

CZECH SMALL AND MEDIUM-SIZED ENTERPRISES AND THE SUCCESS IN FOREIGN MARKETS

L. Procházková, J. Hubený

Received: August 28, 2011

Abstract

PROCHÁZKOVÁ, L., HUBENÝ, J.: *Czech small and medium-sized enterprises and the success in foreign markets*. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 7, pp. 301–306

The importance of small and medium-sized enterprises (SMEs) in national economies has been growing. For these reasons, SME's are paid more attention. The paper deals with the success of Czech SME's activities in the foreign markets. These enterprises exploited the opportunity of extensive European Union market without internal borders and extended its activities to foreign markets. The objective of this paper is to determine characteristics related to activities carried on by small and medium-sized Czech companies in the foreign markets and then to describe those that fundamentally affect the success of these entities in the foreign markets. The characteristics are divided into five groups (a group of characteristics relating to the company, product, management, international experience and a group of characteristics relating to the target market). The enterprises' success in foreign markets is assessed by aggregate indicator of success. This indicator is monitored by multi-dimensional indicators of corporate success and evaluation of both objective and subjective. At the last part of the article due to analysis of relationship used, there are identified characteristics affecting the success of Czech small and medium-sized enterprises in foreign markets.

small and medium-sized enterprises, foreign markets, success, the characteristics of the company

The SMEs have important position in the national economies. These enterprises were source of 62.33 % of jobs in the Czech Republic in 2009. However, more important is their share at the total number of all economically active enterprises in the Czech Republic, which was 99.83 % in 2009 (European Commission, 2010). The SMEs have considerable merit in regional development. These companies are very often closely related to the region in which they are located. They affect the character of the city or town and also the living standards of its inhabitants. SMEs play an important role in the social cohesion. For these reasons SMEs is given increasing attention. The European Union market, without internal frontiers, increases the competitive pressure on these entities and simultaneously opens new opportunities for SMEs when expanding abroad. When entering the foreign markets, the

company can choose from a number of forms, including direct and indirect export, licensing, joint venture establishment, investment in production sites in the target country and franchising (Hill, 2004). The final choice of access form is influenced by a large number of factors, such as business risk in the target foreign market, global competitiveness of firms in an international environment, the potential of target market, and many others (Machková, 2009). Companies that decide to take the opportunity of free market are continually under pressure to comply the consumers' requirements. They must keep up with the pace of the market in which they expand and seek the most efficient operations (Schuller, Lidbom, 2009). Recency of this theme led to conducting the survey, whose task was to define the characteristics of the company that influence the success of Czech SMEs in foreign markets. The

aim of this paper is to familiarize with the realised survey and its results by the method of successful and unsuccessful business definition and the most important characteristics affecting the success of SMEs in foreign markets.

MATERIALS AND METHODS

To conduct the research among SMEs it was necessary to determine these entities. To identify these entities and its segmentation, a recommendation of Commission 2003/361/ES was taken into consideration. This recommendation represents a new definition of SMEs. An economic development from 2006 was taken into account, specifically price and productivity growth, when creating this new definition of SMEs.

In Tab. I there are represented criteria which are used when subdividing business entities up to 250 employees. To the category of SMEs belong organisations which have less than 50 employees and their annual turnover and/or total annual value of assets does not overcome 10 mil EUR. To this category belong also entities with 50–250 employees and their annual turnover does not exceed 50 mil EUR and/or annual value of assets does not exceed 43 mil EUR (European Commission, 2006).

Evaluating the success of SMEs in foreign markets was performed using multidimensional indicators measuring the success of international activities of SMEs defined by Peprný, Kubíčková and Rovný (2009). This system allows evaluating the success of MSPs in foreign markets through a comprehensive research. The advantage of this method is the use of indicators, we can use objective indicators and also subjective.

As success indicators of international activities of SMEs authors mention *the intensity of international activities of SMEs* (the revenue share produced by foreign activities in relation to total sales of a company), *the overall profitability of international activities of SMEs* (total profit or loss as the difference between total revenues from foreign operations and the total costs associated with foreign activities), *the relative profitability of international activities* (comparing the profitability of the activities undertaken in the domestic market and the activities operated in foreign markets), *the success of target setting* (subjective indicator assessing achievement of defining the targets in foreign markets) and *management satisfaction* (subjective indicator assessing the view of management on success of business internationalization). Complex indicator of foreign

business performance evaluation by another name *overall performance* is a summary of above mentioned indicators (Peprný, Kubíčková, Rovný, 2009).

For final success evaluation of SMEs in foreign markets a system of success evaluation of SMEs was used. Indicators are assessed by points in this system according to performance of individual enterprises. On the basis of this system, SMEs are filed into the category of “very successful” SMEs, “successful” SMEs and “unsuccessful” SMEs considering the total amount of points obtained (Peprný, Kubíčková, Rovný, 2009).

The evaluation method of success indicators and overall success evaluation of individual SMEs is mentioned in Tab. II.

When SMEs operate in international markets, it is possible to distinguish three groups of factors, which influence these conditions: internal factors, external factors (external basic conditions) of enterprise and unique influence (personality) of entrepreneur (Man, Lau, Chan, 2002).

For the research, only the internal factors were taken into consideration, i.e. firm's characteristics. Horne (1992) mentions capital and sources as internal factors, influencing the SMEs ability to compete. On the other hand O'Farrell, Hitchens and Moffat (1992) focused on price, quality, design, marketing and management when analysing the firm success. It is closer to contemporary approaches. According to Man, Lau and Chan (2002) the enterprise is characterised by vision and company strategy, managerial style and employees, internal procedures, marketing, finance and economy. There are many specific factors, such as financial, human and technological resources, organisational structure and systems, productivity, innovation, quality, image, reputation, culture, diversity of services in terms of product, flexibility and customer service (Man, Lau and Chan, 2002).

Primary data collection was conducted via structural questionnaire in order to find the characteristics, which affect the SMEs in foreign markets. At the acquired data some analysis of dependencies was carried out between the groups of characteristics (independent variables) and success i.e. overall performance of Czech SMEs in foreign markets (dependent variables). This overall performance was determined from data gathered when questioning, according to Peprný, Kubíčková and Rovný (2009).

I: Criteria determining medium, small and micro-sized enterprises

Enterprise Category	Number of Employees	Annual Turnover	OR	Annual Sum of Assets
medium	< 250	≤ 50 mil. EUR		≤ 43 mil. EUR
small	< 50	≤ 10 mil. EUR		≤ 10 mil. EUR
micro	< 10	≤ 2 mil. EUR		≤ 2 mil. EUR

Source: European Commission, 2006 (rewritten)

II: *System of success evaluation of SMEs*

			Success indicators					Overall result of fruitfulness of SMEs international efficiency	Result for statistical analysis purposes
			Targets achievement	Management Satisfaction	Overall Profitability	Relative Profitability	Intensity		
Export	Joint Venture	Direct Investment	All objectives achieved	Successful	profitable	More profitable by international activity than by domestic ones	65% and more	Sum of success indicators <9;12> very successful enterprise	Sum of success indicators
			Majority of objectives achieved	Developing well		Profitability is equal	<15–40%) <40–65%)	Sum of success indicators <5;8> successful enterprise	
			Objectives partially achieved or not achieved at all	Unsuccessful	unprofitable	Domestic activity are more profitable than international ones	Lower than 15%	Sum of success indicators < 5 unsuccessful enterprise	
Licence			All objectives achieved	Successful	profitable	-	10% and more	Sum of success indicators <7;10>	Sum of success indicators
			Majority of objectives achieved	Developing well		-	<3–6%) <6–10%)	Sum of success indicators <3;6>	
			Objectives partially achieved or not achieved at all	Unsuccessful	unprofitable	-	Lower than 3%	Sum of success indicators < 3	

Source: Peprný, Kubičková, Rovný (2009)

RESULTS AND DISCUSSION

There was conducted a survey via online questionnaire, to reach the set objectives. It was performed among 660 SMEs across the Czech Republic in the third quarter of 2010. Contact information for these entities were obtained primarily from the pages of CzechTrade and online from websites of individual subjects. This questionnaire was elaborated in a virtual lab ReLa (Research Laboratory) for gathering and evaluating primary data. Questionnaire link with covering letter was sent to each respondent via email. After refining obtained data and setting aside incorrectly filled in questionnaires, the data from 108 correctly filled in questionnaires were processed.

The survey was not targeted at all sectors of the economy. The survey was conducted among exporters doing business in the food industry, textile, clothing and footwear industry and engineering industry.

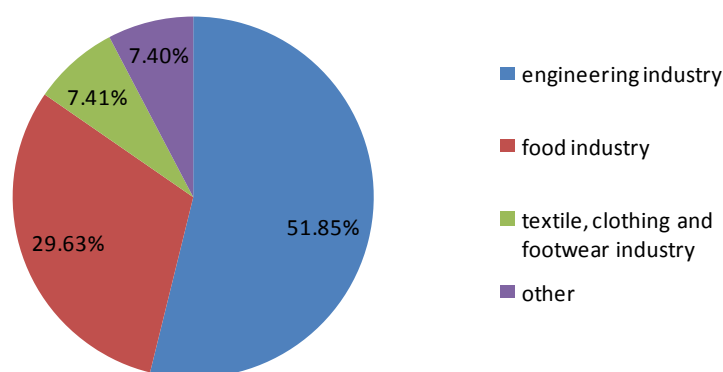
The largest share of SMEs occupied the engineering industry (51.85%). Next largest represented group was the food industry

(29.63%). The smallest proportion occupied textile, clothing and footwear (7.41%). The SMEs doing business in more of these industries represented the share of 7.40%. Representation of sectors is evident from Fig 1.

To calculate the overall performance of individual respondents and their subsequent submission in the category of “very successful”, “successful” and “unsuccessful” enterprise, there was used method of SMEs success evaluation in foreign markets, which has been already mentioned (Peprný, Kubičková and Rovný, 2009).

The first evaluated indicator in this method was the intensity of enterprises' international activities in foreign markets. According to the survey results, 25.93% of inquired Czech SMEs represent 71–100% of revenues in foreign markets, 29.63% of SMEs represent 41 to 70% of their revenues in foreign markets and the same percentage of companies represents only 0–30% of revenues in foreign markets. The revenues from abroad represent 21 to 40% at the remaining companies.

When assessing the overall profitability of SMEs in foreign markets, 92.59% of companies were



1: The share of individual sectors from the questionnaire (Source: Own elaboration)

found as profitable, while the remaining 7.41% are unprofitable, i.e. activities in foreign markets do not bring profit to these companies after deducting all related costs.

The third indicator, which was evaluated, was the relative profitability of international activities (ratio of profit from activities conducted in the domestic market and the activities carried out in foreign markets). Activities in the domestic market may be more profitable than activities in foreign markets or they can be just as profitable as foreign ones. Eventually the best situation in this case is when activities in foreign markets are more profitable than the activities in domestic market. None of the respondents assessed the equivalent profitability. Prevailing profitability from foreign activities was stated by 40.74% of SMEs. 59.26% of SMEs stated the higher profitability in domestic market.

The above mentioned indicators are objective. The following indicator, the success of setting target, is subjective indicator. Only 3.7% of respondents achieved all the objectives associated with activities in foreign markets, most of the objectives were achieved by the largest share of respondents and it is 51.58%. 29.63% of companies reached their objectives in lesser extent than expected. 14.81% of SMEs answered that had not reached any of their objectives.

The second subjective SMEs success indicator in foreign markets is the satisfaction of management with expansion into foreign markets. Respondents rated the expansion as successful (51.85%), unsuccessful now, but success is expected (37.04%) and unsuccessful (11.11%).

Based on the scoring of individual indicators according to the performance of all respondents, the complex indicator was calculated. Overall performance is the sum of all above mentioned SMEs success indicators in foreign markets. It is therefore a final sum of all obtained points by the above-mentioned indicators, which are used for statistical analysis.

In the following Tab. III there is shown an overview of respondents' success evaluation (Czech SMEs) in foreign markets. As a "very successful" was assessed 26.63% of the respondents, 48.15% of respondents were assessed as "successful." In the category "unsuccessful" were included 22.22% of respondents. As it is evident from the calculations, 77.78% of all respondents reported success in their activities in foreign markets.

Once the evaluation of respondents' overall performance on foreign markets was made, an analysis of dependencies of overall performance and individual characteristics of respondents was conducted. For the statistical analysis of the data analysis tool STATISTICA 9.0. was used. The result of this analysis was the appropriation of characteristics of business activities that affect the success of SMEs on foreign markets. The most important characteristics are listed in Tab. IV together with Pearson's chi-square test, Pearson's contingency coefficient and Cramer's contingency coefficient.

From the Tab. IV there is an obvious dependency between the success of SMEs in foreign markets and sectors of the national economy, in which SMEs operate. The largest proportion occupy companies

III: Success evaluation of Czech SMEs in foreign markets

Category of overall performance	Absolute frequency	Cumulative absolute frequency	Relative frequency	Cumulative relative frequency
Very successful	32	32	29.63 %	29.63 %
Successful	52	84	48.15 %	77.78 %
Unsuccessful	24	108	22.22 %	100.00 %
Total	108		100.00 %	

Source: Own elaboration

IV: Values of overall performance dependency on the most important characteristics of SMEs

Characteristics	Coefficients	Overall performance	Characteristics	Coefficients	Overall performance
Type of business-sector	P-chí-q.	58.57	The frequency of communication with foreign partners	P-chí-q.	50.56
	p	0.00		p	0.00
	Contingency c.	0.59		Contingency c.	0.56
	Cramer's V	0.52		Cramer's V	0.48
Subject of supply	P-chí-q.	51.93	Experience with foreign expansion	P-chí-q.	42.11
	p	0.00		p	0.00
	Contingency c.	0.57		Contingency c.	0.53
	Cramer's V	0.49		Cramer's V	0.44
Number of target countries	P-chí-q.	125.31	The objectives of export activities	P-chí-q.	48.14
	p	0.00		p	0.00
	Contingency c.	0.73		Contingency c.	0.56
	Cramer's V	0.76		Cramer's V	0.47

Source: Own elaboration

doing business in the engineering industry (51.85%), the next most represented sector is food processing industry (29.63%).

Another characteristic that influences the success of Czech SMEs in foreign markets is the subject of business. It means whether the company offers products and services, only goods or only services. The majority of respondents 55.56% export goods and services. Products are exported to foreign markets by 40.74% of companies and only 3.70% of SMEs offer services in foreign markets.

Influence of the success in foreign markets is also affected by the number of countries to which SMEs export goods and / or services. 3.70% of respondents export to only one country. The majority of SMEs (66.67%) export to 2 to 10 countries.

Frequency of management communication with foreign business partners has significant impact on success in foreign markets. 59.26% of the respondents communicate daily with foreign partners, 26.63% of respondents communicates several times a week. 3.70% of SMEs communicate only several times a year.

Another important characteristic is the experience of key employees with expansion abroad. Only 22.22% of respondents had no experience with the expansion, 14.81% of SMEs had very good experience and 40.74% of respondents had partial experience.

Also type of set objectives of export activities is a characteristics influencing success. The most common objective of these companies is maximising the sale abroad (59.26 %), another most frequent objective is achievement of certain share in foreign market (14.81 %).

In addition to the above mentioned, there are other characteristics affecting the success in foreign markets, although the relationship between success and these characteristics is weaker than in previous cases. One of these characteristics is a form of entry into foreign markets. 44.44% of SMEs stated

as a form of entry the direct export, 55.56% of firms exploit indirect export (via intermediary). During the foreign operation of these firms, there have been several changes. As a contemporary form of participation in foreign markets 74.07% of respondents stated direct export, 25.93% of firms noticed indirect export. Within 3 years after the commencement of the operations in foreign markets, 62.96% of SMEs began trading. From this number 64.71% of companies have started to operate in foreign markets within one year after their foundation. Also this fact has an impact on the success of these companies in foreign activities.

The success of companies is slightly dependent also on destinations, to which SMEs export their products and/or services. 48.15% of respondents export to EU countries, Iceland, Lichtenstein, Norway and Switzerland, 25.93% of respondents export to neighbourhood countries (Slovakia, Austria, Poland and Germany) and 18.52% of interviewed firms export to Russia, states of former USSR, states of former Yugoslavia (Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia) and Albania. Only 7.41% of the respondents focus their business activities on Slovakia.

The success of SMEs foreign activities affect also strategies pursued in this markets. Pricing strategy is pursued by 59.26% of respondents when operating abroad, 29.63% of respondents pursue the strategy of differentiation. Another feature, on which SMEs focus, is area of the market. Whether the company focuses on the entire market (33.33 %) in the destination country, market segment (48.15 %) or niche with special needs (18.52 %). Considerable reliance has also been observed between the success and the type of company's client. To final customers are determined products and / or services of 51.85% of respondents, 44.44% of SMEs focus on intermediaries (wholesalers, etc.) and 3.7% of businesses focus on agents of the importer.

SUMMARY

Frequently discussed and current topic of SMEs competitiveness led to a project titled "Identification of characteristics affecting the success of Czech small and medium-sized enterprises in foreign markets." The methodology and results of this project are presented in this paper. Important characteristics of SMEs associated with operation in foreign market were identified by studying professional sources. Other necessary data were obtained from the Czech SMEs being active in foreign markets. These exporting companies were evaluated by already mentioned success indicators based on the obtained data. There are following categories: "very successful" (32 SMEs), "successful" (52 SMEs) or "unsuccessful" (24 SMEs) SMEs with regard to their international activities. After there was conducted an analysis of the company characteristics dependence and categories in which businesses were included. This analysis found those characteristics that influence the success of Czech SMEs in foreign markets. These features include the number of target countries ($\chi^2 = 125.31$, coefficient of contingency = 0.73, Cramer V = 0.76), the industry in which firms operate ($\chi^2 = 58.57$, coefficient of contingency = 0.59, Cramer V = 0.52), the subject of supply ($\chi^2 = 51.93$, coefficient of contingency = 0.57, Cramer V = 0.49) – whether these are products and services, only goods or only services, and previous experience of employees with expansion into foreign markets ($\chi^2 = 42.11$, coefficient of contingency = 0.53, Cramer V = 0.44). Other characteristics affecting the success in foreign markets are the determined objectives of company's export activities ($\chi^2 = 48.14$, coefficient of contingency = 0.56, Cramer V = 0.47) and frequency of management communication with foreign partners ($\chi^2 = 50.56$, coefficient of contingency = 0.56, Cramer V = 0.48). At the end there are also mentioned those characteristics, influencing the SMEs success less than the previous ones. This group includes the entry form of SMEs in foreign markets, the level of language skills of key staff prior to entry into these markets, type of the chosen strategy, customer type and market segment on which the SMEs focus.

Acknowledgements

The paper is elaborated in connection with solution of the research plan of the Faculty of Business and Economics, Mendel University in Brno, No. MSM 6215648904.

REFERENCES

- EUROPEAN COMMISSION: *Enterprise and industry, 2010*: [online]. 31. 8. 2010 [cit. 2010-10-2]. Small and medium-sized enterprises (SMEs). Available from www: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm.
- HILL, C. W. L., 2004: *International Business: Competing in the Global Marketplace*. Irwin Professional Publishing. 720 s. ISBN 0-072-87395-7.
- HORNE, M. et al., 1992: Understanding of the competitive process. *European Journal of Operational Research*. 56, 1, s. 54–66. ISSN 0377-2217.
- MACHKOVÁ, H., 2009: *Mezinárodní marketing*. 3. akt. Rewritten. Praha: Grada Publishing. 200 s. ISBN 978-80-247-2986-2.
- MAN, T. W. Y., LAU, T., CHAN, K. F., 2002: The competitiveness of small and medium enterprises: a conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing*. 17, 2, s. 123–142. ISSN 0883-9026.
- Nová definice malých a středních podniků: Uživatelská příručka a vzor prohlášení, 2006: [online]. [s.l.]: European Commission, 2006 [cit. 2010-09-10]. Available from www: http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_cs.pdf. ISBN 92-894-7917-5.
- O'FARRELL, P. N., HITCHENS, D. M. W. N., MOFFAT, L. A. R., 1992: The Competitiveness of Business Service Firms: A Matched Comparison between Scotland and the South East of England. *Regional Studies*. Vol. 26, Is. 6, s. 519–533. ISSN 1360-0591.
- PEPRNÝ, A., KUBÍČKOVÁ, L., ROVNÝ, P., 2010: Metoda hodnocení mezinárodní úspěšnosti malých a středních podniků. In: *Acta Universitatis agriculturae et silviculturae Mendelianae Brunensis*. Sv. LVIII, č. 3, s. 183–189. ISSN 1211-8516.
- SCHULLER, B. J., LIDBOM, M., 2009: Competitiveness of Nations in the Global Economy. Is Europe Internationally Competitive? *Economics & Management*. s. 934–939. ISSN 1822-6515.

Address

Ing. Lenka Procházková, Ing. Jan Hubený, Ústav marketing a obchodu, Mendelova univerzita v Brně, Zemědělská 1, 613 00 Brno, Česká republika, e-mail: lenka.prochazkova@mendelu.cz, jan.hubený@mendelu.cz