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## Barriers to the Internationalization of Czech SMEs

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**Abstract:**

*Since the beginning of the 90th of the last century Small and Medium Sized Enterprises have gained a high boom in the Czech Republic. Many Czech SMEs entered foreign markets, benefiting from the highly competitive operating environment in the Czech Republic. In a globalized world, SMEs need to be able to confront an increasing competition from developed and emerging economies and to plug into the new market opportunities these countries provide. There is a direct link between internationalization and increased SMEs performance. International activities reinforce growth, enhance competitiveness and support the long term sustainability of companies. Yet Czech SMEs still depend largely on their domestic markets despite the opportunities brought by the enlarged single market and by globalization at large*

*The aim of this article is to examine the main barriers of internationalization, to explore managerial competencies for cross-border business cooperation and to give some hints how the problems concerning the internationalization process could be solved. The article has both theoretical and empirical parts. The theoretical part is aimed at general issues concerning the topic of this article, the empirical one is based on research using semi-structured interviews and the questionnaire investigating entrepreneurs.*

*During this research performed in 2016 – 2017, 110 small and medium sized businesses were investigated to collect data. The paper answers the following research questions: Are you interested in cooperation with a foreign business partner? How are you prepared for the internationalization process? Are you motivated or not? What are the main barriers to your business internationalization? Thanks to this research the author found that the basic prerequisites of success in the internationalization process are a continuous preparation of entrepreneurs and their motivation for entering the international business.*

**Keywords:** *Small and medium sized businesses, barriers to the internationalization, motivation for doing international business.*

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## **1. Introduction**

In today's highly competitive environment, the internationalization also becomes a condition for survival of small and medium-sized enterprises. Entrepreneurs need to change their minds and learn how to use internationalization to boost their own competitiveness.

The Internationalization is not just about exports. An important element is a cross-border cooperation. Crossing the border opens doors to new customers, new suppliers, new technologies and new possibilities for cooperation. It is probably the best way to further develop small and medium-sized businesses in the future. The subject of this article is to research the readiness of small and medium-sized enterprises to cooperate with a foreign partner and to find out the interest in the internationalization of their own business. In order to meet the objective of the article, the following research questions were formulated:

1. What is your business's interest in working with a foreign partner?
2. What are the main motives for your cooperation with your foreign partner?
3. What aspects do you consider when choosing a foreign partner?
4. What are the main obstacles to the internationalization of your business?
5. How do you engage in internationalization?

The structure of the article is as follows: First, an overview of the selected literature on the subject is given, followed by a description of the survey methodology found in the research, whose outputs are summed up at the conclusion and discussion.

## **2. Literature review**

By internationalization of companies we understand their involvement in the international business environment (Kubíčková, 2013). The concept of internationalization is very different in the literature in different authors. Beamish (1990) understands the concept of internationalization as a process by which companies increase their awareness of the direct and indirect impact of international transactions on their future and create and manage transactions with other countries. The internationalization can also be explained as a process of increasing participation in international operations (Welch and Luostarinen, 1998). Another definition of the internationalization is given by Břečková (2016; 2018), who under the internationalization means the process of engaging the company in international transactions on the basis of its form and degree of involvement.

The problem of the internationalization is dealt with a number of theories (Machková, 2015). To the most well-known examples belong Raymond Vernon's international product lifecycle, the Uppsala School model (Johanson and Vahln, 1977) and the I-model "Innovation-Related International Model" (Cavusgil, 1980). We can also mention the theory OLI (ownership, location, internalization) and the born

global theory (Machková, 2015). Gankema *et al.* (2000) discussed the issue of the internationalization of small and medium-sized enterprises, too. In the real business practice of the Czech Republic, the promotion of internationalization is one of the strategic priorities of the Action Plan for the Support of Small and Medium Sized Enterprises 2016-2020 (Petrů and Havlíček, 2016; Chernysheva and Shepelenko, 2017).

It should be borne in mind that most of the traditional theories dealing with the internationalization process of companies were written in more than ten or more than 25 (Uppsala models) years. The environment in which companies are doing business has changed over time (Kubíčková and Peprný, 2006). At the time of the development of information technology and of the increasing globalization managers are aware of the risk of entering foreign markets as smaller because they have a simplified access to relevant market information.

Ensuring corporate goals, especially long-term ones, can be linked to the internationalization of business activities. The company uses the international environment to realize its competitive advantage. The entry into this environment can have a character of exports of manufactured goods or provided services (Synek, 2012). Decisions on the internationalization of corporate activities depend on corporate culture, shared corporate values and managerial style (Machková, 2015). In foreign markets, companies can use different strategies for international business. Prior to the decision to enter these markets, an enterprise should evaluate internal and external factors as business on international markets has a number of specificities and brings with it demands not only on business, marketing and financial capacities, but often requires an expansion of production capacities, a customization of the production program for target markets, changes in human resources, etc. (Kotlán, 2011).

The degree of involvement in international activities is determined by two factors - the resources available to the firm and the level of exposure to foreign markets. Successful internationalization is conditioned by knowledge and experience (Machkova, 2015). The extent of engagement in foreign markets is related to the perception of the feelings of alienation towards some countries. Feelings of strangeness to certain countries can be eliminated. A reduction in the perception of strangeness can be achieved not only by institutions at the national level, but also by chambers of commerce and entrepreneurs themselves (Hodicová, 2011). The causes of the internationalization processes are primarily growing flows of goods, services, and capital that lead to the growth of international trade, an extensive production, an interdependence (on raw materials, technologies, etc.) (Jeníček, 2002).

In a simplified way, the reasons for the international business can be divided into economic vs. non-economic, defensive vs. offensive, oriented to production and marketing (Berndt *et al.*, 2007).

The Internationalization has become a necessity for small and medium-sized enterprises as a result of globalization and the interconnection of economies. A cross-border regional cooperation can be regarded as an appropriate internationalization strategy for small and medium-sized businesses. A cross-border regional cooperation enables entrepreneurs to enter new markets while saving costs and gaining access to foreign know-how.

**Table 1:** Recommendations for reducing psychological distances at the state level, as well as at the level of chambers of commerce and entrepreneurs

<b>State and Chambers of Commerce</b>	
Measures	Examples
<ul style="list-style-type: none"> <li>• Increasing awareness of the production and marketing capabilities of domestic firms</li> <li>• Increasing awareness of the country of origin in the neighbour country</li> <li>• Preventing prejudice, increasing knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Increase awareness of investment and cooperative possibilities</li> <li>• Organizing seminars and trainings</li> <li>• Creation of brochures and manuals for entry to the market</li> <li>• Intermediation services of interpreters, translators</li> <li>• Common websites</li> </ul>
<b>Entrepreneurs</b>	
Measures	Examples
<ul style="list-style-type: none"> <li>• Changing perspectives, empathy, sensitivity for cultural differences (intercultural competencies)</li> <li>• Knowledge and interest in the country of the cooperative partner</li> <li>• Raising sympathy and trust</li> </ul>	<ul style="list-style-type: none"> <li>• Participation in intercultural training</li> <li>• Using a "neutral" language</li> <li>• Use of interpreter services</li> <li>• Employing workers with specific market knowledge</li> <li>• Participation in training sessions and seminars</li> <li>• Use of publications on contact with foreign cultures</li> <li>• Website, leaflets in foreign languages</li> <li>• Willingness to learn the language of the cooperative partner</li> </ul>

*Source:* Customized by Hodicová (2011).

### 3. Methodology

The article was elaborated on the basis of analysis of secondary sources, synthesis of knowledge and realization of quantitative and qualitative research in enterprises. The theoretical starting point of the article was based on the analysis of secondary sources, which compared the opinions of the authors on the studied issue.

Analyzed data were collected in the period 2016 - 2017 by performing both quantitative research through questionnaire research and qualitative research through semi-structured interviews. A total of 110 small and medium-sized enterprises in the Karlovy Vary and Pilsen Region were continuously evaluated.

The structure of the surveyed enterprises was as follows: 64% production; 24% of services; 12% trade. The age structure of the subjects evaluated was as follows: less than 5 years 11%; 6-10 years 12%; 11-15 years 28%; over 16 years 49%.

The quantitative research has become the main method of data collection. The filtering question was to confirm if respondents are interested in working with a foreign partner in the EU Single Market.

The qualitative research through semi-structured interviews with managers or business owners was conducted at the author's office. Each interview lasted approximately 30 minutes. The nature of the research questions corresponded to the purpose of the research. In connection with the research questions, the following topics were the subject of questionnaire surveys and interviews:

1. The interest in cooperating with a foreign partner;
2. The main motives of cooperation with the foreign partner;
3. The aspects to be taken into account when selecting a foreign partner;
4. The main obstacles to the internationalization of your business;
5. The way of engaging in internationalization.

### 4. Results and Discussion

The first part of the research interviews and the questionnaire survey were focused on the question of interest in working with a foreign partner and on aspects that are taken into account when choosing him. In the second part of the survey, the experiences of companies using commercial diplomatic services were monitored.

*Table 2: Interest in working with a foreign partner*

Reason	Number of enterprises	Percentage share
They already have a foreign partner	12	11

They are actively looking for a foreign partner	14	13
They are considering to look for a foreign partner	16	15
They are not interested in foreign cooperation	68	61

*Source: Author.*

**Commentary:** Table 2 shows the interest of SMEs in engaging in the process of internationalization of business. More than half of the respondents have no interest in cross-border cooperation (language barrier, loss of independence); For 28 % of respondents, internationalization is one of the ways to strengthen its competitiveness (15 % is considering and 13 % is actively looking for); only 11 % has already a foreign strategic partner.

**Table 3: Motives for cooperation with a foreign partner**

Reason	Number of enterprises	Percentage share
Access to foreign markets	108	98
Access to capital	47	43
New technologies	30	27
Division of business risk abroad	17	15

*Source: Author.*

**Commentary:** Table 3 discusses the motives for international SME cooperation. Respondents could choose more answers. The most important reason is access to new markets. As to the access to capital, more than half of respondents are afraid of losing their independence New technologies or business risk sharing on foreign markets are considered the least significant. As to the question What aspects are taken into account when selecting a foreign partner? and What should be a strategic partner like? the answers can be summarized as follows:

**Table 4: Aspects to be considered for selecting a potential partner**

Aspects	Number of enterprises	Percentage share
Vision, mission, strategic goals	110	100
Business profile	110	100
Ownership relationships in the enterprise	91	83
Competitive positions	110	100
Marketing and sales development	105	95
Relationships to the environment	102	93

*Source: Author.*

**Table 5:** *What should be a strategic partner like?*

Characteristics of the strategic partner	Number of enterprises	Percentage share
He should not seek priorities in conflicting goals	110	100
It should have the ability to agree on common goals and priorities	110	100
It should actively approach the achievement of jointly set goals	110	100

*Source:* Author.

The question concerning the main obstacles to the internationalization of business has given the following answers:

**Table 6:** *Main obstacles to the internationalization of business*

Main obstacles	Number of enterprises	Percentage share
High costs of internationalization	102	93
Lack of capital for expansion	107	97
Administrative burdens	101	92
Lack of information on foreign markets	100	91

*Source:* Author.

The last two responses: administrative difficulty and lack of information on foreign markets were the subject of the second part of the research.

Question „*Has your company ever used services 1. of the trade-economic departments at Czech embassies; 2. of the foreign offices of the Czech Trade Promotion Agency; 3. of the local consultancy or marketing agencies or 4. of its own employee? when entering foreign markets?*“ provided the following answers:

**Table 7:** *Using economic diplomacy services*

Providers of economic diplomacy	Number of enterprises	Percentage share
Czech Embassies	4	4
Czech Trade	20	18
Marketing Agencies	1	1
Own Employee	85	77

*Source:* Author.

It is clear that businesses rely on their own workers combined with local labour.

Following was the question: “*What do you think is the key competency of a worker to help to internationalize your company?*” The following key competencies were prerequisites for a successful company representation abroad:

**Table 8: Key Competence of an Office Worker Abroad**

Required competencies	Number of answers	Percentage share
Field specialization	27	25
Only a basic overview of the field	0	0
Good market information	85	77
Business skills	90	82

*Source: Author.*

Respondents could choose more answers. The main competencies of a worker who represents a company abroad should be soft skills (82 %) and a perfect market knowledge (77 %). The last question concerned the demand for services to help internationalize businesses.

**Table 9: Services required by Czech entrepreneurs**

Required information	Number of answers	Percentage share
Fast access to basic market information	79	72
Search of companies and institutions incl. contacts	81	74
Support for marketing and sales	71	65
Virtual office options, setting up a branch or a representation information	17	15
Market services, ie preparation of meetings and personal escorts of Czech authorities abroad at a meeting with a new business partner	25	23

*Source: Author.*

Respondents could choose more answers. Most entrepreneurs would welcome the search of companies and institutions (74 %), as well as the rapid availability of information on the foreign market (72 %) and support for marketing and trade (65 %).

## 5. Conclusion

This paper, which provides information on the issue of internationalization of small and medium-sized businesses, was carried out on the basis of two years of research (2016 - 2017), during which 110 enterprises were analyzed. It is based on information from secondary sources supplemented by the survey of business entities.

From surveys conducted through questionnaires and semi-structured interviews, and comparison of findings with specialized literature, it is clear that the primary reason for engaging in the internationalization of business is to secure or improve the economic position of the firm and allow it to face competitive pressures.

The research brings the following conclusions:

1. The main motives for cooperation with foreign partners include: the possibility of entering new markets; access to capital; access to new technologies; risk mitigation in business.
2. The decisive factor in selecting a foreign partner is: unity in business goals and active approach to meeting common priorities.
3. The major obstacles to internationalization are: high costs of internationalization; lack of capital for expansion; administrative difficulty and lack of information on foreign markets.
4. Companies rely on their own workers combined with local labour when entering a foreign market.
5. The main competencies of a worker representing a company abroad should be: soft skills (82 %) and perfect market knowledge (77 %).
6. Most entrepreneurs would welcome the search of companies and institutions (74 %), the rapid availability of information on the foreign market (72 %) and support for marketing and trade (65 %).

The above conclusions can be compared with questionnaire surveys made by the Association of Small and Medium Enterprises and Tradesmen of the Czech Republic (2009, 2012, 2016). The comparison shows that the findings of the research are similar, but minor differences in responses can be due to a small sample of respondents and possibly also to regional specifics of the interviewed enterprises. The topic of the internationalization of business is so up-to-date that it would be worthwhile to pursue this issue and carry out even more detailed and broader research.

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