

The Internationalization Process of Small and Medium Enterprises: Case of Albania



Emi Hoxholli and Donika Kercini

Abstract The global economy is becoming more integrated with each passing day, taking into consideration the rapid process of globalization, which permits small and medium enterprises to internationalize in effective and quick ways. The main issues discussed in this paper are related to the internationalization process for SMEs, the reasons why they decide to become international, and the models they use to finalize this process. The internationalization process has been an interesting topic of focus for researchers, academia, businessmen, and students. This is a phenomenon mostly related to the big companies, but in the last years, the process of internationalization has related to small and medium enterprises since their active roles in the international markets have increased. Different internal and external factors, such as macroeconomic conditions, organizational cultures, technology, and infrastructures, have influenced the way these firms choose their models to realize the internationalization process. This paper focuses on the three main theories of internationalization, which include the following: Uppsala model as well as the network theory and international entrepreneurship theory (specifically in the case of Albania), which is in the first stage of development in comparison to other countries in our region.

Keywords Internationalization • SMEs • Uppsala theory • Network theory • International entrepreneurship theory • Albania

1 Introduction

The internationalization process has always been of interest for students, academia, businessmen, and researchers. During recent years, SMEs have been the focus of research due to their increasing active roles in the international market. SMEs have

E. Hoxholli (✉) • D. Kercini

Faculty of Economics and Agribusiness, Agricultural University of Tirana, Tirana, Albania
e-mail: emilihoxholli@yahoo.com; dkercini@ubt.edu.al

rapidly expanded their business activities in foreign markets and thus have become main instruments of international diversification.

The importance of internationalization is increasing every day due to the interaction of several factors, such as:

1. The reduction of barriers for trading and investing, based on several agreements. As a result, this reduction has contributed positively to companies through the expansion of exporting activities.
2. The continuous developments in the fields of transport and logistics have lowered the costs of importing and exporting.
3. Innovation in business behavior and technology has shown results in creating new goods and services that are attractive in international markets.
4. Markets have become wider and linked among each other because of the development of global electronic commerce, also known as e-commerce.
5. Companies and industries of different countries have become interdependent regarding supplies and business activities.
6. Capital markets have internationalized because of the decrease of internal legislations, and this has contributed to the internationalization process, which nations are actively participating in more and more each day.
7. Different industries among various countries have overcapacities because of increased productivity of existing and new establishments. National and local producers have managed to achieve economies of scale, by utilizing the oversupply in the labor market and selling products in new areas. All these factors have increased the attempts of companies to initiate exporting activities.
8. Global trading has continuously increased more than that of gross national product on a global scale, and this has promoted its importance in the international markets (Albaum 2005).

The most well-known theories of internationalization are the Uppsala model of internationalization process, network theory, international entrepreneurship theory, and some new topics of high importance for today's business world such as new joint ventures or born global (Madsen and Servais 1997).

The theories taken in consideration for this paper attempt to explain the different processes of internationalization that occur when firms tend to expand over national markets. Generally, the internationalization process is related to drawing up new strategies where companies must decide where and when, as well as how, they will enter new markets. There are several ways to enter a new market, such as through exports, foreign direct investments (FDI), joint ventures, licenses, franchises, branches, etc.

In any case, this process is surrounded by risk and insecurity. For the firm to achieve the success it seeks, it should decrease the level of risk and insecurity, and this is possible only by choosing the right model. The key of success is directly related to knowledge of the market, and companies should apply the most useful model of internationalization based on this information. Other factors that should be taken into consideration consist of internal factors such as business network,

previous experience, management skills, the role of ownership, financial resources, government agencies, age and size of the company, organization skills, etc.

The main purpose of this paper is to have a clear view of the internationalization process for the SMEs and the level of SMEs internationalization in Albania. This can be realized by analyzing the role and applicability of the main theories: Uppsala model of internationalization process, network theory, and international entrepreneurship theory from the SMEs that operate in our national markets.

Specific objectives:

Determine the models and methods frequently used by SMEs.

Explain how the model or method chosen by SME affects the finalization of the internationalization process and the firm's performance.

Determine the main reason why SMEs tend to internationalize.

Define the internal and external factors that influence the process of internationalization.

Define the countries where Albanian SMEs intend to enter and occupy the market with their goods and services.

2 Internationalization of SMEs

The existing literature regarding the internationalization and SMEs is wide, especially when considering time extension and diversity of content. According to the objectives we have set at the beginning of the paper, we have focused on the definitions of internationalization, SMEs, analysis of internal and external factors, and the main internationalization theories.

2.1 Internationalization

Several authors such as Andersen 1993 or Cavusgil 1980, have proposed different definitions for the dimension of internationalization. From literature review, currently there isn't a definition that all researchers have agreed upon. The origin of this concept is found in the 1960s, when Simmonds and Smith identify internationalization as a successful way to increase export activities (McAuley 2001). Based on their study, the Swedish authors of Uppsala model, who formalized the model of export behavior, Johanson and Vahlne (1977), then Wiedersheim-Paul et al. (1978), have cited that "internationalization usually refers to a company behavior toward foreign activities or performing activities abroad".

Internationalization is a process, in which the firm increases its involvement in the international operations (Welch and Loustarinen 1988). On the other hand, Calof and Beamish (1995) define internationalization as the process of adapting the company operations with the international environment.

Other more complex definitions have determined some typologies through crossing different criteria. For example, Torres (1999) has identified four different categories of companies based on location and operation of these companies, which include local, glocal, international glocal, and global.

For a local company, procurement and location of the resources is done in local, regional, or national level.

For a glocal company, it procures resources itself partially or totally in the international market but sells goods or services in the internal market.

In the third category, an international glocal company performs exporting activities; it procures and sells both in international and national markets.

Finally, in the fourth category, a global company performs part of the production on its own outside the country and conducts research and development activities in international level.

2.2 *Small and Medium Enterprises: SMEs*

2.2.1 Definition and Characteristics of SMEs

Small- and medium-sized enterprises are playing a vital role in the economic development of a country. When we talk about SMEs, we refer to all firms that operate in every kind of sector and do not exceed a specific size. Commonly, the indicators used to determine the size of SMEs are profits, capital, market position, number of employees, and turnover. The most frequently used indicators are annual turnover and the number of employees.

If we refer to the European Union definition (2005), “The category of company’s micro, small and medium—SME consists in all the companies which have less than 250 employees and have an annual turnover not exceeding 50 million euros or an annual balance sheet not exceeding 43 million euros.” According to one of the studies of the European Business Observatory today, of the 19.3 million total enterprises in EU, 98% are small and medium enterprises.

According to the Albanian legislation into force, the category of micro-, small-, and medium-sized enterprises (SMEs) includes all the companies which have less than 250 employees and realize an annual turnover and/or annual balance sheet not exceeding 250 million LEK (in national currency). If it is converted in EUR, it is approximately 1.5 million euros.

In our study, the internal characteristics of SMEs are very important.

First, the organic structure is related to the absence of standardization and the presence of informal working relationships, which make SMEs more flexible in the operative business environment.

Second, SMEs are predisposed to surviving in fluctuating and turbulent environments, where innovation and flexibility are keys to survival.

Third, their flat structure and the absence of hierarchy help them with the changes of labor environment and permit management to establish close relations with employees.

2.3 Theories of Internationalization

2.3.1 Uppsala Model

The Uppsala model is developed by the Nordic school. The construction of the model has passed in two important phases. First, Johanson and Wiedersheim-Paul carefully observed every step of the internationalization process of four national firms back in 1975. Then, in 1977, Johanson and Vahlne discovered and refined the model. Their theory is focused on four important aspects that any firm should take in consideration where it intends to expand the activities abroad.

Market knowledge—that means knowing the threats and opportunities they can find in the new foreign markets.

Engagement of the firm in the market—determines the financial resources that will be engaged and the measure of their engagement.

Engagement during decision-making process—based on the market knowledge and the measure of the engaged resources.

The actual activities of the company—the goods and services the company actually offers in the domestic market.

These four aspects cooperate with each other in a cyclic form. The main assumptions of this theory are:

The market knowledge and the resources engaged in the new market influence the decision-making process regarding the engagement and the way these decisions will be implemented.

The company should start expanding its activities in markets with the shortest physical distance. The physical distance is known as the difference in language, culture, and political system.

The basic scheme to follow is exports—sales representative—branch which offers all services.

2.3.2 Network Theory

Johanson and Mattsson developed the network theory in 1988, and according to this theory, companies, which use the highest technology, do not perform the gradual increasing process, but instead tend to reach internationalization quickly through utilizing the experience and resources of the network's partners.

This theory looks at the firm's internationalization as a natural development and is a result of the network relationship with a foreign company. The network is a

resource that produces knowledge and information about the markets, which in case of network absence requires a lot of time. The importance of the network is related to the close relationship between the firm, the partner, and the facility using the network clients, suppliers, industry, logistic system, regulators, public agencies, etc.

The first step toward internationalization consists of the market knowledge where the network operates, its environmental conditions, and relationship with the partner.

While the firm is involved in the internationalization process, the relationship with the network becomes stronger. While the trust and engagement between the network's participants increase, the firm reaches market penetration.

During the penetration stage, the company is integrated in the foreign market, through using the network, and after this it must get involved in other foreign markets.

According to the network theory, the following four categories of companies exist:

Early entry firms—are all those firms that have few relations with the new market.

They have little knowledge about the market and have lower chances of winning their part of this market.

Internationalize alone—these firms are too internationalized but within an environment that is focused only in the internal market. These firms have capacities to promote the internationalization of the market. They have gained a lot of experience and knowledge about the foreign markets and have greater chances of being successful.

Late entry firms—are all firms, which tend to enter in a market that is already internationalized. These firms have an indirect relationship with the network, so by utilizing this relationship, they have chances of reaching success. They have different disadvantages against their competitors, since they have less knowledge of the market. These firms face difficulties in new markets if they continue to stay in the existing network.

Internationalize against others—this category is related to the firms that are highly internationalized. In this case, both market and firm are internationalized. The knowledge and experience they already have at their disposal help them to establish branches for sale of goods and services. This is due to the fact that they can manage to coordinate activities simultaneously in different countries. These firms have close relationships with international networks, which offer them possibilities to expand their activities (Johanson 2000).

2.3.3 International Entrepreneurship Theory

McDougall and Oviatt developed the international entrepreneurship theory in 2005. This theory studies the entrepreneurial behaviors abroad and focuses on the way they are disclosed, approved, analyzed, and utilized for opportunities to create new goods and services. According to their theory, the international entrepreneurship is

a combination of innovative, proactive, and risk-seeking individuals that exceed national borders and tend to create value for the organization.

The theory is focused on seeking innovative opportunities and converting them into competitive advantages. The entrepreneurship behavior of firms and individuals is the base for entering in a new foreign market. The entrepreneur has skills and all necessary information to evaluate market opportunities to create stable relations with other firms, suppliers, clients, government, and media. A risk-seeker with a lot of experience engages resources in an effective way that the firms can gain a competitive advantage.

2.3.4 Influencing Factors of the Internationalization Process

There are different motives as to why SMEs choose to internationalize. One of the main motives why they want to access new and bigger markets is to achieve a higher financial performance. The companies expand the market for selling their products through exporting or establishment of branches or joint ventures. Some other firms expand abroad to have access to technology and knowledge so that they can stay competitive. This shows that different processes of internationalization are undertaken by firms to reach their strategic objectives.

Firms' reasons to internationalize are influenced by opportunities offered by foreign markets. These opportunities can be exploited only if the firms have the necessary resources to enter those new markets. Companies have internal and/or external motives that influence decisions about the internationalization process. Qualitative and environmental factors play key roles.

Before the company starts the internationalization process, it should make three important decisions:

Which market: they will choose that market that is more attractive for the firm, and they should balance the costs, risks, and benefits.

When to transfer its activities abroad: it is important when a firm decides to enter a new market. It can be the first or the last entrant in the market. The first entrants are those firms that enter an international market before other firms of the same industry enter in a foreign market. The last entrants are those firms that go abroad only after other firms of the same industry have already been transferred and have had success.

Scale of extension: a firm can enter in a new foreign market in wide or tight scale; this depends on the level of resource engagement. To enter in a market in a wide scale means a quick entry and engaging their important resources. To enter in a market in a tight scale lets the firm learn by chosen market, because it is less exposed against this market.

After taking into consideration these three important factors, the management of the company should choose how it should be internationalized. There are different methods of internationalization; we cannot say if there is a better or worse method of internationalization; it depends on the size, age, resources, devotion, and market itself (Penrose 1959).

2.3.5 Conceptual Framework

Based on the internationalization theories explained above, which influence the behavior of SMEs regarding the internationalization process, I have drawn a conceptual framework. The literature, knowledge of foreign markets, business networks, entrepreneurship skills, and individuals' activities are all variables that have important impacts on the internationalization process. We believe that the three theories are related to each other. Through this conceptual framework, we try to show the relation between them. Without the right information about the market, the company cannot compose an internationalization strategy. According to the Uppsala model, the market knowledge increases the activities continuously and firms tend to engage more resources in this market. If we begin thinking according to the network theory, we can say that the basic information about new markets can be provided by local and foreign businesses. The international entrepreneurship theory shows that market knowledge derives by the entrepreneurship behavior and individual activities (Fig. 1).

It's clear that market knowledge in an essential component was derived from previous experience that the entrepreneur might have gained in international

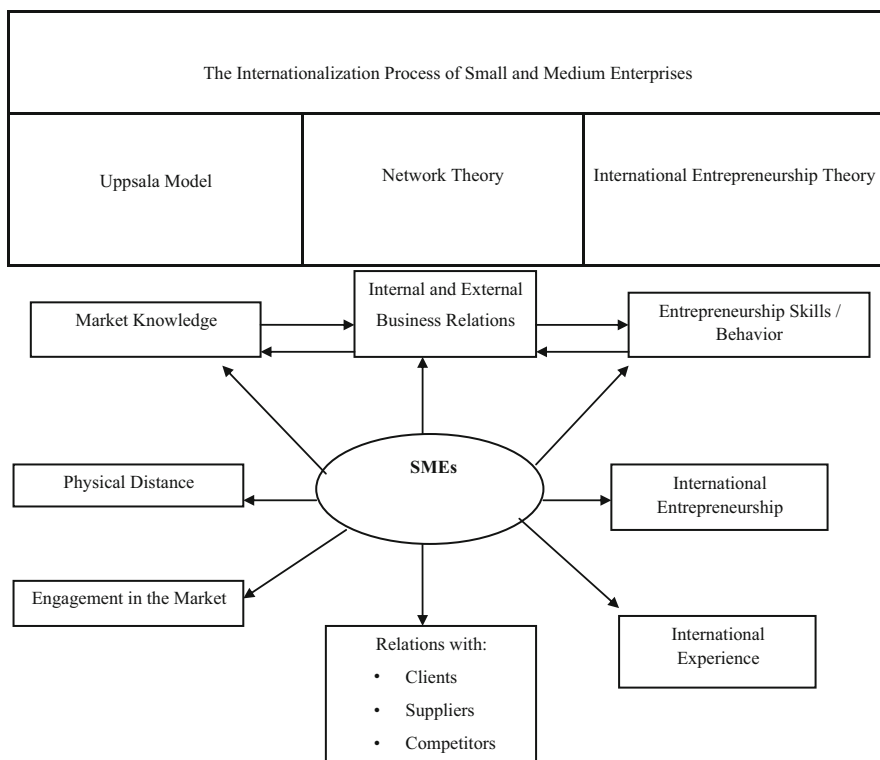


Fig. 1 Conceptual framework

business. In the business world today, all three parts of information mentioned above should be present for SMEs. We can deduce that SMEs use different means to implement each theory and/or combine them to achieve their goal in the internationalization process.

We should underline the fact that the three theories are means that help SMEs to compose the internationalization strategy. SMEs should take in consideration issues related to entering methods, resources, and competitive advantages, so that they can finalize the process successfully.

3 Methods and Procedures

The data collection will be done through unstructured questionnaires at direct meetings with top management to receive qualitative information. The qualitative data will help us to better understand the strategic direction of the firms and the reasons why they choose to internationalize. In addition, we will use electronic structured questionnaires for quantitative data. The information collected will be compared to the international models to determine the most frequently used methods. The questions will be prepared in accordance with the specific objectives we have set in this research. We intend to include in the questionnaires firms of small and medium enterprises in the Albanian market to have clear evidence of which enterprise has the trend to internationalize and the advantage to finalize this process successfully.

The chosen methodology, sample size, used procedures for data collection, and analyses of the collected data will be done in accordance with the specific objectives.

The elaboration of the quantitative data collected will be analyzed by conducting factorial analysis and regression analysis for testing our hypothesis. The descriptive analysis will be done based on the qualitative data collected.

4 Conclusions

This study intends to present a clear view of the internationalization process of SMEs that operate in Albanian markets, through detailed explanation of the factors that influence them to be part of this process. We aim to determine methods and models used by SMEs and the impact the chosen model has in the finalization with success or failure of the process. We believe this research is useful and of interest for different stakeholders. Based on the Business and Investment Development Strategy issued by METE—Ministry of Economic Development, Tourism, Trade, and Enterprise—for the midterm period 2014–2020, today in Albania, SMEs represent 95.3% of the total number of companies which are actively operating in our market and 43.3% of them belong to the commercial sector of the Albanian

economy. In fact, Albanian companies which have one to four employees represent 88% of the total enterprises. They employ 31.7% of total employees of the country and have realized 13.8% of the national turnover. Meanwhile, companies with more than 50 employees dominate the economy through realizing 44.5% of the total national turnover, have 39.7% of employees in total, and have 63.9% of the total investment in Albania. They contribute 73% of the gross domestic product (GDP) and 71% of employment. These firms are mostly with Albanian owners, and they have already started to move toward international markets. According to the definition of SMEs in the Albanian legislation, during the last 5 years, SMEs represent the main group of companies which perform exporting activities, with an average of 96.6% of total exporting companies. One of the goals of METE for the midterm period is to constitute a competitive country through stimulation of SMEs and showing them new opportunities offered by the European and global market.

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