated according to the business classification. These characteristics were applied to the database Amadeus that stores information about companies across Europe and then contact information were got. Altogether the email was sent to 1 486 SMEs in the Czech Republic. In total 85 filled questionnaires were obtained, from which 22 respondents were enterprises that trade with countries outside the EU. The return ratio of the questionnaires is 5.72% (85/1486). To achieve better results - suggestions and generalization - would be better if the return ratio will be higher (if more respondents did fill the questionnaire). However, there were several companies that answered just by email and did not filled the questionnaire. These companies stated that they did not think they should participate in the survey because they were too small, and they did not plan to go international. Also one company mentioned that it did not belong to the group of SMEs so then it did not fill the questionnaire not to distort the results.

Database Amadeus is a list of European companies that put different characteristics of enterprises together. Every year more companies are added to this database. But there can be found also discrepancy because some of the characteristics could be incorrect. For instance, companies that are classified as particular category in the database, after few years they have not to be still in the same so then the characteristics are outdated. Another example can be that firm comes under several business classifications, and database can classify it differently so then it is debatable where the company should belong. Moreover, some of the contact

information were not accessible, the emails were returned because the email addresses were canceled.

Another debatable issue is that it is needed to be aware of information filled in the questionnaire. They have not to be that truthful because the questionnaire could be filled by employee that has not such great knowledge about the firm or about the problem of internationalization. Besides, perception of some issues that were in the questionnaire is very subjective.

In the questionnaire, there was one question related to the EU support. Firms were asked to say if they think that the EU supports firms that trade with the countries outside the EU or not. The greatest part of the respondents said they did not know. This result could come out because many firms are not interested in trade with countries outside the EU so then they do not have sufficient information, and they decided to answer that they do not know. Many of the respondents to this question think that the Union does not support firms that trade with countries outside the EU. Most likely the EU focuses on firms that do trade with the countries outside the EU so then the rest of the firms (which do not trade beyond the EU borders) are not aware of the EU support and related information.

The theoretical approaches of the entering to the international markets describe this process as taking logical steps of firms when they start to internationalize. These steps are based on their gradual acquisition and use of information, which are gained by foreign markets and operations, which determine gradually greater levels of market commitment to more international business activities. But according to the findings in this thesis the age of the enterprises has shown that with increasing age the enterprises are however relatively much more involved in export.

OECD released a report covering barriers of internationalization that are seen by SMEs; there are covered SMEs from the world. Compare to the other report which was done by the EU, there is a similarity in seeing the shortage of capital as one of the most important barriers. The SMEs around the world did mention a difficulty of paperwork and bureaucratic procedures, but the EU SMEs said this is one of the barriers. The European Union should start to think about its bureaucracy because it could impede the EU SMEs the entry to international markets.

The research of the thesis was done considering there were already taken some steps by the EU in achieving better results in the internationalization process of the SMEs. The Small Business Act for Europe is an approach that ensures the EU responds better to the needs of small businesses and to exempt micro-enterprises from EU legislation or introduce special regimes so as to minimize the regulatory burden on them. In the Czech Republic, The Small and Medium Enterprises Support Strategy 2014–2020 was passed, it aims to define priority areas of support for the 2014–2020 programming period, the measures of which will be financed from EU Structural Funds while national funds will be also used.

## 7 Conclusion

The small and medium-sized enterprises cover a big part of the total number of enterprises. The SMEs are 99.8% of total enterprises in the EU28. In the Czech Republic the percentage of SMEs to all enterprises is a bit higher than in whole EU, it is 99.9%. Due to this fact the European SMEs should be supported in the international trade, the trade with countries outside the EU. There should be a support of the European SMEs in its growth, development, etc.

The main goal of the thesis was to identify the risks of the internationalization process of SMEs in selected countries of EU and to find out if the European integration helps SMEs in this process. To achieve the goal it was done collection of data from the researches, which were done within the EU and also it was done the analysis of results of primary data that were acquired by questionnaire survey.

The risks of the internationalization can be perceived from different point of views. It was gone through the reports of the European Union and it was done a questionnaire survey within this diploma thesis. The risks of the internationalization process can be then interpreted as following.

There are the most micro-enterprises more than 90% of EU SMEs, but the research showed that the larger company, the more it tends to internationalize. The EU SMEs see many barriers in the internationalization process; such as one of the barriers is a lack of public support. SMEs do not perceive the EU as the supporter. SMEs use mainly export in doing business across the borders of the EU and the other modes of entry they rarely do. The small and medium-sized enterprises do trade within the whole EU the most or with other European countries. But other world regions the EU SMEs do not use that often.

One of the partial goals was to find the barriers of the internationalization how the SMEs perceive them. So then it was found that three most important barriers for doing business in third countries are payment risk, administrative costs (difficult paperwork, bureaucratic procedures) and lack of financing. Other barriers that are also seen as important are price of firms' products and services or both, quality of firms' products and services or both, or knowledge of foreign languages.

Barriers that micro-enterprises see most often are lack of adequate information, lack of capital and lack of adequate public support. The micro-enterprises comprise the biggest proportion of all European SMEs. It is 92.4% of the total number of enterprises. On the other hand, micro-enterprises tend to internationalize less than small or medium enterprises.

According to the data gained by questionnaire survey, most often barriers are administrative costs (difficult paperwork, bureaucratic procedures), payment risk, lack of adequate market information and knowledge of foreign languages.

There is a proportion in size of the company and how it tends to internationalize. The medium-sized enterprises are more active for exports than micro-enterprises. Hypothesis 3, which was tested according to primary data, also

showed that there is a dependency between the size of enterprise and its operating in the markets outside the EU.

Another partial goal was to find out what is the most used mode of entry to the markets outside the EU. There are 25% active European SMEs that export. Thereof export is the most used entry to the markets outside the EU. Exporting is the simplest and quickest way how to enter foreign markets in comparison to foreign direct investment that costs a lot of money and takes more time to get to the international market. Ireland has the biggest share of exporting SMEs outside the EU, contrary the lowest numbers are shown for Slovakia and the Czech Republic SMEs exporting extra EU27.

The export is the most often used option for the Czech SMEs to go to the markets outside the EU. It was in 74% of respondents. 18%, used the form of low capital investment such as licensing, franchising and the option that was used just by 4% was foreign direct investment.

Lastly, the influence of the EU on the internationalization process was studied. The biggest part of the SMEs thinks that entry of the Czech Republic was not an incentive to start trading with the countries nor within the EU nor outside the EU. Czech SMEs do not think that the EU supports enterprises that trade with the markets outside the EU. Most of the SMEs do not know if the EU supports or not.

There are several programmes, in which the EU supports the SMEs in the internationalization process. Public support is relatively important for that European SMEs that are using the provided support. Besides this fact, all other European SMEs are not well aware of public support programmes for internationalization. Furthermore, the instruments of internationalization are not much used - it is less than 10% of the internationally active European SMEs that use them. Almost three-quarters of all internationalized SMEs are not aware of public support. 20% of SMEs are aware of public support, but they are not using it.

The effect of using support was following; 42% of the SMEs that used the support have more international business activities earlier because of the support and 25% would not have started business activities if there will be no support. For 23% there was no immediate effect. In the questionnaire survey within this thesis, there were just few respondents that used the public support. These enterprises used grants, staff training, seminars and workshops, advice and consultancy, etc.

Due to these findings it was recommended the micro-enterprises should receive proper treatment. Micro-enterprises should get special treatment, such as consultancy, campaigns, web pages. There should be special information of the particular needs of micro-enterprises, not for whole group of SMEs, to ensure that micro-enterprises will get the right information and to avoid that they would be fearful to go international.

The modes of entry to the international markets should be differentiated; the groups of interest should be made. One group could be exporting, and the second group could include the other modes of entry. The division could ensure that special needs and characteristics of every mode could be detected and by this division it could be achieved the specialization in every category.

According to the problem of awareness of public support that is offered to European SMEs, there could be some campaigns that would bring awareness of internationalization and public support (using the strengthening of the existing programmes and learning from some countries that use well the support programmes).

Public relations could be strengthened. The EU is not perceived as the supporter of the SMEs in trade with the countries outside the EU. An incentive of the EU and public support could be improved by news given by media to general public. It could help EU in a broader way, and it could help in the perception of the EU as the supporter.

To minimize the payment risk and lack of financing that are seen as important barriers, different tools can be used, such as payments in advance and letters of credit.

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## **ANNEXES**

- ANNEX I World regions for exporting
- ANNEX II Use of financial and non-financial public support for internationalization in 2009, percentage of internationally active SMEs, by country
- ANNEX III Questionnaire

## ANNEX I World regions for exporting

Answers	Explanation for interviewers only
1. Cross border regions	Areas located in another EU or EFTA Member State within a distance of 50 km to 100 km from the land border with the country where the enterprise is located.
2. Other European Union (EU-27) or EEA	EU-27: Austria, Belgium, Bulgaria, Cyprus, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK. EEA: Iceland; Liechtenstein; Norway.
3. Russia	-
4. Other European countries	Albania, Belarus, Bosnia and Herzegovina, Croatia, FYROM (Macedonia), Kosovo, Moldova, Montenegro; Serbia, Switzerland, Ukraine.
5. Middle East	Bahrain, Cyprus, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine Territories, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen.
6. North Africa	Mediterranean sea countries: Algeria, Egypt, Libya, Morocco, Tunisia.
7. Other Africa	Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo DR (Zaire), Cote d'Ivoire, Djibouti Eritrea, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Reunion, Rwanda, Sao Tome & Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Western Sahara, Zambia, Zimbabwe.
8. Japan	-
9. China	People's Republic of China incl. Hong Kong and Macau.
10. India	-
11. Other Asia	Afghanistan, Bangladesh, Bhutan, Brunei, Cambodia, East Timor, India, Indonesia, Iran, Kazakhstan, Kirghizstan, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, North Korea, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Tadjikistan, Taiwan, Thailand, Turkmenistan, Uzbekistan, Vietnam.
12. North America	Canada, Mexico, USA (NAFTA countries).
13. Brazil	
14. Other South and Central America	Central: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama. Caribbean: Antigua & Barbuda, Aruba, Bahamas, Barbados, Cayman Islands, Cuba, Dominica, Dominican rep., Grenada, Guadeloupe, Haiti, Jamaica, Martinique, Puerto Rico, St Kits & Nevis, St Lucia, Trinidad & Tobago, Virgin Islands. South: Argentina, Bolivia, Chile, Colombia, Ecuador, French Guyana, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela.
15. Australia/ New Zealand	Incl. Oceania.

Source: Internationalization of European SMEs [online], 2010

**ANNEX II Use of financial and non-financial public support for internationalization in 2009, percentage of internationally active SMEs, by country**

<i>Rank</i>		<i>Financial support</i>	<i>Rank</i>		<i>Non-financial support</i>
1	Austria	47%	1	Slovenia	23%
2	Turkey	32%	2	Cyprus	19%
3	Greece	17%	3	Latvia	16%
4	Latvia	17%	4	Lithuania	12%
5	Norway	14%	5	Luxembourg	11%
6	Germany	14%	6	Italy	11%
7	Spain	10%	7	Norway	11%
8	Italy	9%	8	Greece	11%
9	Slovakia	9%	9	France	9%
10	France	7%	10	Spain	9%
11	Romania	6%	11	Germany	7%
12	Hungary	5%	12	Denmark	5%
13	Sweden	5%	13	United Kingdom	5%
14	Cyprus	5%	14	Ireland	4%
15	United Kingdom	5%	15	Austria	3%
16	Slovenia	4%	16	Poland	3%
17	Luxembourg	4%	17	FYROM	2%
18	Liechtenstein	4%	18	Finland	2%
19	Belgium	4%	19	Belgium	1%
20	Finland	3%	20	Slovakia	1%
21	Estonia	3%	21	Netherlands	0%
22	Lithuania	3%	22	Estonia	0%
23	Poland	3%	23	Malta	0%
24	Ireland	3%	24	Croatia	0%
25	Malta	2%	25	Portugal	0%
26	Bulgaria	2%	26	Sweden	0%
27	Croatia	2%	27	Czech Republic	0%
28	Czech Republic	2%	28	Bulgaria	0%
29	Portugal	1%	29	Hungary	0%
30	Denmark	1%	30	Iceland	0%
31	Netherlands	1%	31	Liechtenstein	0%
32	FYROM	0%	32	Romania	0%
33	Iceland	0%	33	Turkey	0%

Source: Internationalization of European SMEs [online], 2010

### **ANNEX III Questionnaire**

**Is your firm recently in the markets outside the EU?**

Yes

No

**Is your firm working in the markets within the EU?**

Yes

No

**Do you see an entry of the Czech Republic to the EU as an incentive to trade with countries within the EU?**

Yes

No

**Do you see an entry of the Czech Republic to the EU as an incentive to trade with countries outside the EU?**

Yes

No

**Do you plan to enter the markets outside the EU within one year?**

Yes

No

**In which markets does your firm operate or plan to operate?**

China

Russia

India

Japan

South Korea

Ukraine

USA

Brazil

Other:

**What form of entry did your company use or plan to use in entering the markets outside the EU?**

Direct export

Indirect export

Low capital investment (licensing, franchising, management contracts, processing operations, production operations)

Capital investment in the foreign markets (acquisition, mergers, green field investments, joint ventures, strategic alliances)

Other:

**Do you see any barriers that impede your company to enter the markets outside the EU?**

Yes

No

**What barriers impede your company to enter the markets outside the EU?**

Payment risks

Paperwork, bureaucratic procedures (administrative costs)

Lack of financing

Price of firms' products and/or services

Quality of firms' products and/or services

Knowledge of foreign languages

Lack of adequate market information

Transport costs

Lack of adequate public support

Lack of sufficiently qualified personnel

Conformity of production/service to national technical standards

Other laws and regulations in foreign countries

Different business cultures in foreign markets

Tariffs or quota for foreign markets

Political risks

**What type of support have your company used?**

Grants and subsidies

Tax incentives

Low interest credits

Staff training

Seminars, workshops

Sectoral programme

Trade missions, trade fairs & matchmaking events

Identifying and meeting potential clients

Identifying and arranging meeting with clients

Information on rules and regulations

Information on market opportunities

Advice and consultancy

Business cooperation and networking

Credit guarantee scheme

Insurance

Other

**To which category does your company belong?**

Micro-enterprise (less than 10 employees, turnover or balance sheet total do not exceed 2 million euro)

Small enterprise (less than 50 employees, turnover or balance sheet total do not exceed 10 million euro)

Medium enterprise (less than 250 employees, turnover does not exceed 50 million euro or balance sheet total do not exceed 43 million euro)

**To which sector does your company belong?**

Accommodation and food service activities

Administrative and support service activities

Construction

Wholesale and retail trade

Real estate activities

Information and communication

Manufacturing

Transportation and storage

Professional, scientific and technical activities

Other