

# PENETRATION OF SMALL AND MEDIUM SIZED FOOD COMPANIES ON FOREIGN MARKETS

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## Abstract

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In the world the interconnection of national economies and internationalization of economic processes occur. In turbulent changing business environment only those companies that understand the current trends in global economy may survive, develop and prosper. Therefore, the issue of internationalization for most companies becomes to be more important and the process of internationalization is the way how to stand this increasingly competitive environment. In presented contribution, the attention is paid to issues of internationalization of Slovak food industry enterprises such as their way of business internationalization, percentage share of foreign - trading activities on overall business activity, company evaluation of business internationalization or barriers of foreign markets penetration that researched companies have to deal with. Small and medium-sized enterprises (SMEs) are the engine of the Slovak economy, generator of development, innovation, growth and they employ more than 60% of employees. Almost all businesses operating in agri-food complex have character of small and medium enterprises. The results of carried research have shown that small and medium-sized companies are considered to be successful in operation on foreign markets in surrounding European countries.

internationalization, small and medium entrepreneur units, enterprise, food industry

Although the driving force of the world economic globalization were large companies whose business has greatly facilitated the free movement of production factors, small and medium sized enterprises also experienced changes in business. Excepting a few companies almost all agro-food businesses are in category small and medium-sized enterprises. One of the manifestations of the process of globalization and internationalization of the business environment in Europe is concept that firms are entering a period of sustained competition. Integrating business processes put business opportunities into new qualitative and territorial dimension. Successful businesses are those that are able to apply the results of research and by the implementation of innovation to anticipate future customer needs faster than the competition.

Internationalization process resulted from a combination of strategic thinking and actions, opportunities and needs. Because of the given complexity of this phenomenon it is very difficult to create a general concept of internationalization process.

Notwithstanding the considerable complexity of the internationalization phenomenon, many researchers tried to develop a general theory of internationalization. However, a survey of relevant literature on the issue of internationalization reveals that most of the developed theories are focused more on large multinational companies than SMEs. Therefore, the following report includes only those theories that are at least partially relate to the internationalization of SMEs. There is the list of these theories:

### **<sup>1</sup>Phase model of internationalization (Uppsala model)**

Well known Uppsala model suggests that internationalization of firms is process driven by interplay between learning about international business operations and commitment to international markets.

### **<sup>2</sup>Innovation-Related Internationalization Models**

I-model is a model in which each stage of internationalization is associated with the innovation of the company. Corporate rate of dependence on foreign markets is detected through the ratio of exports to total sales. (Snuif, 2000) The individual authors are not entirely united, nor in the number of stages, or in their description. Cavusgil states model of the internationalization of 5 phases:

1. Domestic marketing - the company sells only on the domestic market.
2. Preexport phase - the company finds and evaluates opportunities for exports.
3. Experimental presence - the company starts to export limited to psychologically close countries.
4. Active participation - the company exports to more countries through direct exports and increasing sales.
5. Confident presence - the company management always chooses the allocation of resources to domestic or foreign markets.

### **Theory of contingency**

The development of contingency theories of internationalization have led the authors to the need for any specific alternatives to the dominant phase theories. The main aim of the contingency theory is to show that internationalization process is dependent on the environment. This means that it is influenced by many factors such as market conditions, industry structure and company resources. Contingency theory suggests that companies are influenced by an open system environment. In order to determine the most appropriate formula for internationalization process, company resources, opportunities and threat environment which affects the company must

be analyzed. Subsequently, there are two types of contingency theories presented:

- theory of transaction costs related to the internationalization
- eclectic paradigmanta.

### **<sup>3</sup>Theory of transaction costs**

This theory fits quite well into the framework of so-called mainstream economics. The same are the assumptions of profit maximization, which is consistent with minimizing costs and further it assumes rational behavior on the part of owners or managers. The main difference is that transaction costs differ from the normally encompassed production costs. In accordance with the basic assumption firms seek to minimize their total costs, however, they consist of both production costs and also transaction costs. Under these circumstances, the situation may occur where transaction costs are lower if the transaction takes place in the market, or it may be a situation reversed and transaction costs are lower if the transaction is coordinated by the manager.

### **<sup>4</sup>Holistic model of internationalization**

Luostarinen and Hellman on the basis of the results of the study of small firms in Finland suggested a holistic model of internationalization. The model includes the concept of so-called internal Luostarinen internationalization or realized foreign purchases (raw materials, components, technology and goods for sale) in the beginning and development of internationalization process. The internal process of internationalization is crucial for understanding the dynamic environment of internationalization. The model also takes into account the importance of cooperation in the early stages of the company internationalization process.

### **<sup>5</sup>Web theory**

Web theory is based on the Uppsala model and it is complemented by the system perspective. Internationalization is defined here as the development of trade relations in other countries through the newly created links, based in a new country, and deepening of relations in which the company already operates, not least balancing the various systems from different countries.

- 1 LARIMO, J., VISSAK, T. *Research on Knowledge, Innovation and Internationalization*. Emerald Group Publishing Limited. 2009. 271 p. ISBN 978-1-84855-956-1.
- 2 SNUIF, H. R. *The Internationalization Process of Small and Medium-sized Enterprises: An Evaluation of Stage Theory*. Journal of Small Business Management [online]. publikováno 2000-10-1 [cit. 2009-10-16]. Dostupné z: <<http://www.allbusiness.com/management-companies-enterprises/654394-1.html>>. ISSN 0047-2778.
- 3 MALHOTRA, N. K., AGARWAL, J., ULGADO, F. M. Internationalization and Entry Modes: a Multitheoretical Framework and Research Propositions. *Journal of International Marketing* [online]. 2003, vol. 11, is. 4 [cit. 2007-06-06], s. 1-30. Dostupný z WWW: <<http://www.atypon-link.com/AMA/doi/pdf/10.1509/jimk.11.4.1.20144>>. ISSN 1547-7215.
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- 5 KJELLMAN, A. et al. *Internationalisation of Small Firms*. 1st edition. Vaasa, Finland : Anders Kjellman Consulting Ltd., 2004. 168 p. ISBN 952-91-6726-1.

### ‘Born Globals

Since 1990, various studies appear known as Born Globals. Some of the first authors who deal with this phenomenon are Oviat and McDougall, who defined Born Globals as: "The companies which since their beginning seek to obtain substantial competitive advantage with the resources and sales performance to several countries".

### MATERIALS AND METHODS

The object of presented paper is the issue of penetration of small and medium sized food enterprises on foreign markets. Accent is placed on selected factors of internationalization that must be known by business managers to operate successfully in international business environment

To solve set out issue selected mathematics - statistical methods and percentages were used. Meeting the required objective also primary research had to be done. The main used method of primary survey was the questionnaire method and technique of driven interview with contacted managers of businesses. Processing of questionnaires took place in two stages. The first stage of processing the data obtained after treatment of data base was conducted by an MS Office program Excel. The second stage of data processing was conducted with the assistance of specialized statistical program SAS.

Businesses from selected territorial – administrative region were asked; meeting the criteria of small and medium enterprises under the current guidelines of the European Commission No. 2003/361/EC. Selected self-governing region was Nitra region where The Statistical Office recorded a total of 185 enterprises of small and medium-sized businesses in the food industry. In this research businesses were included by stratified sampling. Exactly 70 companies were contacted to participate in research; the resulting statistical set consisted of 46 enterprises of SME. Given the voluminousness of

the issues examined in the paper there are selected results of research conducted.

### RESULTS AND DISCUSSION

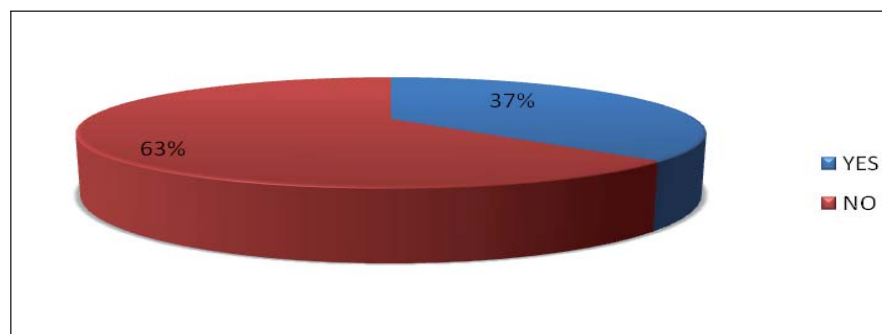
#### Selected results of the solved issue from business practice

Questionnaire research was conducted in the Nitra region, which can be described as an agricultural region with the interdependence of infrastructurally well equipped food industry. In total, from 185 statistically registered businesses in the food industry in this region was contacted 70 companies from small and medium enterprises; they were chosen by stratified selection. Exactly 46 companies were willing to participate in the research from all seven districts of Nitra. Table 1 illustrates the percentage of surveyed companies according to following categories: location, organizational – legal form of business entity, business focus, size category, sales volume for the last two years and outturn.

The largest number of surveyed companies launched its business in the first half of the nineties when in 1992, 1993 seven subjects were created, in 1994 and 1995 next 5 companies; in 1996 it raised for 4 more enterprises. In the second half of the 90s and early 21st century only 2 or 3 companies from analyzed enterprises opened their business.

Crucial respondents' answer in terms of worthwhile objectives was the ninth issue of the questionnaire; does company make business activities on foreign markets? The answers of the respondents are illustrated in graph 1.

Over a third of the surveyed businesses, exactly 17 companies (36.96%) go to foreign markets, while 29 firms (63.04%) do not internationalize their business and operate only in the domestic business environment. In another part of the research the causes and motives for the internationalization of business, respectively staying only on the domestic market were analyzed.



Source: own results and own evaluation

1: Percentage of companies according to business activities on foreign markets

6 MOEN, O., SERVAIS, P. Born global or gradual global? Examining the export behavior of small and medium-sized companies. *Journal of International marketing*, 10(3). 49–72.

I: *The distribution and number of businesses according to chosen categories*

CATEGORY	Number of companies participating in research	The percentage of companies participating in research
<b>LOCATION</b>		
Komárno	9	20%
Levice	7	15%
Nitra	10	22%
Nové Zámky	10	22%
Šaľa	4	9%
Topoľčany	4	9%
Zlaté Moravce	2	4%
<b>ORGANIZATIONAL-LEGAL FORM</b>		
Incorporation	0	0
Limited Liability Company	25	54%
Enterprise of individuals	19	41%
Public company	2	4%
<b>BUSINESS FOCUS</b>		
Only food sector	26	57%
Food sector and agriculture	6	13%
Food sector and other area	13	28%
Food sector, agriculture and other area	1	2%
<b>SIZE CATEGORY</b>		
Micro business entity (0-9 employees)	17	37%
Small business entity (10-49 employees)	24	52%
Middle business entity (50-249 employees)	5	11%
<b>SALE VOLUME FOR LAST TWO YEARS</b>		
Growth	14	30%
Stagnation	22	48%
Decrease	10	22%
<b>OUTTURN</b>		
Profit	29	63%
Lost	17	37%

Source: own research and processing

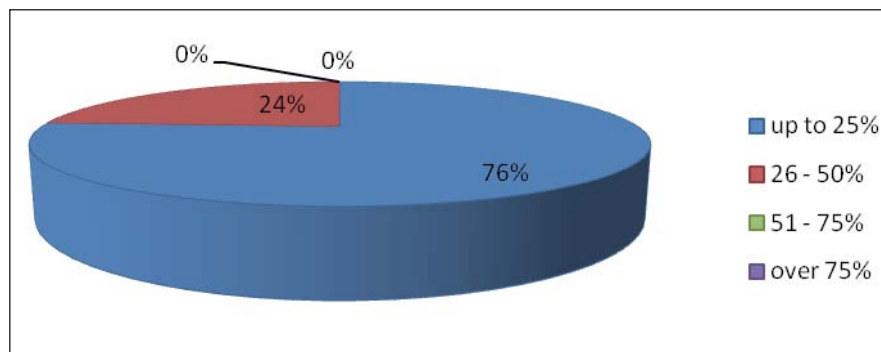
Businesses which internationalize their business often stated the environment of the European Union as a location of foreign market business, 38 companies (82.61%); this was followed by the business environment of European countries outside the EU, exactly 8 companies (17.39%). From countries of the European Union there were mostly stated neighboring countries (Hungary – 18 companies, Czech Republic – 14 businesses, Poland – 6 companies); from other Member States it was mentioned Germany – 5 companies, Italy – 3 companies, France – 2 enterprises; in rare cases there were other EU Member States. Business environment of America, Asia and other environment was not labeled by any company.

In our research we were interested in the percentage share of foreign – trading activities on overall business activity. Results are stated in figure 2.

From this figure it is clear that the most numerous group (13 firms, 76.47%) are companies whose volume of foreign – trading activities does not exceed 25% of the total business. In the second interval, i.e. the proportion of 26 to 50%, there are 4 enterprises (23.53%). Even one respondent did not labeled more than 50% of foreign – commercial business activities of the total business.

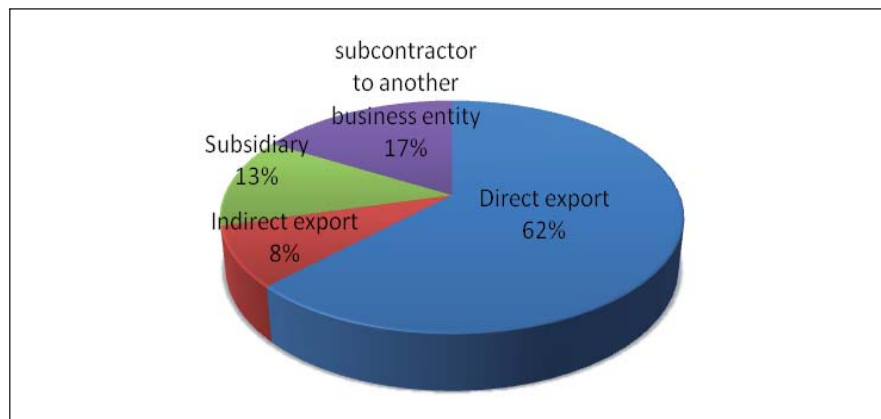
In following part of the research the way of penetration of small and medium sized enterprises in the food sector on foreign markets was examined. Companies that internationalize their business stated following ways of entering the foreign market (Figure 3):

Figure 3 shows that the most frequently used way of internationalization of business is a direct export. This response was indicated by a total of 15 companies. A second, but behind the first option significantly lagging, way of internationalization of



Source: own results and own evaluation

2: The percentage of foreign - business activities on the overall business



Source: own results and own evaluation

3: Way of business internationalization

business is a subcontractor for another business. This possibility is used by 4 enterprises. Subsidiary abroad was founded by 3 companies and 2 companies use indirect export. Some companies reported more ways of penetration the foreign markets. Possibility of license branches abroad and internationalization of franchising as a means of business was not stated by any business.

Considering the internationalization of business it is very interesting to examine the motives, causes and factors which lead the managements of companies to penetrate foreign markets. The most important factor that achieved the highest score is regular business orders, followed by fierce competition in the domestic business environment. The third most important factor is the increasing competitiveness of the business entity, a one-off trade and sufficient information about the external business environment. The last position was achieved by factor – adoption of internationalization trend and activity of institutional base.

Another issue of our research was to find out whether there are differences only random or they are statistically significant; considering the responses to individual questions about the factors that are reasons for internationalization of their business. The hypothesis that there is a statistically

significant difference between the different factors was tested.

$H_0$ : there is a difference in perception of individual factors which are reasons for the internationalization of business activities

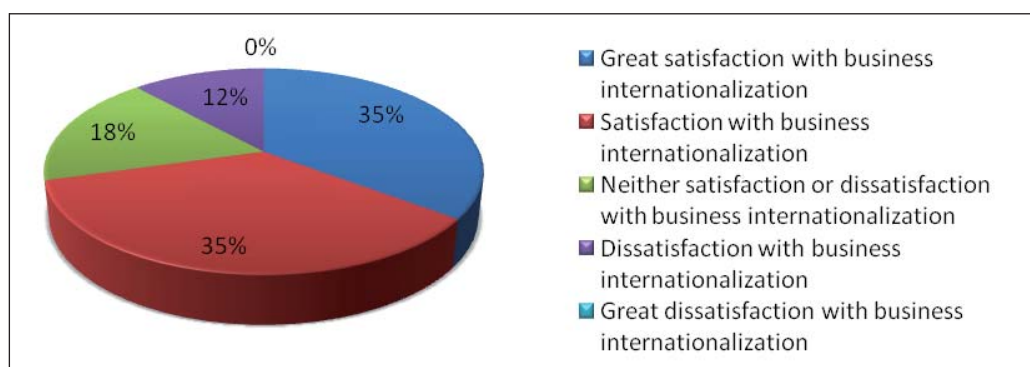
$H_1$ : there is no difference in the perception of individual factors which are reasons for the internationalization of business activities

According to the results of chi-square test ( $p = 0.002$ ) the hypothesis  $H_0$  was accepted. This means that companies are not motivated by the same considerations to the internationalization of their business.

Both objective assessment of the impact of internationalization on the business of small and medium-sized enterprises, which can be measured by indicators such as sales, territorial structure and product portfolio and also subjective assessment of satisfaction with the management of the enterprise internationalization of business were the part of taken research. The results are shown in figure 4.

Exactly 6 enterprises (35.29%) indicated that they are very satisfied with internationalization of business. The same number of businesses stated satisfaction with the internationalization of business (35.29%). Half the number, exactly 3 companies (17.65%) indicated that they are neither satisfied nor dissatisfied with the internationalization of busi-





Source: own results and own evaluation

4: *Evaluation of business internationalization*

ness. The smallest number – 2 companies (11.76%) indicated that there is a big dissatisfaction with internationalization of business.

By using chi-square test of independence the hypothesis that there is a correlation between acceptance of the internationalization of the business as a current trend in the globalizing world and the development of sales on foreign markets analyzed in the business for the last three years was tested.

$H_0$ : There is a correlation between acceptance of the internationalization of the business as a current trend in the globalizing world and the development of sales on foreign markets

$H_1$ : there is no dependency between the acceptance of the internationalization of the business as a current trend in the globalizing world and the development of sales on foreign markets

Based on the results of chi-square test ( $p = 0.3402$ ) the hypothesis  $H_0$  can be rejected and the hypothesis  $H_1$  accepted.

In response to previous questions the research attention in next section was focused on the detection of business strategy in small and medium-sized enterprises in the food industry. Respondents had the option to assign marks from 1 to 5 to individual claims; mark 1 identifies absolute disagreement with a particular argument and mark 5 identifies a full

consent. Individual responses received scores thus the sequence of responses that characterize business strategy was created. The most significant characteristic according to respondents is „efforts to identify the widest possible availability of their products to customers“. This is followed by the answer „business strategy to build understanding of the wishes of customers“. Answer with the same score is „we try to distinguish themselves from competitors' quality, range and innovation“. An interesting finding was that only 65.50% from all respondents preferred long-term business relationships what is given because of long-term goal is to maintain the strong market competition, relatively little.

Taking into consideration enterprises that do not operate on foreign markets, the research was focused on reasons why they do business only in the domestic business environment. The biggest barriers to the internationalization of firms are high business risk exposure in foreign business environments (67.65%), lack of information about foreign business environments (24.35%) and lack of contacts with foreign businesses (4.30%). Focus only on domestic business environment was labeled by 2.5% of all asked companies and 1.2% of them stated the reason – language barrier business.

## CONCLUSION

Achievements contain important information, facts and trends of environmental SMEs. Based on the findings of the present problem, there are following recommendations for business practice:

- Implement not only equity forms of entry into foreign markets but also other forms of penetration.
- Develop a comprehensive approach of marketing management.
- Flexibly respond to changes of market and customer needs.
- Expand the product portfolio.
- Penetrate the markets of new EU Member States but also the markets outside the EU.
- Systematically increase the level of international business management, their experience and business skills.
- Prioritize long-term relationships with business partners.
- Consider the possibility of establishing a comprehensive management system ISO 9001 and 14001 series.

- Actively use the expertise of an institutional base.
- Exploit opportunities of drawing support tools.

## SÚHRN

### Penetrácia malých a stredných potravinárskych podnikov na zahraničné trhy

Vo svete dochádza k vzájomnému prepájaniu národných ekonomík a k internacionalizácii hospodárskych procesov. V turbulentne sa meniacom podnikateľskom prostredí môžu reálne prežiť, rozvíjať sa a prosperovať len tie podniky, ktoré pochopia prebiehajúce trendy v svetovej ekonomike. Preto v obchodnom svete naberá otázka internacionalizácie na význame pre väčšinu firiem. Práve proces internacionalizácie je spôsob ako obstáť v tomto stále viac konkurenčnom prostredí. V predkladanom príspevku je pozornosť venovaná problematike internacionalizácie malých a stredných potravinárskych podnikov a jej náležitosti ako je spôsob obchodovania na zahraničných trhoch, percentuálny podiel zahraničných obchodných aktivít, hodnotenie podnikových aktivít internacionalizácie alebo bariéry penetrácie zahraničných trhov, s ktorými sa podniky stretávajú. Malé a stredné podniky (MSP) sú motorom slovenskej ekonomiky, generátor vývoja, inovácie a rastu, zamestnávajú viac ako 60% zamestnancov. Takmer všetky podnikateľské subjekty podnikajúce v agropotravinárskom komplexe majú charakter malých a stredných podnikov. Výsledky výskumu ukázali, že malé a stredné podniky sú úspešné v obchodovaní na zahraničných trhoch v okolitých európskych krajinách.

internationalizácia, malý a stredný podnik, podnikanie, potravinársky priemysel

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