Cooperation and Entry of SMEs into Foreign Markets

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Abstract: Entry of Czech SMEs to foreign markets and their success there is more difficult compared to Czech markets. It is important to research and analyse the entry condition for foreign markets regardless the form of access and cooperation. The researches include a territorial survey, business-political survey, consumer research, survey the competition etc. Underestimating the preparatory stage may lead to very high risk that is a cause of a crisis that could lead to business disappearance. That's why they preventive measures to identify risk factors are important. Small enterprises tend to vote for a form of cooperation with foreign partners, mostly based on supplier and customer relations. However, it also depends on many factors, mainly on commercial policy conditions. Also, there are barriers to entry into foreign markets, including language barriers, not finding a suitable partner, distribution difficulties and other.

Key words: SME · access barriers · foreign markets

JEL Classification: M10 · M11 · M19

1 Introduction

Lorem Entry of an enterprise to a foreign market is often a step influencing further development. An enterprise that is successful in the Czech market may have a more strategic goal to enter foreign markets. Many Czech enterprises have found outlets for their products abroad. Mostly, products are exported to neighbouring countries such as Germany, Slovakia and Austria.

When entering foreign markets, the way the enterprise enters into it, is an important factor. It usually includes export and import operations, the forms requiring little capital investment and capital inputs of businesses into foreign markets. Territorial diversification of action at two or more geographic areas is initially connected with increased risk. If the markets are geographically close and economically dependent, as is the case of Czech and German and Austrian markets, the risk may persist or increase under certain conditions. Small and medium enterprises have both advantages and disadvantages over large companies. The benefits include the flexibility and quicker adaptation to market demands, the ability to create a business climate of the region etc. The disadvantages include limited resources, both financial and personal, difficulties to obtain orders and access to new markets (Bednářová, Škodová Parmová, 2010). One of the ways to expand their markets is to enter foreign markets.

Entry into foreign markets is an important step for an enterprise that can bring the options for its further development. If a survey of the foreign market was poorly conducted, it could cause negative consequences for an enterprise. For a long time, there has been professional interest of the factors that lead a company to enter foreign markets and to encourage them to select these markets. Over the past few years, it includes the paper by Moini, Kalouda, and Tesar (2008), who presents five groups of factors influencing entry into foreign markets. These are: characteristics of the enterprise, motives management, management skills, and knowledge of foreign markets, costs and barriers to entry into foreign markets.

The features of an enterprise that should be considered also include the age of an enterprise (the number of years of its existence). As reported by the research, younger enterprises are more interested in entering foreign markets (George, Wiklund and Zahra, 2005, Bell, Crick and Young 2004).

Other motives for starting export as often reported by the research include unused production capacity (Brooks and Rosson, 1982) or the very competitive environment in the domestic market (Rabino, 1980). The biggest barriers to export were analysed by a U.S. Senate study in 1982. It reported costs and more time-consuming, administrative requirements associated with foreign regulatory measures. Knowledge of the environment and the necessary skills

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related to export procedures, documentation, and government regulations are another major requirement for successful entry of small businesses into foreign markets. The barriers made by banking institutions, payment of documentary credits and the need for further banking operations related to export are also often reported. On the other hand, some studies proved that such barriers are not so significant (Naidu & Rao, 1993, Moini (1991).

Barriers in the area of bureaucracy and a lack of awareness about the possibilities of cooperation were proved to be strong in the research. In small businesses, the personality of the entrepreneur is also important.

The question how an entrepreneur can influence the principle decisions on starting foreign activities and choosing the appropriate countries was discussed in a number of studies. The study mostly discusses generally objective characteristics of entrepreneurs, such as their age, education, or their attitudes to foreign activity in general, regardless a particular country.

However, there is always a form of market research (some authors confuse the terms research and survey; the terminology of the authors is kept in the original version in this part). Foreign market research usually takes place in two stages. The first stage involves collecting basic information, which is used to verify the fact that the market has real potential and it can be entered. The second stage consists of exploratory work in the countries under specific conditions of the country (Černohlávková, Machková et al., 1998).

All types of surveys should clearly answer the following questions:

- Is it correct to enter into the market?
- What is the attractiveness of the market in the short and the long term?
- What is the expected sales volume?
- What is the right strategy for entering and appearances in this market?
- What are the social, economic, political and legal peculiarities that affect the behaviour final customers?
- What is the proper way to distribute in that market?
- What are the right criteria for market segmentation?
- What is the competition in the market and what methods are used?
- What is the correct production, price, communication and distribution policy?
- What are the risk considerations to entering the market? Are they acceptable?
- What are the benefits of final entry into the market?

Based on the output of the research, we can find out if it is profitable to enter into the market (Svatoš, 2009).

The surveys are usually classified by the content and purpose in the following way:

- Territorial survey;
- Commercial and political survey;
- Commodity survey;
- Consumer survey;
- Survey of competition;
- Survey of prices and related factors;
- Survey of business methods;
- Technical survey;
- Survey of infrastructure and resources;
- Survey of contact currencies and payment terms;
- Legal survey;
- Tax survey;
- Survey of social and cultural practices (Svatoš 2009).

In case the enterprises are interested in cooperation, it is also important to consider the differences between the countries in economic conditions and their economic development. It is important for the decision about a possible cooperation. Overall macroeconomic stability of the foreign market is also an important criterion. Stability of currency and financial markets, significant fluctuations in inflation, and a large volume of foreign investments cause that enterprises connect less risk with foreign activities (Hodíková, 2011). It is also important to clarify cultural differences in a country with which the entrepreneur wants to establish cooperation. Intercultural differences are closely related to marketing, management, human resources and consumer behaviour. This factor has currently become more and more important (Šroněk, 2002).
The above mentioned differences may lead to barriers that limit starting cross-border cooperation. As reported by Jeřábek, Dokoupil & Havlíček (2004), the most common barriers include:

- different mentality;
- the lack of mutual exchange of information;
- different legislation and other administrative issues;
- different interests;
- different purchasing power;
- different level of infrastructure;
- missing transport links;
- The language barrier and other.

The language barrier of both partners can lead to misunderstandings. It may not be just a lack of foreign language skills, but also about the different meanings of words.

When an entrepreneur after considering all the above mentioned factors decides for cross-border cooperation, it is necessary to consider possible risk. In export and import these risks are related mainly to the period between the conclusion of the contract and its fulfilment (Machková, Sato, Zamykalová a kol., 2002). Originally planned reduction of the risk through diversification of activities could multiply it. This was recently revealed during the economic crisis which hit more enterprises in the German market.

### 2 Methods

The aim of the paper is to analyse condition for entering and cooperation of small and middle-sized enterprises into foreign markets and to find out the barriers that risk related to this. The paper concerns both entry conditions into the foreign markets and the barriers that affect this entry. A review of literature related to the issues was performed. The results of the review are reported in the previous part of the paper.

Further, as a part of an analysis of entry conditions, the activities of a sample small enterprise choosing a business partner in Germany was researched. Unfortunately, the permission for publishing the company's name and other details in this paper was not obtained. Due to that, the information is not presented in the paper.

The views of small business to cross-border cooperation and barriers that hinder this cooperation were surveyed as part of the Aktion project called “Use of IT-technologies to support small business in regions of České Budějovice and Freistadt” in cooperation with Kepler University in Linz. This survey also included interviews with representatives of chambers of commerce in Linz and České Budějovice.

The research was surveyed in the regions of Freistadt and České Budějovice. In total, 170 small enterprises were addressed in the sectors of trade, industry and transport. A questionnaire survey among entrepreneurs on both the Czech and Austrian side was done. The personal and telephonic interviews (50:50) were used by 40 interviewers almost from the students. The return rate was around 98%, the high number is caused by selected method of questioning. Both samples (Czech and Austrian) were balanced in the terms of number of interviewed companies, their size, production or business orientation.

The research results are presented in total due to very small differences between Czech and Austrian respondents (in presented part of the question only marginal 0,01 - 0,1 of the mark). Czech and Austrian entrepreneur opinions are almost identical and can be presented as follows. With the exception of the two questions (low readiness of the Czech partner, low readiness of the Austrian partner), that are presented separately.

### 3 Research results

The paper discusses two most important topics: the factors repelling cross-border cooperation, i.e. barriers to market entry and provides a case study of one of the small businesses, which deals with this issue in practice.

#### 3.1 Conditions of entry into foreign markets - a case study

Conditions of entry into foreign markets and necessary steps were monitored in a small enterprise with less than ten employees. It is an engineering company based in the region of Vimperk. Location of the enterprise is advantageous in terms of transportation of goods to German towns.

The enterprise would not prefer to found a branch in Germany. Such entry would be too expensive and disadvantageous. Founding a branch abroad is more advantageous for middle-sized and large enterprises as it is.
an important investment. The enterprise enters the international market in the form of direct export. Therefore, it is crucial to find a suitable partner. In terms of transportation, it is best to be a partner as close as possible in Lower Bavaria. After conducting a thorough survey of all the conditions, enterprises in Lower Bavaria with similar product range offering businesses cooperation on their website are found. There are two possibilities of entering the market. Either it is possible to address some of the enterprises in Lower Bavaria, interested in cooperation, or to contact shops in Lower Bavaria selling supplies to engineering machines and offer the enterprise’s products. The cooperation with a suitable partner is chosen. The commodities research showed that machinery and transport equipment are attractive in the German market and the Czech Republic is a major exporter. This brings new opportunities and possibilities for the development of the reporting enterprise. The enterprise also meets the requirements for high quality products.

Consumer research showed that the quality of a product is the factor that motivates a German customer to purchase. The second factor is the price. As the price of the products of the enterprise is lower than the price of German products, the entry into the German market is definitely a right step.

As the Czech Republic is a EU member, the conditions for business are easier. EU Member States form the common internal market governed by the EU legislation.

The German economy is characterized by its great openness to the world market. The Czech Republic is a popular partner and not just because of the advantageous geographical position, but also because of its industrial tradition. Nowadays large but also small and medium-sized enterprises are interested in cooperation, as evidenced by the case of the reporting enterprise. This mainly concerns the area of custom manufacturing and cooperation and subcontracting in manufacturing.

Finally, it can be said that after conducting a survey of all conditions, the enterprise has a great chance to establish cooperation with some of the German enterprises. The results were obtained in the thesis "The conditions for the entry an enterprise into the foreign market" (Kučerová, 2013). The results are supported by interviews, which were carried out in co-operation with workers of IHK Passau and JHK České Budějovice.

3.2 Barriers to the cross-border cooperation

The reason for the small interest in business in foreign enterprise and between the border regions of Upper Austria and South Bohemia is revealed by the discussion about cooperation barriers. The biggest barrier as reported by the entrepreneurs is seen in the language barrier, in the bureaucracy and that they failed to find an appropriate business partner. A lack of information about cooperation, poor readiness to cooperate both by Czech and Austrian partners is also reported by the entrepreneurs. As reported by the entrepreneurs, cultural differences and distance (see Figure 1) would be the lowest barrier. Differences between individual answers are revealed in Figure 1, which summarizes the overall results of the 11 proposed alternatives barriers, which were presented to the survey respondents.

The evaluation was conducted on a scale of 1 to 5, where 1 denotes very strong barrier and almost non-existent barriers were evaluated as number 5 as seen the respondents. The strongest barrier obtained an average mark of 1.88. The least significant was rated as 3.22.

The research also revealed the following results:

- The fewer employees, the more often a different language is reported as a barrier;
- The fewer employees, the more often bureaucracy and not finding a business partner is reported as a barrier;
- When not finding a business partner is reported a barrier is seen in little information about the possibilities of cooperation and support to the activity.

The decision to cooperate with foreign partners is significantly affected by the barriers to entry into the market, especially for small businesses. Barriers to the cross-border cooperation as seen by the entrepreneurs were researched within the Aktion project, which concerns the Czech - Austrian cooperation. Both areas are considered similar in structure of enterprises by size (comparison was based on data provided by the two chambers of commerce.

The research was surveyed in the regions of Freistadt and České Budějovice. In total, 170 small enterprises were addressed in the sectors of trade, industry and transport. A questionnaire survey among entrepreneurs on both the Czech and Austrian side was done. The interviews with them revealed that the cross-border cooperation is not at a high level. In Austria, 12.0% of entrepreneurs cooperate with a Czech partner and in the Czech Republic, it is 11.8%, mainly in the area of export and import. This kind of cooperation is currently the most viable for Czech entrepreneurs in terms of investments and the least demanding as shown by the survey. But even this kind of cooperation is influenced and often not realized because of the barriers that affect the enterprises. The biggest barrier as reported by the entrepreneurs on both sides of the border is the language barrier. The survey showed that the fewer employees, the more often
A different language is reported as a barrier. Another major obstacle is bureaucracy. The same case of dependency as for language barriers was reported. The fewer employees, the more often bureaucracy and not finding a business partner is reported as a barrier.

**Figure 1** Barriers to cross-border cooperation of SMEs

![Barriers to cross-border cooperation of SMEs](image)

Source: authors’ survey

In case of not finding a suitable partner, a barrier is seen in little information about cooperation and supports this activity. Another barrier as reported by small enterprises is seen in readiness for cooperation, both on the Czech and Austrian side. The smallest obstacles in terms of business are the cultural differences and the distance. Not all Austrian entrepreneurs see economic potential in South Bohemia. The research showed that the potential is seen by 41% of Austrian entrepreneurs. Benefits are seen particularly in small distances, the possibility of gaining new markets, in low personnel costs and higher profits. The entrepreneurs frequently start cooperation within their own business (57%), using Czech entrepreneurs and personal contacts. Least entrepreneurs used the services of Chambers of Commerce.

The entrepreneurs are afraid of potential risks that may arise in the context of cooperation. It's another barrier that discourages small enterprises from the decision to start cooperation with a foreign partner. Such risk may also occur in trade relations.

This paper focuses on the evaluation of cross-border cooperation between small enterprises in the regions of Freistadt and České Budejovice. The cross-border cooperation within this size category is relatively limited. One of the main reasons for the situation is the small number of employees of such enterprises, which are often fully occupied by operating activities of the enterprise, and there is no capacity left for other development activities. This is why for example the differences appear to be significant for enterprises with fewer employees. The same applies for bureaucracy and fail to find a suitable business partner.

Small and micro enterprises also seek customers among households more easily, thanks to their focus and in most cases even less technological demands of and are not so fixed to B2B cooperation. That is why more often they are based on personal relationships and especially when they are not the only source of income for their owners.

These results were a stimulus for the development of follow-up Aktion project, which will further explore various barriers to cross-border cooperation.

The current political and international situation has provoked controversy about the safety of some foreign markets. Due to the tense situation prevailing for example in the Russian markets, more and more entrepreneurs will seek for
International cooperation is no longer a privilege of large enterprises only. Small and medium enterprises have started to be interested in such cooperation too. For these enterprises, it is particularly important to carry out a comprehensive survey of conditions in the country where they want to start cooperation. A survey of conditions done by an engineering enterprise reported an entry to the German market would be advantageous for the enterprise. The enterprise enters into foreign markets through direct exports. Therefore, it is crucial to find a suitable partner. In case of the cooperation the owner is aware of the potential risks that can occur especially in the since the conclusion of the contract and its fulfilment. The biggest barrier is the language barrier, followed by bureaucracy and the fail to find a suitable partner. The smallest barriers in terms of business are the cultural differences and the distance.

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4 Conclusions

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