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INTERNATIONALIZATION DRIVING AND HINDERING FACTORS: THE PATTERNS TRACED IN THE CASE OF SMALL AND MEDIUM-SIZED ENTERPRISES

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P. Šumakaris, R. Korsakienė. Internationalization driving and hindering factors: the patterns traced in the case of small and medium-sized enterprises

Small and medium-sized enterprises are recognized as the country's economic growth and competitiveness fostering factor, thus their internationalization leads and is useful for the country's international reputation, economic growth and social welfare. The last few decades of globalization growth have fundamentally changed the concept of competition, international trade agreements and growing international integration has reduced import barriers in many developed and developing countries. Hence, the firms are forced not only to compete in a highly competitive domestic environment with other firms and seek the expansion in foreign and more distant markets, inevitably getting involved into the process of internationalization. The paper aims to analyse and reveal the factors, driving and hindering internationalization of SMEs. The observation of scientific literature let us suggest few assumptions. Firstly, globalization processes, the enlargement of the EU and the adopted policies, related to SMEs internationalization contributed to the focus of scientists and practitioners on SMEs internationalization. Secondly, global financial crisis prompted further investigations of SMEs internationalization. Further researches have to be related to the application of scientific methods enabling to assess the motives and barriers of SMEs. For instance, multiple-criteria decision analysis (MCDA) is seen as the method enabling to get new insights into SMEs internationalization processes and internationalization scope. We believe that our research is beneficial for the managers and policy makers, related to the SMEs activities.

Introduction

Small and medium-sized enterprises (SMEs) are recognized as the country's economic growth and competitiveness driving force, thus their internationalization leads and is useful for the country's international reputation, economic growth and social welfare. The last few decades of globalization growth have fundamentally changed the concept of competition, international trade agreements and growing international integration has reduced import barriers in many developed and developing countries. Thus, the firms are forced to compete in a highly competitive domestic market with other national and international firms and seek the expansion in foreign and more distant markets, inevitably increasing the involvement into the process of internationalization. While multinational companies have the resources to expand their activities abroad, SMEs usually lack a number of necessary resources and capabilities. On the other hand, the success of internationalization depends on a number of driving and hindering factors. The globalization processes have been accelerating in Lithuania since the accession to the European Union in 2004. The integration has opened the doors not only to other markets, but also opened the doors for foreign-owned firms to set up and invest in Lithuania's market. The operating principles of SMEs have changed fundamentally due to unprotected market and fully occupied business niches. Therefore, internationalization and search of foreign markets are seen as inevitable challenge of SMEs. The newly established SME growth and internationalization are supported by the European Commission. For instance, the Small Business Act, presented in June 2008, aimed to help SMEs flourish, and the few very best - to become world leading firms. The suggested solutions at the highest political level demonstrate the importance of SMEs in the countries' economic and social life. The success of SMEs is interrelated to the capability compete in both domestic and international markets. Therefore, internationalization of SMEs has become a multidisciplinary scientific research object and attracted a significant attention of scholars. The paper aims to analyse and reveal the factors, driving and hindering internationalization of SMEs. The research is grounded on analysis and synthesis of scientific literature.

SMEs internationalization

Increasing competition in the country's domestic market forces SMEs pursue the development of foreign and more distant markets and inevitably to be involved into the process of internationalization. Additionally, the growth of the firm forms the assumption to implement internationalization, thus the

concept of internationalization and growth is considered to be as interrelated (Korsakienė 2012). Notably, SMEs are recognized as the country's economic growth and competitiveness driving factor. The past few decades demonstrate that SMEs comprise the majority of the private sector and contribute to more than half of the jobs (Godelytė, Korsakienė 2015). Hence, internationalisation of SMEs leads and is useful for the country's international reputation, economic growth and social welfare.

The internationalization of SMEs is investigated through two theoretical models: Uppsala model (Johanson, Vahlne, 2009) and Born Global Companies (Vissak, Francioni, 2013). Empirical studies reveal that some firms are tended to adopt the gradual approach: firstly, the firms establish activities in some of the neighbouring countries' markets and then expand the activities to more distant markets (i.e. invest in more distant markets when the firms gain desirable performance in current markets) by creating the possibility to use the accumulated knowledge and experience (Dominguez, Mayrhofer, 2016). SMEs internationalisation has become an increasingly investigated topic and attracts scientific attention from various fields. The advantage of internationalization unfolds in the development of new products or services due to organization's and consumers' direct communication, leading to the much quicker response to changes (Felício, *et al.* 2016).

Globalization and internationalization pace foster the establishment of the global mind-set firms, which are defined as Born Global Companies, providing products and services not only in the domestic market of the country, but also globally (Taylor, Jack, 2016). Dominguez and Mayrhofer (2016) investigated internationalisation concept and confirmed the vital role of networks in expanding the activities within the foreign markets. Johanson and Vahlne (2009) argued that market include network of relations, connecting all organisations, thus aiming to achieve successful internationalization performance the engagement into networking is necessary. The ability to establish the position in the network depends on organisations' cultural and psychological difference, learning ability and experience obtained by the firms' leaders. Johanson and Vahlne (2009) stated that existing and newly developed business relationship sets the possibility to expand current network of relationship and further growth. The established relationships provide the background for trust and commitment which are key factors of successful expansion in the foreign markets (Dominguez, Mayrhofer, 2016). Similar to the original version, the model consists of two types of variables: state variables (market knowledge and market commitment) and change variables (commitment, current activities). The model emphasises market knowledge and expertise, directly influencing the company's internationalization as well as trust and commitment, influencing the relationships established in the network. Latest trends reveal that international markets have a number of opportunities and the number of SMEs is increasing due to the aim to follow their customers as they move into foreign markets in order to maintain their relative position in a supply chain network.

Scientific literature suggests the quantitative indicators' system, which covers the entire internationalization process and facilitates the analysis of internationalisation factors (Table 1).

Notably, four groups of factors are distinguished: market, environmental, production and home market. According to Czinkota and Ronkainen (1994), the factors are distinguished into proactive (P) and reactive (R). Proactive factors determine anticipation, response tendencies and adaptation (e.g. change of consumers' habits). Meanwhile, reactive factors determine the forces, which cannot be foreseen and require fast reactions of the firms. The factors may vary from case to case, but the system of indicators provides the background for further analysis.

Table 1. The framework of internationalization factors (Czinkota and Ronkainen 1994; Korsakienė, Baranauskienė, 2011)

A – Market factors	B – Environmental factors	C – Production factors	D – Home country factors
Competitive pressure (R)	Political, legislative, economic environment (P)	Overproduction (R)	Saturated domestic market (R)
Price	EU policy	Profitability (P)	Declining domestic sales (R)
Network capabilities	Food safety, quality and legislation requirements	Technological advantage (P)	Dependence on raw materials and suppliers (r)
Product range	Economic and living standards	Skilled staff	Currency difference (P)
New competitors in the market	Taxes	Product safety and sustainability	

Distance and geographic closeness (R)	Climate change (R)	R&D and innovations	
Communication infrastructure	Effects of natural disasters and accidents (R)	Know-how	
Access to waterways and rails	Cultural environment (P)		
Transportation infrastructure	Different languages		
Time zone	Different ethnics		
Product image in the market (P)	Different religion		
Brand image	Different social norms and traditions		
Package			
Marketing and advertising skills			
Production functionality			

Internationalisation driving factors

Factors contributing to the internationalization of SMEs are interpreted differently by various scholars. The attractiveness of new markets affects the firms, which select internationalisation decision. A number of scientific studies distinguished push and pull factors (Sekliuckienė, 2013). The scholars assume push factors as the motives to start internationalisation process and seek for foreign markets when the domestic market changes considerably. The firms are forced or “pushed” into internationalisation process when current market becomes saturated or market decreases dramatically, when demand is unstable or policy and legislation changes into unfavourable direction. Meanwhile, pull factors are traced when the firms are “pulled” by the factors of foreign markets. Pull factors most likely appear when some political decisions lead to the attracted foreign investments. For instance, some exemptions, adopted in legal and taxation systems and strategic goals defined by the country increase competition, reinforce one or another industry. According to Sekliuckienė (2013), the rise of factors in foreign markets motivates and drives the firms to expand business internationally much more than their home country factors. The studies revealed that internationalization motives are divided into internal and external. Notably, internal motives include profit objectives, differentiated product, available knowledge about foreign market, marketing capabilities, etc. Meanwhile, external motives include intense competition, market saturation, declining or crowded market. The scientists raise the question: why the firms are expanding their activities in foreign markets? The answers to this question let to identify factors contributing to the internationalization (Korsakienė, Baranauskienė 2011).

Europe’s Small Business Act plays a significant role in shaping EU policy since internationalization contributes to job creation and employment, and is important for the development of international cooperation principles. The Act forms the basic principles how to promote internationalization of SMEs: foster appropriate environment in which business can flourish, facilitate SMEs' access to finance, improve business law environment, encourage SMEs to develop skills and promote all forms of innovation. In addition, the Act adapt public policies to the needs of SMEs: facilitate SMEs participation in public procurement, facilitate SMEs access to public assistance, ensure that honest entrepreneurs who have failed to be given a second chance, these and other activities based on the principles of SMEs to promote the development of the domestic market.

All in all, a number of internationalization driving factors vary from case to case and depend on separate industry or even firm. Scientific literature reveals very similar factors and the scholars agree that some factors motivate more than others, however internationalization process is fostered by few and not only one factor.

Internationalisation hindering factors

The factors, hindering internationalization of SMEs include the factors, which restrict or discourage the expansion into foreign markets and changes firm’s strategy fundamentally. These factors shape the decision of the firms to invest in the market or look for other opportunities. Sekliuckienė (2013) states that the limitations are different for those firms which already operates in foreign markets and those which just starting or considering to start international activities. The most common obstacles refer to the lack of

financial and non-financial resources (Korsakienė, 2014). The scholars assume that the limitations and barriers for SMEs to start operations in foreign markets are higher in comparison to large international firms. Notably, external and internal factors, hindering internationalization of SMEs, are distinguished (Sekliuckienė 2013). The scholars reveal the following factors: discriminatory charges, discriminatory public procurement and different conditions for foreign investors, foreign recruitment, resistance of trade associations, limited data on international markets, requirements for licensing, governmental regulation and control, exaggerated financial requirements, competition and monopoly power (Sekliuckienė, 2013). External factors, commonly revealed by the scholars, are described as market conditions requiring adaptation of the firms. The external conditions include: legal framework and political situation (e.g. legislation, taxation, the impact of state institutions), the distance between the points of sale, logistics, consumption, language barriers, intercultural incompatibility, ethnocentrism and patriotism, the social environment, etc. Notably, micro-economic and macro-economic environment factors shape the size of the market, employment, competitive environment, market entry barriers, consumer habits (Sekliuckienė, 2013). Meanwhile, internal factors, hindering internationalization process, include the factors controlled by the firm. The studies distinguish the following limitations: lack of international experience, lack of innovation, lack of new products, market adaptability, organizational management skills and expertise, lack of knowledge, complex logistics, marketing, research and development. Sekliuckienė (2013) distinguished the following hindering factors: organizational culture and lack of management knowledge, lack of diverse knowledge (e.g. marketing, logistics, operations), loss of control in foreign subsidiaries, information exchange problems, knowledge about the market and ability to adapt, poor position in the main market. The most important are financial and other to resources related factors which restrict the process of internationalization. Non-financial resources, limiting the process of internationalization are as follows: lack of information, availability of new products or services, lack of innovative products and services, lack of human resources. The scholars agree that some limitations are stable and varies very slightly in the long term, however, some obstacles such as precipitous policy decisions and policy-making culture have a significant negative impact on the internationalization process.

Conclusions

SMEs are the main factor, increasing competitiveness at the national and regional level. Thus, SMEs influence the growth of economy in both developed and emerging markets. The scholars conclude that SMEs predominate in private sector of majority of countries and generate more than half of work places. Internationalization of SMEs is beneficial for the country's development, the growth and prosperity of economy and international reputation. Thus, various policies of the European Union and appropriate policies of the governments are focused on the development and promotion of SMEs.

The investigation of scientific sources let us conclude, that internationalization of SMEs can be fast and the firms can be involved in international markets soon after their establishment. The available resources are the main precondition to start the business abroad. On the other hand, some SMEs take traditional approach and internationalize their activities after the establishment in the national market. The literature provides different motives related to the firm's international expansion. However, various classifications of motives provided by the scholars are rather similar. The most common motives indicated by different scholars are: the objectives to gain higher profit and growth, less expensive resources, the attractiveness of new markets, economy of scale and diversification of the risk. In addition to business internationalization motives, encouraging the firm's international expansion, a number of issues related to the internationalization process are distinguished.

Majority of scholars suggested the main barriers of SMEs internationalization such as: unstable legal, political and economic environment, the lack of knowledge and inappropriate support of the government. Notably, an extensive number of internationalization motives and barriers let us state that these factors have to be investigated considering the context of SMEs.

The observation of scientific literature let us suggest few assumptions. Firstly, globalization processes, the enlargement of the EU and the adopted policies, related to SMEs internationalization contributed to the focus of scientists and practitioners on SMEs internationalization. Secondly, global financial crisis prompted further investigations of SMEs internationalization. Further researches have to be related to the application of scientific methods enabling to assess the motives and barriers of SMEs. For instance, multiple-criteria decision analysis (MCDA) is seen as the method enabling to get new insights into SMEs internationalization processes and internationalization scope. We believe that our research is beneficial for the managers and policy makers, related to the SMEs activities.

The recommendations for policy makers are: to encourage active internationalization of SMEs, to help in developing networks and appropriate knowledge. The managers of SMEs have to be encouraged to take benefits provided by the EU support.

The recommendations for the managers are: to encourage constant development of employees, participation in various training programmes and to establish close cooperation with science and education institutions.

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Ключевые слова: интернационализация, процесс интернационализации, движущие факторы, препятствующие факторы, расширение бизнеса, МСП (малые и средние предприятия).

Ключові слова: інтернаціоналізація, процес інтернаціоналізації, рушійні фактори, перешкоджаючі фактори, розширення бізнесу, МСП (малі та середні підприємства).