A Comparison of Experts’ and Entrepreneurs’ Opinions on International Business Activity

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SUMMARY

Small and medium-sized enterprises often need external help in the process of internationalisation. This is usually an explicit pressure arising from their size and not a shortcoming. The objective of the present study is to learn the opinion of experts working in the fields of regional development and enterprise development who provide support for small and medium-sized enterprises in this field. Besides gaining insight into the opinions of professionals having first-hand information on the circumstances – barriers and motivations – of small and medium-sized enterprises (SMEs) to enter international markets, we will also discuss the views of managers on the issue based on a survey conducted in 2007. Based on the results of this survey, the majority of managers in international markets are satisfied with their own competencies, and tend to see the reasons for less successful international activities in external circumstances (strong competition, the lack of supportive system, etc.). The main objective of the second survey, conducted among experts is to provide objective insight into the circumstances of internationalisation and the prospects of small and medium sized enterprises.¹

Key words: small and medium sized enterprises (SMEs), internationalization

Journal of Economic Literature (JEL) code: M10, M1

THEORETICAL ASPECTS OF INTERNATIONALISATION

As appearance on international markets meets with increasingly fewer objective barriers, we can witness a cumulative process of opening to global markets. Even though these are mainly large-sized enterprises, the number of small and medium-sized firms operating on the international level is increasing as well (OECD 2004; Sakai 2002).

Corresponding to this, we can see more and more studies in the literature analysing the international appearance of small and medium-sized enterprises. A large part of these papers are searching for the answer as to what methods and ways these enterprises can use to go international. According to the Uppsala model (Johanson and Vahlne 1990), taking part in international activities evolves gradually; it is a cumulative and coherent, path dependent process (Erikkson et al. 1997). In the first period, when the enterprise has not got enough knowledge of the market and its partners, it typically chooses the simple forms of appearing on the market (for example, exporting). Later, thanks to its increasing experience, it can choose more complicated ways (such as funding a subsidiary). According to the model, acquiring the necessary experience takes time, while the ability to react fast becomes more and more important. Stalk (1988) refers to time as a strategic weapon.

In contrast to the gradualism of the Uppsala model, in the 1990s global-born enterprises opening instantly to international markets came to the focus of attention. These are mainly global enterprises in knowledge-intensive branches (Rasmussen and Madsen 2002; Criado et al. 2002). According to domestic research Hungarian enterprises usually choose the gradual way of opening to international markets (Antalóczy and Éllető 2002; Szerb and Márkus 2008).

Another group of research deals with the possible ways, reasons and barriers of entering foreign markets, besides shedding light on the role of knowledge and learning in the process of internationalization (Hitt et al. 1997). We can emphasize the results of the Observatory of European SMEs (2002, 2003). Contrary to isolated surveys with significant territorial and sector limitation, this provides the possibility of international comparison. This latest survey was carried out between 2006 and 2007.

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Small and medium-sized enterprises are typically unwilling to practice international business activity; however, according to literature, international activity is more and more a potential possibility in their case, too (KSH 2002). SMEs choose mostly more simple types of presence because of their size; the enterprises responding to the questionnaire which work internationally most often practice export and import activity. In the case of indirect exports, the SME is part of a larger enterprise that appears in the international market, or a member of a supplier network connected to a multinational company. They also participate in exports, although indirectly, but quantifying this is not a simple task. (The Observatory of European SMEs made an attempt at this; see their 2002 No 2 report.)

The network approach becomes conspicuous when analysing small and medium-sized enterprises’ internationalisation as well. The general opinion about internationalisation is that the entrepreneurs’ practical knowledge and experience play a crucial role in the decision-making process. Economic and social nets organized around the enterprise can be equally important in terms of the SMEs international presence and its success too. According to some surveys the number of decision-makers can play a determining role in the success of international activity as well (Clercq and Bosma 2004). The authors explain this by the fact that more people can have access to more connection networks, and they possess more experience and knowledge. Thus the national cooperative partner enhances the chances of an international presence, and in the same way the cooperative connection with the foreign enterprise is profitable because it can lessen the uncertainty caused by the unknown terrain. Informality, which marks horizontal connections (connections which are not recorded in a contract), bears further possibility of the cutback of expenses.

The internationalisation of small and medium-sized enterprises depends on several factors. The most evident is the role of their size and scope of activities on their international presence. Survey results led to the conclusion that the possibility of an international presence is enhanced with the increase of the scale of the company. Furthermore, enterprises choose other (more compound) forms of presence (e.g., licence, subsidiary, or strategic union) with the growth of the scale of the company (Observatory of European SMEs 2003 No 4 report). Finally, observations concerning the international relationships among companies highlight the connection between the size of companies and the geographical concentration of their relationships (Gubik 2010). The smaller the size of a company is, the more likely it is to be connected to the local environment, to the local market, because of its limited resources and the characteristics of its customers.

**Institutional support of internationalisation**

Lacking own resources, small- and medium-sized enterprises often need external help to acquire the necessary information and resources. The services of supporting organisations reach only a small share of companies, so the majority of entrepreneurs turn to their family and friends for advice and help. Though making use of these is limited in international fields.

Formal solutions, for example the institutional system of economic development can significantly contribute to the success of this sector’s performance. The efficiency of the institutional support depends largely on the characteristics of the institutional system, on the distribution of tasks among certain institutions and the variety of services offered. It seems that the Hungarian institutional system has room for improvement on this field (BVKI 2010; Szerb and Szilveszter 2010). The professional and networking competence of the experts dealing with enterprise development and the ability of the entrepreneurs to decide whether they need help, and if yes, what type of assistance they require are also important factors.

According to our assumptions, the efficient use of the services offered by the institutions of enterprise development is limited by the fact that entrepreneurs do not recognise the resources and competences necessary for entering international markets properly. They are satisfied with their own performance and the need for external assistance materialises on a limited way, only concerning the necessary resources.

In order to get to know the present situation, the experts were asked about the obstacles small- and medium-sized enterprises face when entering international markets and their services offered for this field.

**RESEARCH BACKGROUND AND METHODOLOGY OF EXPERTS’ QUESTIONNAIRE**

In 2007 a questionnaire was used to survey the operational environment of small and medium-sized enterprises, their trans-border economic functions and the nature of their association. The database constructed on the results of the survey contains representative data illustrating the number of employees and fields of activities of 217 small and medium-sized enterprises (10-249 employees) in Borsod-Abaúj-Zemplén County in north-eastern Hungary. Furthermore, answers from 16 micro enterprises (1-9 employees) were also used, but only in case of the questions concerning the subjective opinions of entrepreneurs about tendencies.
The questionnaire contained a group of questions regarding the international activities of enterprises (target countries, forms of presence, experienced barriers and motivations, etc.). We have come to the conclusion that SMEs need substantial external support during their operation. They require financial support as well as support in their competencies or in information flow. Further special needs arise if the companies target the international market as well.

The results of empirical research were double checked by comparison with an expert questionnaire, to which managers and competent employees of institutions that have a direct or indirect impact on SMEs responded.

Professionals of enterprise development were surveyed with an expert questionnaire about the small- and medium sized enterprises’ preparedness, awareness, relationships to institutions and support given by these, focusing on the questions of cooperation and international market entry.

The small and medium-sized enterprise sector is rather heterogeneous and encompasses quite a wide range of businesses, from self-employed individuals through medium-sized enterprises with 249 employees, and from shoemakers to surgical instrument manufacturers. Consequently it is impossible to draw general conclusions about the situation of the sector. Accordingly, the previous entrepreneurs’ questionnaire targeted only enterprises employing more than 9 people. The current expert’s questionnaire asked experts about enterprises that were capable of cooperating with other businesses and operating in international markets.

The electronic experts questionnaire consisted of 8 pages and covered the following questions: Institutional relationships, International presence, Partnerships, and Institution data.

The questions were mainly related to the subjective opinion of entrepreneurs and were measured by a five - point Likert Scale.²

For the analyses of the data the SPSS 19.0 software package was used. As many as 38 responses were received out of 80 questionnaires electronically sent. Respondents with a higher education degree (two of them had a PhD degree) amounted to 92 per cent. Their average work experience (“How long have you been working in this field?”) exceeded 12 years. The ratio of men and women in the sample is 30-50. As for the sphere of institutional activities, 11 per cent of respondents worked for national and 50 per cent for regional organisations, 13 per cent of respondents’ institutions work only at the county level and 26 per cent at a micro-region level.

Our research targeted mainly Borsod-Abáuj-Zemplén County. Three-fourths of the responses came from competent employees working for institutions operating in this county. With only two exceptions, the filled-in questionnaires were sent from the Northern Hungarian region.

The unfavourable economic and social environment in Borsod-Abáuj-Zemplén County, which has had an adverse impact on the prospects of enterprises operating in this region, has to be considered when the findings are evaluated. This county is one of the most poorly performing areas of Hungary. Since various statistical publications provide detailed analyses of the current situation and its reasons, there is no need to deal with this issue. Table 1 illustrates unfavourable deviations from the national average on the basis of the most often mentioned economic and social indicators.

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<tr>
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<th>BAZ County</th>
<th>National average</th>
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<tbody>
<tr>
<td>GDP per capita (2008)</td>
<td>1 680 000 Ft</td>
<td>2 665 000 Ft</td>
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<tr>
<td>Investment per capita (2010)</td>
<td>204 400 Ft</td>
<td>304 700 Ft</td>
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<tr>
<td>Number of enterprises/1000</td>
<td>108</td>
<td>165</td>
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<tr>
<td>inhabitants (2010)</td>
<td></td>
<td></td>
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<tr>
<td>Unemployment rate (%) (2010)</td>
<td>17.5</td>
<td>10.8</td>
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Source: KSH (2010, 2011)

Empirical results

This section of the paper introduces and compares the main findings of questionnaires for enterprises and experts.

International activity from the enterprises’ point of view

According to the research of the Observatory of European SMEs (2007) in 2006-2007, the ratio of exporting small and medium-sized enterprises was only 8 per cent in the EU (in Hungary it was 9 percent). As our sample included only small and medium-sized enterprises employing over 9 people (10-249), we found a more favourable ratio. About 35 percent of the companies reported that they were active in the international market.

We found significant relation between the fact of an international presence and the scale of the company (p=0.000), meaning that the possibility of international presence is enhanced with the increase in the scale of the company. This fact fits in with previous research findings.

² The questionnaire analysing Borsod-Abáuj-Zemplén County’s small and medium-sized enterprises consisted also of 8 pages and touched on the following questions: quality control (v1-v9), investments (b1-b9), the company’s environment (k1-k8), international presence (n1-n9), company cooperation (v1-v9), supply (s1-s4), firm data (d1-d8).
According to the survey, the performance of small and medium-sized enterprises emerging in the international market exceeds the performance of those who are working only in the national market. In addition these enterprises invest in their employees’ training at a higher rate (p=0.074, Cramer’s V=0.118), chiefly in the form of internal and external training programmes, courses, and language teaching. Consequently, only companies which have above-average and stable performance and are growth oriented (considerable investment activity, efforts to develop employees’ competences) have a good chance to enhance their international activity.

There is a great deviation in international activity according to function as well. Industrial enterprises are the most active, while trading and supplying enterprises are more local. Foreign ownership significantly increased the opportunity for an international presence (Cramer’s V=0.359, p=0.000).

The scale of the company affects the chance of international operation; furthermore, it influences the types of presence. Most responding enterprises committed themselves to simpler forms of international presence (indirect or direct export, import). More complex forms can be seen only in the case of medium-sized enterprises (foreign distributor, foreign subsidiary, strategic association, etc). Only 4 per cent of companies were involved in direct investment. There was no significant relation between the enterprise’s age and the international presence. This result queries the principle of gradualism in international activity.

In addition, enterprises which are active in the international market as well are less embedded in their local environment and regard possible advantages provided by their own premises as less important.

Despite the county’s frontier position we found that trading partners of enterprises reporting international activity came mostly from EU countries; only about 25 per cent of their partners are found in the neighbouring countries. An empirical survey was accomplished according to the connection of the enterprise’s premises and the international activity (Dimitratos 2002). The results show that enterprises close to the frontier report more significant international activity, while their international activity is not confined to the neighbouring countries. The nearness of the frontier can be considered a competitive advantage that can be exploited by the assurance of good resources and procreation of an international business environment.

The social networks’ significant role is demonstrated by the weak, but significant connection between international presence and cooperation during our analysis (p=0.000, Cramer’s V=0.2906). This shows that enterprises that are more active in the international markets report enterprise cooperation at a significantly higher rate.

In the course of the research, serious emphasis was put on getting to know the motivations for and obstacles to international presence among small and medium-sized enterprises. We measured distinct motivation on a Likert scale ranging from 1 to 5, and then we ranked the results we obtained.

The highest importance was related to access to market (3.83), while all other motivations were considered of below-average importance. Figure 1 shows the most important motives. Importance of the motivations differs according to the scale of the firm. Independent of their size, companies judged access to larger markets to be crucial. Smaller firms aim to obtain lacking competences and physical resources, such as technology, know-how and knowledge; companies employing more people aim to gain access to financial resources and to increase their efficiency.

![Access to a larger market](image)

Reference: own elaboration

**Figure 1. Motivation for international presence**

(1: not at all motivating, 5: highly motivating)

The questionnaire asked companies about the possible obstacles to internationalisation as well. Part of the barriers faced by SMEs are external, such as technological standards, bureaucracy, risk, high communication, transportation and other expenses, or legal regulations. Other barriers are internal ones, which result from the characteristics of the entrepreneur and the employees. Such barriers can be the poor quality of its own products or services, or unqualified staff. Objective and subjective types of internal barriers can be defined. Objective barriers evolve from such skills and nature of the company as the existence or lack of needed resources, while subjective internal barriers evolve because of the different abilities and efforts of entrepreneurs and employees.

We applied the Likert scale for measuring the barriers to internationalisation, then set up a ranking based on the point values we achieved. The rank of responses from the sample’s companies can be seen in Figure 2.

Companies named the lack of a subsidy system as the largest barrier (3.1). They think the market is “distributed” and they find it very difficult to obtain a

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1 Performance was surveyed on the per capita profit, as well as on the amount appropriated for expansion and investment.
good market position. Besides this, a similarly high point value was appointed to the cost of international activity and to the lack of capital. Companies consider their own products’ quality and price, as well as the competences of employees, to be appropriate; likewise, technological standards or the lack of any licences are not of great importance. According to the scale of the company we found differences in barriers to going international. Smaller enterprises pointed out the lack of capital and increased costs, while medium-sized companies emphasized the strength of competition as critical element of international activity. No significant differences were found according to field of activity.

**Barriers to internationalisation according to the experts**

Experts were asked about international activities of small and medium-sized enterprises. They were requested to express their opinions about the barriers to international presence and about the support activity of their institutions in this field.

Figure 3 shows the responses of experts regarding obstacles faced by SMEs. The most serious barrier to international activity is the lack of capital (4.35), the strength of competition (3.95) and the high cost of an international presence (3.92). All barriers were considered to be of high importance. The respondents considered external barriers to be crucial. These barriers exceed the competences of entrepreneurs and the employees. Thus, the internationalisation of SMEs has several objective obstacles originating partly from the features of enterprises (field of activity, size of the company, etc.) and partly from the economic, social and cultural environment that enterprises operate in. Apart from the above-mentioned facts, high point values were given to barriers where companies could successfully develop by taking advantage of consultancy and training services.

**Comparing the opinions of enterprises and experts**

After analysing the experts’ opinions about the international activity of small and medium-sized enterprises, we compared the obtained results with the responses given by enterprises. We came to the conclusion that, unlike the enterprises which are active in an international market, experts consider all the barriers to be rather important. Figure 4 ranks barriers according to the differences between experts’ and enterprises’ opinions. The difference in the distinct barriers evaluation stands out clearly. Unlike the experts, who thought internal and external reasons were equally important, the enterprises questioned in this survey overestimated the external barriers and underestimated the lack of their abilities and competencies. The companies were generally satisfied with their own performance (efficiency, quality, range of products, etc.) and perceived the reasons for less successful operation in the market in terms of external factors.

**Figure 3. Barriers of international presence according to the experts**

(1: not at all motivating, 5: highly motivating)

**Figure 4. The difference between the experts’ and enterprises’ opinions with regard to international activities**

Point value given by experts minus point value given by enterprises
According to the results of the Observatory of SMEs survey from 2007, the main obstacle to SMEs in connection with internationalisation was the lack of knowledge of foreign markets. Of exporting SMEs, 13% mentioned this as their prime obstacle (there was only one answer allowed). It was followed by destination countries’ trade policy and the lack of capital (both 9%). On the contrary, about 20 per cent of the questioned small and medium-sized enterprises in Hungary believed that the most important obstacle is the lack of capital. With this result, lack of capital as a barrier played the largest role in Hungary of the 27 nations.

We analysed the experts’ answers according to the main characteristics of the experts (gender, age, qualification, work experience). Amazingly, no significant difference was identified according to most of the above-mentioned criteria. There is no significant relationship among the point values given according to the work experience of experts expressed in ages, apart from in four elements. These are the lack of information (Pearson Correlation=0.349 and 0.313 p=0.03, p=0.05), the lack of demand (Pearson Correlation=0.327; p=0.05), too high terms requirements (Pearson Correlation= 0.422; p=0.01) and the market is “distributed” barriers to entry statement (Pearson Correlation= 0.415; p=0.01). We found that the longer work experience the expert had, the more crucial the role of these barriers was thought to be.

We found no significant correlation between the number of directly or indirectly served companies and the point values given.

Differences according to gender were identified. The women characteristically emphasized the role of external barriers. In contrast, male experts think the role of internal factors is more determining.

**Institutional support of international activities**

As many as 17 of the asked experts reported that their institutes directly helped small and medium-sized enterprises with their international activities. Surprisingly, there was no connection between the judgement of barriers and the direct involvement of expert’s institute in supporting international activity.

The respondents’ organisations offered a wide range of services for SMEs that wanted to break into the international market, as well as successfully helping them keep and strengthen their market positions. This activity involved providing direct support in finding potential export markets, searching for business partners and organizing business meetings. Providing a complex foreign market consultancy, designing and distributing brochures about companies, ensuring participation in exhibitions and fairs also contributed to the successful international activity of enterprises. Organisations indirectly helped SMEs in international activity, in developing high quality goods and services and in obtaining necessary financial resources through promoting their infrastructural development, as well as in acquiring certification and supporting tenders activity of enterprises.

The results of the support activity can be experienced over time and are difficult to measure, but the positive feedback of enterprises, success stories and several measurable outputs (the number of common projects, number of additional contracts, etc.) prove the reason for the existence of such support activities, according to the experts. The experts emphasised that their support was beneficial only if the companies had proper knowledge, competences and capacity to process the obtained information. The proper utilization of resources and support and the final decision about internationalisation are the responsibility of enterprises. Several companies were totally unaware of their international potential and they lacked a well-elaborated international strategy. They needed further assistance in this. The experts also highlighted the fact that the low absorption capacity of small and medium-sized enterprises was a critical obstacle factor.

**SUMMARY**

Enhancement of the international presence of small and medium-sized enterprises is an often mentioned requirement, even though it can only be promoted within some barriers because of the sectoral structure and size of the enterprises. Enterprises whose mobility lagged behind the rest mostly operated in the service sector.

Among the leading motivations of internationally active SMEs were the access to a larger market and the utilization of unused productive capacity. Enterprises wanted to decrease their costs by improving their efficiency. During their international activity they were faced with several obstacles. The key issue was whether the barriers could be eliminated and if they could, in what way and at what expense. In order to answer this question, the barriers were grouped. Three groups were created: external, objective and subjective internal barriers.

External barriers were, for example, technological standards, bureaucracy, risk, high communication, transportation and other expenses, and legal regulations. Internal barriers resulted from the characteristics of entrepreneurs and employees. Objective internal barriers evolved from such skills and nature of the company as the existence or lack of required resources, while subjective internal barriers evolved from different abilities and efforts of entrepreneurs and employees, for example a lack of information about international markets or a lack of foreign language knowledge. In the latter field it is easier to intervene, by offering consultancy and financial support and in this way international activities can be enhanced. Objective barriers originating partly from the characteristic features of the SMEs (size of the company, area of its activity) and partly from their environment can be influenced only with difficulty.
The comparison of experts’ and entrepreneurs’ opinion highlighted the subjective nature of the perception of barriers. The companies are usually satisfied with their own competences and see the reason for less successful operation in the market as being due to external factors. Even though experts also acknowledged the importance of external barriers, they think companies have to do a lot in the field of their products’ competitiveness and quality as well as in the field of their own and their employees’ competence.

The support provided by business development institutions can achieve its objectives only if companies are able to size up correctly their abilities and opportunities and if they feel a need for development. Currently our results fail to confirm this statement. On the other hand, proper absorption capacity towards utilization of information and support is of primary importance. Without this, even the most successful expert support will fail to achieve its objectives.

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