Internationalization of European Small and Medium-Sized Companies

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Abstract The aim of this article was to analyze the process of internationalization of small and medium-sized European companies in international markets. The literature review shows that there are many theories of internationalization that have attempted to analyze the process and its results as in the times of globalization companies of all sizes view internationalization as a huge opportunity to develop. European Union has recently worked out programs for supporting the internationalization of European companies in order to strengthen their competitive position. Special focus has been put on small and medium-sized companies, as they play a very important role in the economic development in modern economies. The study's findings revealed that enhancing the internationalization of small and medium-sized enterprises has become a priority of the institutions of the European Union and of the governments of the EU Member States.

Keywords SMEs · Internationalization · Export · International trade · European Union

1 Introduction

In today's world, the process of globalization has become so widespread in the economic activity of businesses that an increasing number of business entities are characterized by internationalization of activities, *i.e.* relocation of production abroad, with differentiated development of export forms to international markets. According to a United Nations report, globalization and increased economic interdependence have accompanied—and facilitated—rapid economic growth in many countries and regions, helping world GDP grow from around 50 trillion USD in 2000 to 75 trillion USD in 2016 (United Nations Department of Economic and Social Affairs 2017). Companies of all sizes view internationalization as a huge

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opportunity for the development of production and sales of services, especially for small and medium-sized enterprises, which, thanks to internationalization processes, can increase economies of scale.

There is no uniform definition of internationalization in the literature, due to the intensification of globalization processes that have allowed capital flows to suspend economic transactions. Internationalization of a company, defined as taking all economic activity abroad of the country of origin of a company, requires the adoption of certain effective actions, management strategies necessary to adopt economic tools that promote a competitive advantage on the market.

The aim of this article is to analyze the process of internationalization of small and medium-sized European companies in international markets. The essence of internationalization is characterized in the first point, which allows various ways of disseminating the economic activity of companies on the international markets. The second point outlines how to strengthen the position of international European companies (with the focus on small and medium-sized enterprises) through the support of European Union policies. Finally, some conclusions will be presented.

2 The Essence of Internationalization in Business Activities

In the theories of internationalization, which are areas of research in the field of international business, the premises, forms and strategies of engaging companies in economic activity abroad have been explained. Internationalization of business activities requires huge capital expenditures, knowledge and entrepreneurship, and the benefits of internationalization are the result of entrepreneurial initiatives (Chang et al. 2017).

Various national governments, including the European Union institutions, provide information on export promotion, subsidies to the international fairs system, and thus allow companies to operate abroad. International exhibitions play a very important role as they enable companies to establish business relationships with foreign companies. Information provided to companies increases the competitiveness of European companies.

Piercy (1981) and Turnbull (1985) defined the process of internationalization as a transfer of a company's business outside its home state. An important role in the process of internationalization of the company is the marketing of the company, but with the corresponding features of the product. Internationalization depends on the policy of the exporter and the organization of export activities in the company to get rid of surplus production or often unwanted orders mainly on the domestic market. Piercy (1981) and Turnbull (1985) defined internationalization in two ways: first, as a transfer of a business outside the home state, and secondly as a process of increasing the company's engagement in international transactions (Welch and Luostarinen 1988). The process of internationalization of companies has been empirically tested (Welch and Luostarinen 1988), which shows that there is no broad way of capturing the potential paths of internationalization of firms.). This form of internationalization, as the development of exports, was also promoted by Johanson and Vahlne (1977), who developed one of the most internationally known definitions of internationalization, called the Uppsala model. Blomstermo and Sharma (2003) note that this model is not suitable for explaining the internationalization of small and medium-sized enterprises.

Johanson and Vahlne (1977) defined internationalization as the acquisition by companies of domestic market knowledge of the world market, knowledge of specific markets. Internationalization is taking place in different phases over a long period of time. It is very important to learn and be involved in the process of entering the international market. Companies decide to internationalize only when the demand in the domestic market is already significantly lessened, as exports increase the sales of domestic companies. Domestic companies in foreign markets create sales networks and gain foreign trust—local business partners, gaining knowledge of distribution networks, habits in foreign markets takes time.

Johanson and Vahlne (1977) have written one of the first and most recognized literature studies on the theory of internationalization, pointing out that companies seeking knowledge of certain characteristics of a particular foreign market, in particular business climate, patterns of behavior, and consumer segmentation, can gain through export or take control of a foreign company or build a new business from scratch. An enterprise does not need internationalization at the beginning of its business life. In the initial stage of development companies are reluctant to opt for internationalization, because the domestic market is definitely a more predictable market, there is no exchange rate risk in domestic transactions, entrepreneurs do not have to worry about complex, more complicated forms of payment. The domestic market is easier to identify with marketing tools. The costs of supplies of goods to foreign markets, which are increasingly lower in the process of globalization, are also important. All workers of the companies participate in the learning process under the supervision of the management of the company, who must be aware of the need to acquire knowledge of the world market. Social capital is becoming increasingly important, trust between employees, personality traits can become a measure of the success of companies in third country markets. Companies often choose to process the internationalization of their operations by taking on the task of supplying the foreign market through increased exports, before engaging in foreign direct investment. This is due to the fact that companies acquire a specific knowledge on the foreign market, first of all in the export business, which entails higher variable costs but lower fixed costs. Interest in foreign direct investment occurs when access to the foreign market is limited by barriers to trade, so the importance of exports or a foreign market will be weak as an export platform for other geographical directions of the company.

Internationalization is not an easy process, the entrepreneur in the domestic market needs to assess the situation of opportunities for economic initiatives and business development in the international market, *i.e*. the exchange of products and services for the first time (Angelsberger et al. 2017). In studies on the premises of internationalization, it is recognized that knowledge of the characteristics of the market can only be achieved by gaining experience in foreign markets. Companies must have excellent knowledge that will enable them to operate on the international market. Companies can specialize in different types of intermediate products. Internationalization of companies does not decide the desire to profit from the financial market, but the strategic decision of the company allows for export growth (Hymer 1976). Enterprises that decide on internationalization must have extensive knowledge of intellectual property protection in the international market, increase brand awareness. The products are often offered on the international market at a better price than the partners in a given market who can come from all over the world.

The process of internationalization is changing over the long term. In the early stages of development, the company will be successful in the domestic market, market information, storage problems are much easier than in the foreign market. Only gaining experience in the activity allows for long-term expansion of the world market (Gorynia and Jankowska 2007). In the current phase of globalization, small and medium-sized enterprises are increasingly being used by the small and medium enterprises. In the early 1980s or 1990s, internationalization was mainly of multinational corporations (Lu and Beamish 2001).

Internationalization, defined as the strategy of companies starting their business outside the state (Welch and Luostarinen 1993), can take the form of both export and import, franchising, foreign direct investment. The company adopting the internationalization process decides to export directly, domestic companies make direct sales in the international markets. Exporting is related to knowledge of distribution networks, knowledge of international marketing instruments, pricing policies, forms of promotion, public relations, which greatly changes the way the company operates, the selection of human resources, the transformation of the whole strategy of the company. In case of selling abroad decisive will be the policy of the state opening the borders.

Firms may opt for indirect exports using the advantages of a third country intermediary and its market, which will create a kind of marketing and export platform. A strategy developed with the use of the third country market enables the supply of semi-finished products, raw materials needed to produce final products or services to other domestic companies that participate in the global value chain. One of the most widespread forms of internationalization is foreign direct investment (FDI)—outsourcing and other forms of capital agreements. Direct foreign investment is a very popular form of doing business abroad in the modern world. For companies investing abroad the market of another country is very uncertain, economically but also politically. A very large number of European companies use offshoring to become a global market. Offshoring processes require a change of purchasing and supply organization (PSO), whose knowledge requires high qualifications from managerial staff (Mugurusi and Bals 2017). Companies decide to relocate their production abroad, as there are often differences in factor prices in the global economy, particularly wages. The role of international competitiveness is greater when firms are in high R&D spending and employ a relatively large number of non-productive workers (Helpman et al. 2003).

Small and medium-sized enterprises may engage in foreign direct investment through greenfield investments, *i.e.* the kind of FDI in which the parent undertaking establishes a new type of economic activity abroad build new operational facilities from the ground up, without infrastructure, undeveloped. Companies may use mergers and acquisitions, as well as by co-investing with other companies, such as joint ventures, with varying levels of asset control, often with a minority stake, as the controlling stake is defined in the company statutes. Such business activity is most likely for large companies with huge capital resources. Very often, domestic support for companies wishing to make a foreign investment is not enough because companies have little capital, so other factors are needed for internationalization such as franchise, product licensing.

According to Motta and Norman (1996) and Grossman et al. (2006), huge agricultural direct foreign investment is due to the fact that they are an export platform for companies. In the development strategy of companies, FDI plays an increasingly important role in increasing exports to other countries. Domestic policy should contribute to the involvement of companies in activities on foreign markets, and to supplement the impact of external factors. Domestic policy is very important at an early stage of internationalization of companies, especially small and medium-sized enterprises (Welch and Luostarinen 1993).

Companies move production to reduce production costs, such a form of FDI takes the form of vertical investments. Companies often divide the production chain into a variety of markets around the world. Research shows that small and medium-sized enterprises are decisive in most cases for direct and indirect exports, which complement each other in the manner in which they enter the foreign markets (Nguyen 2012). Companies can learn in their business process of internationalization by acquiring experience from the current form of export. The most important step in the process of internationalization is the systematic learning of the company's export business.

Other forms of internationalization, such as the contracting of unnamed and FDI, entail a rise in fixed costs, and the costs of covering these costs force the company to take advantage of the scale that small and medium-sized businesses may find difficult to obtain due to the company's limited resources. As a consequence, small and medium-sized enterprises after 2008, in the period of economic downturn in the world, have opted for a development strategy by increasing R&D, production and distribution in foreign markets. Companies are increasingly choosing to contract outsourcing, rather than forming subsidiaries in the process of foreign direct investment (Hollenstein 2005).

Companies are increasingly choosing to outsource contracts, rather than forming subsidiaries in the process of foreign direct investment flows, social capital plays a very important role in the process of internationalization of companies, thus enabling the survival of small and medium-sized enterprises in the global market (Hollenstein 2005). However, small and medium-sized companies, with their financial constraints compared to large companies, still accept exports as the most cost-effective form of internationalization (Westhead 2008). Only less than 3% of small and medium-sized companies based in the European Union have subsidiaries abroad. A significantly larger number of small and medium-sized enterprises have decided to export to third countries of the European Union (European Commission 2015).

Table 1 Classification of varied forms of internationalization

The essence of the problem	Concept of internationalization concept	Most important theories
Economy international	The most important feature of internationalization is export based on comparative advantage	The theory of monopoly advantage (Hymer 1976; Dunning 1980); The theory of internalization (Buckley and Casson 1976)
Marketing international	Internationalization means expansion into international markets within the innovation product phase under conditions of export to countries with comparable GDP levels and mature product phases, involving the flow of foreign direct investment to other countries.	The Uppsala model (Johanson and Vahlne 1977); Product life cycle theory (Vernon 1966), Innovative models (Bilkey and Tesar 1977).

Source: Own study based on: Ocampo Figueroa et al. (2014)

Studies on the internationalization process in the post WWII period are based on a variety of theoretical assumptions. From the review of many concepts of internationalization, there is no unanimity in the definition of internationalization, which means that companies can work in a very different way on an international scale, benefiting economies of scale, increasing the output of domestic production outside the national market. Companies must have a thorough knowledge of international markets. Companies that choose to work abroad in a variety of formats must have extensive knowledge of innovations, technologies, payment methods, marketing rules (Welch and Luostarinen 1988). Over the last decades, attempts have been made to investigate the phenomenon of internationalization, as more and more time and the development of the globalization process have resulted in more and more views and views on the internationalization process (Ocampo Figueroa et al. 2014). Table 1 presents the different types of methodologies used to build an internationalization strategy for a company.

Another form of internationalization is direct trade, which is the whole of the international trade carried out by the manufacturer outside the country. Companies conduct business or production outside their home country (FDI). Merchants buy and sell on their own, purchased goods from the manufacturer are only repackaged and then sold under their own brand name. Agents bear the costs of marketing and promotion, but not potential losses associated with the lack of sales of goods. In the case of homogeneous goods such as cotton or wheat, specialized agents are marketed as mediators for a reasonable fee. The most comprehensive services are offered by export management companies that carry out marketing research on the foreign market, distribute, logistics, transport goods and services. Transport and forwarding of goods facilitates the carriage of goods to the port by providing services to the exporter.

Trade intermediaries play an important role in international trade. Intermediaries can help you gain market share, with relatively limited search costs. The company's use of intermediaries is, in a sense, the ultimate way to deal with a company that does not deal with the market. Intermediaries have much more information about a given market than a company that uses a market entry strategy (Rubinstein and Wolinsky 1987). Intermediaries have much more information about a given market than a company that uses a market entry strategy (Wong and Wright 2011).

Just as the characteristics of the optimization problem may be related to the contracting customer's environment or to the market-level factors contracting problems can also influence the choice of export mode. Most of the small and medium-sized export trade transactions are conducted directly, and indirect trade also plays an important role in international trade, though currently literature is lacking in scientific research on the share of manufacturing companies in indirect exports.

The research conducted by Felbermayr and Jung (2011) and Ahn et al. (2011) shows that companies that decide on the internationalization process and take into account the foreign market in their business can be broken down according to their performance. This labor productivity will be determined by international cooperation. Only the best companies will be the process of internationalization. Of course, also companies with low labor productivity may choose to expand slightly to the international market. Mostly such companies are trying to help themselves in a variety of ways, it is understandable that small and medium-sized enterprises do not have the capital needed to employ specialized human capital who would have extremely high qualifications in managing the internationalization process, specialists in all marketing fields. For small businesses with little human resources, it is understandable that the company has to hire intermediaries to take advantage of market research, because otherwise it cannot draw up its entire business strategy on the international market.

Firms deciding on internationalization will be forced to devise strategies for entry into international markets. Typically, companies with small capital will choose to trade for the basis of internationalization, *i.e*., export to foreign markets. This form of cooperation with the rest of the world is relatively simpler and less complicated. It requires the market to be identified and the competitive product stock of a diversified nature must be available, so it must be a diversified assortment. Although it may be the case that small-cap companies may choose to invest in foreign direct investment by investing overseas from scratch or purchasing a controlling stake, but in small capital ventures.

3 Internationalization of European Small and Medium-Sized Companies

The process of internationalization makes it possible to increase sales opportunities in the age of globalization on the world market and at the same time enables the competitiveness of European companies of all sizes. The process of internationalization has allowed European companies to increase their turnover. European companies that have opted to participate in the internationalization process have increased their employment as they have increased their demand for foreign goods. According to data from the European Commission, companies that exported their goods and services increased employment by 7%, and companies that made up the domestic market more than 3% (European Commission 2010, 2012).

As far as small and medium-sized enterprises in European Union are concerned, it should be stressed that they play an important role in the economy, as more than two thirds of jobs are created by such companies and they play an important role in the global supply chain. They continue, however, to face many barriers to the internationalization process, primarily having no working capital to finance their business. Small and medium-sized companies in raising finances in external sources are exposed to the huge opacity of the financial markets, which discourages investors from investing. Large companies in the EU are much more likely to participate in the capital market than small and medium-sized enterprises. European companies most often use the financing offered by banks, to a small extent participate in the capital market (Demary and Hornik 2016). It is also worth mentioning here that there is evidence that SMEs can improve performance by importing more foreign materials inputs and by utilizing foreign technologies from technologically advanced economies (Bilgin et al. 2012). If the (R&D-intensive) small firms were to be a driving force for a substantial structural change in the EU economy, from being driven by rather medium-tech sectors towards a high-tech based economy, they would need, however, substantial financial investments, which currently does not seem to be a realistic scenario (Voigt and Moncada-Paternò-Castello 2012).

This lack of capital is associated with a small base of qualified personnel in small and medium-sized enterprises. The European Commission recommends that small and medium-sized enterprises use clusters with specialized knowledge of demand in a given region of the world. Clusters enable greater worker mobility within the region and greater presence of venture capital investors, which is important for companies in the early stages of development looking for capital. Investments in venture capital companies have been most important in such EU countries as Austria, Hungary, South Korea, Slovakia. The biggest decline in interest in venture capital occurred in Belgium, the Czech Republic, Estonia, Slovenia and Sweden (Delearde and Schmerber 2017).

European companies use a variety of forms of internationalization. One of the forms of dissemination of European companies is the creation of clusters. The European Union recognizes clusters as the best way to internationalize European small and medium-sized enterprises. As European companies exit the global crisis, many use export as the best way to increase liquidity and survive on the market, especially from the peripheries of the European Union (Spain) (Altuzarra et al. 2016). The period of economic crisis in the world was particularly important for European companies wishing to increase exports, so export support programs in the European Union were important (Biesebroeck et al. 2016).

Studies from three European Union countries, France, Italy and Spain, show that there is no evidence of interdependence between trade through intermediaries and domestic (local) sales. On the other hand, there is a reciprocal relationship between direct exports and the flow of foreign direct investment.

Trade costs using direct export and FDI, when exporting indirectly, represent too large fixed costs or marginal costs. A small number of intermediate exporters make decisions on direct exports or FDI, either because of relatively low fixed costs in intermediate trade or because of low production capacity. The constant costs of modernization for more expensive means of internalization are high, and consequently, state interventionism is rather unsuccessful. At the same time, indirect exports do not seem very expensive, and thus speeding up contacts between manufacturers and intermediaries can be a relatively inexpensive solution and help you sell on foreign markets.

Establishing a manufacturing facility abroad and selling it on the local market allows the company to internationalize its activities and sell its products abroad (Helpman 1984). A great advantage of establishing a company abroad is greater control over the sales process. Direct sales may allow you to achieve the lowest marginal cost, provided that production cost differences do not exceed transport cost savings. Many companies try to mainly export, but foreign direct investment is also a very popular form of internationalization. Companies must make a number of decisions regarding foreign direct investment, in terms of horizontal and vertical specialization (Markusen 1984). Export companies are companies that are more efficient than domestic companies, which are less expensive to collect information about the world market and often need less educated staff (Helpman 2011). Companies that have opted for internationalization in the form of FDI represent between 5 and 10% Italy, 10.6% in Germany (Békés and Muraközy 2012).

23 million small and medium enterprises (SMEs) operating in the single European market make up more than two thirds of jobs in the private sector in the European Union. Over 25% of small and medium-sized enterprises in the European Union have been exporting to third countries. Small and medium-sized enterprises play an increasingly important role in the internationalization process. The share of SMEs in total EU exports to the markets of twelve countries, including China, Japan, Russia, India and Brazil, increased at the beginning of the second decade of the twenty first century from 39 to 62% (European Commission 2011).

As it has been already mentioned, small and medium-sized enterprises are the backbone of the economy of the entire European Union, since employment in this group of companies has exceeded 70% of total employment after 2008 (Parlament Europejski 2009). Small and medium-sized enterprises are, therefore, the addressee of the activities of the governments of EU Member States that have developed programs for the activation of internationalization processes among small and medium-sized enterprises.

The priority of the institutions of the European Union and of the governments of the EU Member States is to foster actions for the internationalization of small and medium-sized enterprises in third countries. The strategic aim of the European Union to support export policies for small and medium-sized enterprises in the global market is to increase the competitiveness of European companies in the global economy, leading to increased employment in the EU Member States. The EU's strategy for increasing the internationalization of small and medium-sized businesses was the EU's map of a range of Member State support programs to support the export activity of companies.

The European Commission has developed a program "mapping" and analyzing programs for supporting the internationalization of businesses presented by EU and EU governments, and on the markets of the major EU economic partners with huge GDP growth potential (European Commission 2011). The purpose of these actions in the Communication from the European Commission, designed to implement the tasks of the Europe 2020 strategy, is to provide SMEs with information on how to expand and increase their economic activity in third countries, and to create a coherent implementation of support for companies operating in foreign markets. As well as an increase in the profitability of product activation of companies. Mapping activities are expected to lead to a more rational and therefore more effective and effective system for promoting the internationalization of small and medium-sized enterprises in the EU.

Creation of an "International Business Portal", which will enable international action, in particular, by new Member States of the European Union. There was a wide-ranging thematic portal that included information on target international markets, in particular those third countries, which provided a potential outlet for European companies. The information portal has consolidated the information resources of the member countries of the virtual information portal addressed to those SMEs wishing to expand their business activities outside the EU. The website contains links to online contact points in each Member State of the European Union. The portal contains information that is translated into all EU languages. The portal has been integrated with portals at EU and national level, including the Market Access Database and the Export Helpdesk.

The most important tool for addressing these needs is the Market Access Teams (MAT) set up by the European Commission on selected international markets. The Market Access Teams program was set up by decision of the Council of the European Union in December 2008. MATs are already operating or are planning to start their operations in the following countries, identified as priority third markets for European SMEs: Algiers, Argentina, Brazil, Canada, Chile, Colombia, Egypt, Hong Kong, India, Indonesia, Israel, Japan, Kazakhstan, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Peru, Philippines, Russia, Singapore, South Africa, Turkey, Ukraine, United States, Vietnam. Small and medium-sized companies seeking strategic partnerships with international partners seeking business partners to trade/sell in international trade and service provision, competing in the global economy, must seek strategic business cooperation with international partners. Promote clusters and networking that target the internationalization of small and medium-sized enterprises. In order to develop competitive global markets for products and services, SMEs need the right partners to support their innovative and marketing activities. Clusters, business networks and export consortia, representing groups of companies cooperating with each other in the framework of joint export strategies, can play a significant role in supporting the internationalization of SMEs.

The number of enterprises engaged in internationalization in export or import activities is decisive for the intensification of internationalization of enterprises. According to estimates, based on GUS data for 2013, 4.6% of companies operating in Poland (i.e. 81,900) are export-oriented in terms of products and only 0.9% (16,500) in Range of services. Similar estimates of the activity of companies operating in Poland in terms of imports indicate that the number and percentage of importers in Poland are significantly higher than for exporters. In 2013, the percentage of companies importing products was 7.6% (1,35,200) and services was 1.3% (22,800). Similarly as in the case of exports, the smallest percentage of importers was microfirms—5.8% of smallest companies import products from abroad and 0.6% of services. After the global economic crisis, the most internationalized industries are mining, manufacturing, automotive (European Commission 2015). A large number of companies in the European Union are not yet ready for internationalization.

4 Conclusions

Although the elaboration of a common, uniform definition of *internationalization* would be quite a challenge, as there have been created a significant number of theories on the nature and forms of internationalization, there seems to be a consensus concerning the importance of the phenomenon. Recently the processes of internationalization have taken on an increasing number of European companies due to the intensification of globalization and integration processes. Theories of internationalization explain the causes and the various forms of internationalization in the modern world economy, pointing to the process of internationalization of the business of companies. In Europe, companies of all sizes have increasingly been forced to take action on a broader geographic market due to the creation of an internal market in the European Union.

The European Union, as an important player in the international arena, strives to maintain its international economic policy in the forefront of the internationalization of European companies by taking action at the level of EU institutions that will enhance the knowledge of foreign markets for European companies. It has taken special steps to foster the companies that are perceived as quite vulnerable, and yet form the basis of the modern economy, i.e. small and medium-sized enterprises. SMEs create a majority of workplaces in the private sector in the European Union and their share in total EU exports has recently dynamically increased; they have to face, however, a lot of challenges while trying to expand their international activity, the most important being lack of funds and *know-how* on the right ways of doing business abroad. The policies recently designed by the European Union that are meant to help SMEs include increase their economic activity outside EU, e.g. by creation of an "International Business Portal" as well as supporting and promoting business networks (e.g. by setting up Market Access Teams) and clusters. To sum up, it should be stressed that the creation and implementation of these policies are a proof that enhancing the internationalization of small and medium-sized enterprises are currently a priority of the institutions of the European Union and of the governments of the EU Member States.

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