

# THE FACTORS INFLUENCING THE INTERNATIONALIZATION PROCESS MANAGEMENT OF CZECH ENTREPRENEURIAL SUBJECTS

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## **Abstract**

Internationalization is a phenomenon researched intensively over the last few decades from a variety of viewpoints. Issues such as the development of international activities, and factors favoring or disfavoring internationalization have been studied for both large as well as small and medium enterprises. The problems of the internationalization of entrepreneurial activities have seen a considerable interest among a number of significant economists. Internationalization theory subsumes to two diverse approaches – stage approach and global approach. The focus of this study is on small and medium enterprises and their internationalization process. The objective of this paper is to present an overview of the internationalization process management of the selected Czech firms in the Moravian-Silesian Region. The entrance, activities and management of entrepreneurial subjects on the foreign markets can be complicated owing to a number of factors that are given by the environment on one hand and the position and situation of the entrepreneurial subject itself on the other hand.

**Keywords:** entrepreneurial subjects, internationalization, stage approach, global approach, born global firms.

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## Introduction

Majority of firms' field of activity operates on local, regional, or domestic level. These firms are a part of the global economic environment. It means that they will necessarily be influenced by all the consequent changes not only in national but also in global environment. Changing conditions and market structures demand that many companies devise new strategies, as they search for a competitive place in their home markets and take advantage of emergent market opportunities. The significance of international trade (and international entrepreneurship) not only lies in the way in which it influences the efficiency of the national economy, but also in the way it affects the country's payment relations abroad. In the Czech Republic, the country's current account is negatively affected by its permanent trade balance deficit. The Czech Republic is a country with a high share of exported and imported goods in its GDP which is typical for small countries, of which we are one. In these countries, the long-term export dynamics usually exceed the growth in GDP by two to three times. An increase in export efficiency both in goods and services is the main factor which could lead to a more rapid reduction in the foreign trade deficit.

International trade is a significant area of international entrepreneurship. International entrepreneurship is understood as company activities performed in international economic relations as well as the realization of entrepreneurial activities exceeding national cross borders. The significance of international entrepreneurship not only lies in the way in which it influences the growth of the national economy, but also in the way it affects the country's payment relations abroad. International entrepreneurship activities are significant and necessary factors of economic growth and development of world economy. Internationalization of company activities is the necessity for majority of entrepreneurial subjects. The decision on internationalization of company activities counts among key long-term strategic decision.

The problems of the internationalization of entrepreneurial activities have seen a considerable interest among a number of significant economists. Internationalization theory subsumes to two diverse approaches – stage approach and global approach.

The entrance of a company on the market itself allows for a significant opportunity, so long as said company possesses the proper readiness which grants it the chance to develop entrepreneurial activities (business) in the international markets. To take advantage of the opportunities requires sufficient preparation and information about the specifics and particularities of the market.

The focus of this study is on small and medium enterprises and their internationalization process. The objective of this paper is to present an overview of the internationalization process of the selected Czech firms in the Moravian-Silesian Region.

### Internationalization of Entrepreneurial Activities

The internationalization of entrepreneurial activities is represented by geographic expansion of entrepreneurial activities cross national borders (Lopez & Kundu & Ciravegna, 2009).

The problems of the internationalization of entrepreneurial activities have seen a considerable interest among a number of significant economists such as Johanson (Johanson & Vahlne, 2009; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), Andersen (Andersen, 1993), Ruzzier (Ruzzier & Hisrich & Antoncic, 2006) and Lopez (Lopez & Kundu & Ciravegna, 2009) who have fundamentally contributed to the rethinking of the concept of internationalization theory (Baronchelli & Cassia, 2008). Internationalization theory subsumes to two diverse approaches – stage approach and global approach.

According to the stage approach, companies start selling products in their home markets and then they sequentially look at new countries (Baronchelli & Cassia, 2008). Three main models can be identified within the stage approach: the Product Life Cycle Theory by Raymond Vernon (Vernon, 1966), the Uppsala Internationalization Model (U-model) and the Innovation-Related Internationalization Models (I-models).

According to Vernon (Vernon, 1966) the internationalization process of the firm follows the development of the product Life Cycle: companies usually introduce new products only in their home market and then they eventually go abroad in the product maturity phase.

The stage approach of internationalization process of the individual firms is mostly associated with the research of Johanson and Wiedersheim-Paul and Johanson and Vahlne. Johanson and Wiedersheim-Paul distinguish between four different modes of entering an international market, where the successive stages represent higher degrees of international involvement (Johanson & Vahlne, 2009; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975):

1. No regular export activities
2. Export via independent representatives
3. Establishment of an overseas sales subsidiary
4. Overseas manufacturing units

Work of Johanson and Wiedersheim-Paul has probably also been the inspiration for the development of the Innovation-Related Internationalization Models. The Innovation-Related Internationalization Models explaining the internationalization process from an innovation-related perspective. The internationalization decision is considered as an innovation for the firms. The models are derived from Roger's stages of the adoption process (Andersen, 1993).

Many small and medium enterprises do not follow incremental stage approach but is often reported that they start their international activities from their birth: they enter different country at once, approaching new markets for both exporting and sourcing (Baronchelli & Cassia, 2008). Literature on internationalization defines them as born global firms. The born global firms are defined as "the firms that view the world as their marketplace from the outset and see the domestic market as a support for their international business" (McKinsey & Co., 1993). The born global firms are successfully competing with larger multinational companies and their subsidiaries established in different geographic area. Companies approach international markets from start up due to new external conditions, as advances in technology regarding production, transportation and communication and due to entrepreneurs with more international experience and foreign market knowledge (Baronchelli & Cassia, 2008).

### Objectives

The objective of this paper is to present an overview of the internationalization process of the selected Czech firms in the Moravian-Silesian Region. The internationalization of the entrepreneurial subjects has been researched using the method of questioning. The research method was oral questioning and main instrument was questionnaire. The research included 67 entrepreneurial subjects from a wide range of industries. The sample was composed of firms already implementing entrepreneurial activities on international markets. 67 firms were selected intentionally; all of them were contacted personally. The total of 67 valid questionnaires were received, which provided the response rate of 100 per cent. The research was carried out between January 2010 and February 2010 in the Moravian-Silesian Region.

*Hypothesis 1:* Target foreign market knowledge relates positively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

*Hypothesis 2:* The level of costs connected with the realization of foreign entrepreneurial activities relates negatively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

*Hypothesis 3:* The level of knowledge and skills of managers relates positively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

*Hypothesis 4:* The character of product relates positively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

*Hypothesis 5:* Total available resources of firm relates positively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

*Hypothesis 6:* The desire for trying entrepreneurial activities on international markets relates positively to the decision-making process regarding the beginning of entrepreneurial activities on international markets.

### **Methodology**

The dependent variable in this study is the decision-making process with respect to the beginning of entrepreneurial activities on international markets.

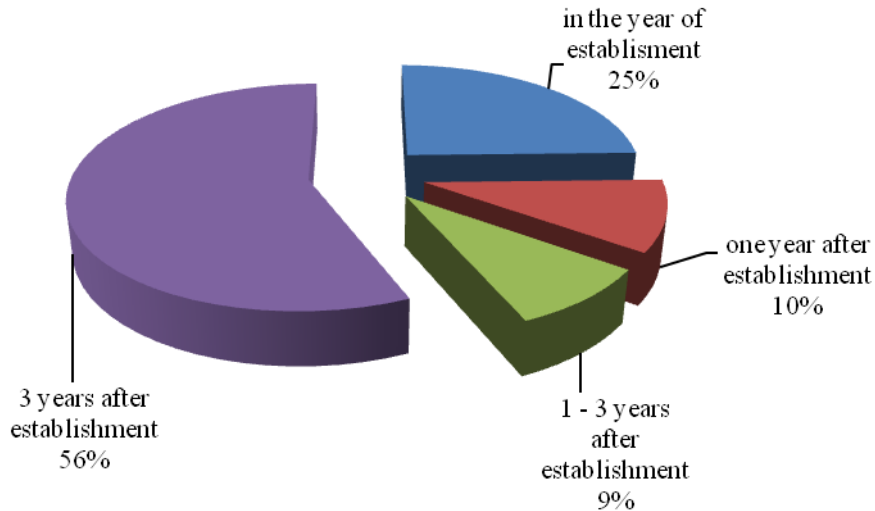
The independent variables in this study are: the target foreign market knowledge (coefficient alpha = 0,85), the level of costs connected with the realization of foreign entrepreneurial activities (coefficient alpha = 0,78), the level of knowledge and skills of managers (coefficient alpha = 0,78), the character of product (coefficient alpha = 0,75), total available resources of firms (coefficient alpha = 0,84) and the desire for trying entrepreneurial activities on international markets (coefficient alpha = 0,75). All questions were asked using the five-point Likert Scale (5 = strongly agree to 1 = strongly disagree).

The control variable in this study is the beginning of entrepreneurial activities on international markets.

### **Findings and discussion**

The research shows that 56 per cent of all small and medium enterprises with the headquarters in the Moravian-Silesian region enter international markets three years after establishing the

business. These findings document the dominance of the stage approach regarding the subjects investigated.



Source: personal research

**Figure 1.** The Beginning of Entrepreneurial Activities on International Markets Related to Firm Establishment

The hypotheses were tested through two sets of analyses. First the factor analysis of the multiitem scales related to independent variables and the control variable was performed. Two factors with eigenvalues greater than 1 were extracted: the target foreign market knowledge and the level of costs connected with the realization of foreign entrepreneurial activities.

Then the ordinal logistic regression was used to examine the incremental impact of the independent variables on the decision-making process about the beginning of entrepreneurial activities on international markets.

**Tab 1.** Means, Standard Deviations, and Correlations

	mean	s. d.	1	2	3	4	5	6	7
market knowledge	4,36	0,69	1,00						
costs	4,31	0,87	0,01	1,00					
knowledge and	4,00	0,90	0,29*	-0,13	1,00				

skills									
product	4,10	0,99	0,21	-0,11	0,10	1,00			
resources	3,99	0,99	-0,08	0,09	0,05	0,03	1,00		
desire	2,84	1,38	-0,34**	0,17	-0,18	0,01	0,19	1,00	
initiation	6,49	8,98	0,02	0,01	-0,02	0,00	0,04	-0,09	1,00

N=67 \*p<0,05 \*\*p<0,01

Source: personal research

Before running the regression model collinearity diagnostics it were performed by examining the bivariate correlations (Table 1).

**Tab 2.** Factors significantly contributing to the decision-making process with the respect to the beginning of entrepreneurial activities on international markets

	mean	rank
Target foreign market knowledge	4,36	1.
Level of costs connected with the realization of foreign entrepreneurial activities	4,31	2.
Character of product	4,1	3.
Level of knowledge and skills of managers	4	4.
Total available resources of firm	3,99	5.
Desire for try entrepreneurial activities on international markets	2,84	6.

Source: personal research

The data in Table 2 and 3 indicate that the most important factors are the target foreign market knowledge and the level of costs connected with the realization of foreign entrepreneurial activities.

Hypothesis 1 claims that a level of target foreign market knowledge leads to the decision-making process regarding the beginning of entrepreneurial activities on international markets. This hypothesis is supported.

According to Hypothesis 2 the high level of costs connected with the realization of foreign entrepreneurial activities leads to the decision-making process regarding the beginning of entrepreneurial activities on international markets. This hypothesis is supported.

The influence of the level of knowledge and skills of managers (Hypothesis 3) on the decision-making process regarding the beginning of entrepreneurial activities on international markets is not supported.

Hypothesis 4 claims that the character of product leads to the decision-making process regarding the beginning of entrepreneurial activities on international markets is supported.

Hypothesis 5 claims that a total available resources of firm lead to the decision-making process regarding the beginning of entrepreneurial activities on international markets. This hypothesis is supported.

Hypothesis 6 claims that the desire for trying entrepreneurial activities on international markets leads to the decision-making process with the respect to the beginning of entrepreneurial activities on international markets. This hypothesis is not supported.

### Conclusion

Recent years have brought a significant number of approaches to the realization of entrepreneurial activities. The most dominant and frequent seem to be two approaches distinguished according to the procedure and realization of individual stages made by entrepreneurs: the stage and global approach.

The results show that the process of internationalization of entrepreneurial activities with small and medium enterprises in the Moravian-Silesian Region is realized both by the stage and global approach; however, the stage approach has a dominant role in 56 per cent of entrepreneurs.

The entrance and activities of entrepreneurial subjects on the markets can be complicated owing to a number of factors that are given by the environment on one hand and the position and situation of the entrepreneurial subject itself on the other hand. Factors that significantly contribute to and influence the process of entering international markets are the target foreign market knowledge and the level of costs connected with the realization of foreign entrepreneurial



activities. The knowledge play in the process of the internationalization of entrepreneurial activities key role.

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