

## Motivation for Small and Medium-Sized Entrepreneurs for Internationalization on the European Union Market



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### ABSTRACT

*This study sums up a circumstances related to motivation of SMEs for internationalization process. It provides overview of certain essential areas like European Charter for Small Enterprises, Legislation harmonization etc. The article also provides insights in the ICT sphere as opportunity for SMEs internationalization. The article watches out pitfalls for SMEs going to be internationalized. It sets methodology distinguished by six blocks. Study is finalized by case study of internationalized SMEs.*

KEW WORDS: *entrepreneurship, SMEs, internalization of SMEs*

### Introduction

Business of SMEs plays an important role in the European Union. The European Union as a market is characterized by the freedom of movement of goods, services, workers and capital, where businesses can compete on fair terms. Economic barriers between the various national member states are still being broken down. Nearly every day, the European institutions launch initiatives promoting the internal market and measures to enhance the competitiveness of European enterprises to become internationalized. It is essential that SME entrepreneurs know these rules, which shape today's economic reality. Beyond any doubt, those who have

thoroughly acquainted themselves with Europe's rules and their application will gain a head start. This applies equally to SMEs and to big companies.

### **How European Charter for Small Enterprises Supports and Encourages SMEs**

Small and medium-sized enterprises will continue to assume an important place in the enlarged Europe. They create new jobs. They are highly innovative and dynamic. SMEs are central to the "Lisbon Strategy", or the goal of re-forming Europe into a dynamic and competitive knowledge society.

Ensuring stable business climate is the best support for SMEs. The European Charter for Small Business, from June 2000, called on the member states to support and encourage SMEs in ten subject areas for the European Commission, taking in consideration all small business needs: [1]

#### *1. Education and training for entrepreneurship*

European Union commits to work along the certain lines for action, taking due consideration of small business needs. Europe nurtures entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all school levels.

Specific business-related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities. Intention is to encourage entrepreneurial endeavours, and develop appropriate training schemes for managers in small enterprises.

#### *2. Cheaper and faster start-up*

The costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.

#### *3. Better legislation and regulation*

National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead to the improvement of current practices in the EU. New regulations at national and Community level should be screened to assess their impact on small

enterprises and entrepreneurs. Wherever possible, national and EC rules should be simplified. Governments should adopt user-friendly administrative documents.

#### *4. Availability of skills*

To endeavour to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.

#### *5. Improving online access*

Public authorities should be urged to increase their electronic communication with the small business sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply.

#### *6. More out of the Single Market*

Small businesses are feeling the benefits from the reforms underway of Europe's economy. The Commission and Member States must therefore pursue the reforms underway aiming at the completion in the Union of a true internal market, user-friendly for small business, in critical areas for development of small businesses including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.

#### *7. Taxation and financial matters*

Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives. Entrepreneurs need finance to translate ambitions into reality.

#### *8. Strengthen the technological capacity of small enterprises*

To create information and business, support systems, networks and services which are easy to access and understand, and relevant to the needs of business; ensure EU-wide access to guidance and support from mentors and business angels.

#### *9. Successful e-business models and top-class small business support*

To encourage small enterprises to apply best practice and adopt successful business models that enable them to truly flourish in the new economy.

*10. Develop stronger, more effective representation of small enterprises' interests at Union and national level*

To complete a review of how the interests of small businesses are represented at EU and national level, including through the social dialogue.

### **Legislation Harmonization**

The free movement of goods is one of the fundamentals of the European single market. This is only possible if there are standards that are recognized within the whole Union. This, it must not be that a different product has to be produced for each market.

By means of mutual recognition, technical barriers between member states are being eliminated. Goods and services that satisfy the rules of one member state can in theory also be sold in the other member states. This applies to all goods and services that are not subject to European harmonized legislation.

Industrial products with a high degree of product safety fall under the European harmonized legislation. This because for reasons of public safety, health or environmental protection, member states can derogate from the principle of mutual recognition. There are two types of harmonization:

- product-specific legislation, such as for motor vehicles and foodstuffs;
- legislation that contains only the essential requirements but no detailed technical specifications, such as for toys, gas appliances and radio and telecommunications equipment.

This latter type of harmonization is hallmarked by a new approach. This is that Europe does not give a prior approval but merely carries out checks once the goods are already on the market. Depending on the risk profile of the product, either the manufacturer itself issues a statement of conformity or an accredited agency issues a certificate of conformity. **The system is therefore founded on a great trust in business.**

The member states also have to transpose these Community provisions into their national laws. In addition, they also have to create independent, recognized institutions that can certify the conformity of products.

The member states have already incorporated their legislation on industrial standards into their national laws. The European Commission monitors this transposition process via periodic reports.

Companies are faced with international market on a daily basis. Confidence in Europe and the “*acquis communautaire*” is great. This perhaps explains why businesspeople are preparing for internationalization of their companies. Nonetheless, structured preparation is necessary, since the impact of big international European market on companies that do business is significant.

The ongoing harmonization of company law has also contributed to the practical realization of the freedom of establishment of international company. A common market with free competition requires that companies from various member states have more or less the same rights and obligations which would enable them to become international.

### **Societas Europaea**

The European Company or Societas Europaea has the abbreviation: SE. The abbreviation SE is to be also added after a company’s name, like PLC or Ltd. The Regulation therefore is of direct effect in all the member states. The Regulation allows companies established in more than one member state to -incorporate in the form of a single company within the EU. A European Company is then controlled by one system of rules regarding its functioning and the publication of information. The intention is to greatly reduce the administrative burden in each member state. A recurring criticism of the European Company, however, is that the tax rules have not been harmonized, as a result of which the benefits of the Regulation are limited. Any limited company (such as, e.g. a UK Ltd, French SA, a Dutch BV or a German AG) can re-incorporate as a European Company provided it has its registered office and principal management in the EU and:

- it merges with one or more existing public limited companies that have their registered offices and head offices within the EU, provided that at least two of them are governed by the law of different member states; *or*
- together with one or more companies that have their registered office and head offices in the EU, it forms a holding SE, provided that each of at least two of the companies

- are governed by the law of different member states *or*
- have had a subsidiary for at least two years that is governed by the law of another member state *or* a branch that is situated in another member state; *or*
- together with one or more companies that have their registered offices and head offices in the EU, it forms a subsidiary SE by subscribing for its shares, provided that each of at least two of the companies
  - are governed by the law of a different member state *or*
  - have had a subsidiary for at least two years that is governed by the law of another member state *or* a branch that is situated in another member state; *or*
- it is a public company which has its registered office and head office within the EU and transforms itself as an SE provided that it has had a subsidiary company for at least two years that is governed by the law of another member state.

## **Methodology**

This methodology comprises a number of different building blocks. It allows businesses to manage the internalization process in a structured manner so as to ensure compliance with the (new) rules and benefit from any opportunities resulting from international market accession.

The approach distinguishes six building blocks:

1. *Impact study*: the first step consists in mapping out the undertaking in order to examine where the international environment will have an impact. Subsequently, the legal framework is identified. Thus, a gap analysis can be drawn up, by which it can be determined where the new conditions affects the undertaking. On the basis of this gap analysis, a project plan is drawn up and the actions to be taken within the various departments are defined (purchases, sales, production, environment, logistics, finance, ICT, HR and legal affairs).
2. *Programme management*: the efforts needed to bring the undertaking into line with the international market are reflected in a “programme” respecting all good project management principles including milestones and deliverables. This

programme is best managed centrally. The project leader is the pivotal point and manages the programme across the various departments of the company.

3. *Systems and process alignment*: the various changes to systems and processes in the undertaking as a consequence of European market accession have to be attuned to one another.
4. *Change management*: changes have to be well prepared for and guidance has to be given. The staff, customers and suppliers have to be aware of the changes that may occur. This can be done by means of information sessions, training and appointing an in-house or external adviser for front-line assistance.
5. *Knowledge management*: knowledge is important. Businesses need reliable information in order to work out developments in the gap that is to be bridged. Businesses can collect this information themselves, use the services of trade associations or advisers. To help ensure that the new tax legislation is valid in a correct and timely manner, and that European environment is business-friendly.
6. *Business strategy*. Bearing in mind future changes connected with internationalization of the company, it is important for business to reflect strategically on their operations in Europe. In which of the 27 European countries do they want to or need to have operations? Economic, fiscal and legal considerations should not be lost sight of when defining business strategy.

### **Internationalization via Information and Communication Technologies - Opportunities for SMEs**

European Union initiative includes measures for easing access to the ICT market while protecting the rights and privacy of consumers. Member states have already outlined their policy lines and the legislative framework with regard to ICT. In addition, they are making extensive investments in introducing ICT into government, education and the private sector. With help from European funding, the ICT infrastructure is being further improved. By means of education programmes, the SMEs are also being made more familiar with ICT. This is also increasing the possibilities for electronic trade. Since automation is not yet very far advanced, there is little resistance to replacing current systems with new technologies.

ICT makes communication with suppliers, trade partners and customers easier. European businesses can take advantage of existing trading platforms based on the internet and thus conduct electronic trade with partners in other member states.

International SMEs should be open to new commercial practices. They can get new ways of doing business introduced. They can exercise influence on commercial practices and the underlying application software. The SMEs are in the course of adapting quality standards in order to be able to **get international certification** from institutes. Up-to-date technical skills are available within the whole EU. ICT developments can thereby be developed offshore.

### **Pitfalls to be Watched Out for by SMEs When Choosing New International Trading Partners**

Trade partners are required to adjust their information systems to the EU rules regarding trade obligations, taxation, security and privacy. If the business model changes, for example by outsourcing transport, then the internal business processes also have to be adjusted. At the same time, the integrity of and supervision over existing commercial practices and systems have to be maintained, if only to avoid creating hiatuses in switching from the old to the new manner of working.

**Looking for a trading partner** in an unknown international surrounding is not always easy. For advice, one can always consult “interest groupings” or specialist advisers. But sometimes such groupings represent the whole industry sector and not just a limited group of private businesses.

Trade agreements and trade activities are already possible before the governing framework is fully operational. In this, it is important that any transitional provisions are complied with and the final rules become effective as quickly as possible. Only where the rules have been definitively set down in the company will the chance of fines or damage to the business’s reputation be smaller.



## **Case Study**

Our first survey was conducted in November 2006. It appeared that the vast majority (80%) of Czech SME businesses still had not thought about the consequences and internationalization possibilities. This appears to accord with another survey conducted in May 2009.

This second survey was carried out among 100 SMEs in the Czech Republic. It appeared that they underestimate not only the impact of bigger competition on the European market but also the preparatory costs and the time necessary to get their business internationalized.

Of interest in this regard is the fact that SMEs that were aware of the internationalization were thinking more strategically and not only focusing on the impact on their daily operations.

## **Conclusions**

In order to improve internalization of the SMEs it is needed to:

- increase the access of small enterprises to financial services,
- identify and remove barriers to the creation of a pan-European capital market
- improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital
- improve the access for SMEs to the structural funds and welcome initiatives by the European Investment Bank to increase funding available to start-ups and high-technology enterprises, including equity instruments.
- to strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies
- to foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focused on the commercial application of knowledge and technology
- develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises

- foster the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions

Actions at national and regional levels aimed at developing inter-firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

The SME's internalization process does never end. It is the permanent task for SMEs, businesses of Europe, national governments, professional associations and providers of corporate services to inform business appropriately and show them the way.

In conclusion, a range of various issues for SMEs will be passed into practice. As a result, a company can know what to expect and what it has to do to manage its business to prepare for the internalization.

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Article history: Received: 12 January 2010

Accepted: 19 March 2010