
Export Patterns of Small and Medium Sized Enterprises

Pavla Breckova¹

Abstract:

The purpose of this article is to provide better understanding of the export behaviour of Czech small and medium sized enterprises in certain aspects and to follow the development in this area.

The intention of this paper is to provide the topical overview of the patterns and barriers faced by SMEs in their path to internationalization, and to discuss changes in SMEs' perception of international business doing over time.

This article is based on an original research among 500 SMEs active in international business. For comparison, the article uses also the previous studies. Some of the interesting findings were appreciated export support tools and the inessential ones, as well as the changes in obstacles perceived in export.

The main contribution of this article is in providing exploitable overview of export patterns of SMEs and in their systematic monitoring based on annual export surveys.

Keywords: *Export, SME (small and medium sized enterprises), export obstacles, export support.*

JEL Code: *D22, M16.*

¹University of Finance and Administration (VSFS, www.vsfs.cz), e-mail: pavla.breckova@vsfs.cz.

She is long term academically focused on the segment of SMEs and institutionally involved in the Association of SMEs and crafts of the Czech Republic (Vice-chair of the Board of Directors). She has been actively involved in dozens of surveys focused on the entrepreneurial environment with an accent on the SMEs segment.

1. Introduction

Czech Republic is an open economy with strong relations with foreign countries. The share of exports reached almost 36% of GDP in 2016. Compared to the year 2004, when the Czech Republic was admitted to the European Union and started to benefit from the single internal market and common commercial policy, its openness increased by more than 10 percentage points (MIT, 2017a). In 2017, foreign trade benefits from solid growth in Europe and from favourable foreign demand, and it contributed to the dynamic growth of the domestic economy as a whole. International trade yet has not been a domain of multinational companies for several decades, and although the current economic model (free market) in the Czech Republic has a handicap in the form of a disruption of tradition over the period of real socialism, it can be stated that the Czech export companies, in most factors, do not differ from the foreign ones.

Havlíček *et al.* (2015) have stated that foreign trade becomes not only an extraordinary opportunity for small and medium-sized enterprises to strengthen their positions but that it is undoubtedly also a big risk, which needs to be managed in advance. The form of international activities can take many forms, which have long been the subject of academic interest. However, the aim of this article is not to follow internationalisation levels or precisely defined forms of involvement of enterprises in international activities.

The aim is to present the results of the survey focused on mapping foreign trade activities (export in any form) among small and medium-sized enterprises in the Czech Republic, tracking export destinations, barriers faced by SMEs, and what they consider supportive and helpful. The article is intended to provide an up-to-date picture of the situation of SMEs active in foreign trade. At the same time, it compares and discusses the results with the results obtained in the previous years' surveys.

2. Literature Review

Over the past decades, the exporting activities of SMEs have been extensively analysed in international business studies. Various contributions have explored barriers and stimuli for exporting activities (Leonidou, 2004; Leonidou *et al.*, 2007), as well as the main determinants, the underlying processes and the effects on performance of firms' decisions to set up international activities (Jones and Coviello, 2005; Pangarkar, 2008).

In the Czech environment, however, there was a lack of a practically useful overview of what export markets are preferred by small and medium-sized enterprises and how these preferences evolved over time (year-on-year). Also, the barriers to international trade perceived by enterprises of the SME category and their development over time have not been sufficiently mapped, so the author of this

article actively participates in annual surveys on this subject. Information and support for export in the SME segment, and the perception of some of the instruments of this support by the enterprises themselves are the least studied areas. Although this area is only a part of this article, it still produces interesting findings, which are verified year-on-year.

Information generally seem to play more and more important role in business. Today, however, it seems that the problem is not the lack of information, but rather its excess, and the problem arises with its classification and relevance. Similarly, the survey showed that enterprises in international trade do not really lack information much (80%) and the value of contact with the market is the most appreciated. Some academic sources believe that Compared with larger firms, the information generation possibilities of export managers in SMEs are more limited, and the use of personal contacts is relatively more important (Ried, 1984; Samiee and Walters, 1990). Technology changed dramatically since eighties and brought large changes also in information flows. Still, it cannot be said that they lose importance, rather vice versa, while it is not just the case of small and medium-sized enterprises. Personal contacts, or relevant information from these contacts, are the biggest driving force of business.

Export support (and support effectiveness) is a topic that research has not yet been dedicated to so extensively compared to other export aspects. As can be seen from various Government documents and assessment reports from ministries, state institutions and politicians believe that informative websites with general macroeconomic information or, for example, business missions (such as an accompaniment of a politician to a foreign country) are the best export support instruments.

However, the results of the survey of SMEs presented here show the opposite. This is also proved by this study (Haddoud *et al.*, 2017). The study finds that whilst both informational and experiential export promotion programmes improved all forms of SMEs' relationships, only experiential forms had an indirect effect on export performance. Further, only relationships with foreign buyers had a positive impact on export performance. The findings also illustrate that while informational GEPPs (government export promotion programmes) have a stronger effect on relationships quality with local businesses, experiential GEPPs have a stronger impact on relationships quality with foreign buyers. These findings add to the current literature by highlighting the different roles informational and experiential programmes have on SMEs' activities.

Export barriers have been studied academically over a long period of time from different perspectives. For example, the classification of export barriers among SMEs, according to Leonidou (2004), who divided the barriers into internal and external with other subcategories, is a familiar model. Interestingly, like the Czech SMEs, the scientist ranks the procedural (bureaucratic) and governmental

(institutional) barriers as essential external barriers. The results of the survey also intersect with the typology of SME export barriers created by Arteaga-Ortiz and Fernandez-Ortiz (2010). These count Knowledge barriers, Resource barriers followed by Procedure and Exogenous barriers to be the most important barriers to the export of SME enterprises. The Czech SMEs survey revealed the need for information on export territories, which is not the same as knowledge of the environment, but it is a necessary prerequisite leading to the knowledge. However, they require specific, relevant information, i.e. not general or macroeconomic. Other authors dealing with barriers to the export of small and medium-sized enterprises include, for example, Arndt *et al.* (2012), who investigated German enterprises, or Kneller *et al.* (2011) in the UK business environment. He defines "trade cost" as a major export barrier, which is again confirmed by the up-to-date survey presented in this article.

3. Material and Methods

In the Czech Republic, there was a total of 262,908 enterprises (legal entities) in the SME category (0–249 employees) of the total number of 1,144,417 registered entrepreneurs in 2016 (the latest available statistical data). In total, for legal entities and natural persons (self-employed) with a number of 0–249 employees, there was a growth of 3,717 enterprises compared to 2015, naturally with a higher rate of natural persons (self-employed) (MIT, 2017b). The same source also states the share of small and medium-sized enterprises in the total number of active business entities in 2016, which was 99.8%.

The share of value added of SMEs in 2016 was 56.2% and the share of SME employees in the total number of employees of the business sector in the Czech Republic in 2016 was 59.1%. As far as foreign trade is concerned, the share of SMEs in total export was 30.0%. However, in terms of the nature of SME's production, they often act as subcontractors of large enterprises, so if large enterprises export, subcontracts of SMEs enter foreign trade statistics as exports of large enterprises. The information capacity of available foreign trade statistics data on SME export share is therefore partly limited by the fact that part of the export (indirect trade) cannot be assigned to a particular exporter (MIT, 2017b).

The presented survey was carried out on a sample of 500 small and medium-sized enterprises operating in the Czech Republic that are active in foreign trade. Respondents were specifically small and medium-sized enterprises (5–250 employees) which export at least part of the production/services. The data collection took place in May 2017 and telephone interviewing of enterprises (computer assisted telephone interview) was the main method of the survey. Respondents responded to the questions contained in the 15-minute structured questionnaire. The data collection was carried out by the reputable Ipsos Agency, the results were verified

by the Czech Statistical Office. Full questions and survey results² including graphics are available on the website of³ the Association of Small and Medium-sized Enterprises of the Czech Republic.

The areas studied were mainly in the area of preferred export destinations of the Czech SMEs and their changes over time, as well as barriers in foreign trade and perceived competitive advantage in these markets. Last but not least, the survey focused on the support for SMEs in foreign trade, especially on the part of the state.

4. Results and Discussion

Czech Republic economy ranked among the fastest growing economy of the European Union in 2016 (MIT, 2017a). This was reflected in the success of the foreign trade of small and medium-sized enterprises. The interconnection of the Czech Republic with the economies of the European Union countries has traditionally been very considerable, so within these countries, the largest volume of Czech export and import has traditionally been achieved. Mutual trade turnover is 76% of total trade in goods (MIT, 2017a).

4.1 Preferred Export Destinations of Czech SMEs

The survey has repeatedly shown that the EU countries (99% of the Czech SME exporters) are traditionally by far the most preferred markets. This is due to the geographic proximity of these markets as well as due to the membership of the Czech Republic in the European Union (EU). In addition to the EU, Czech exporters most often export to the CIS (Commonwealth of Independent States)⁴, North America, the Middle East, and other Asian countries. It seems that the CIS markets are reviving, with the workhorse being Russia once again, which, after several years of drop and the period of EU sanctions, is growing by 21% year-on-year according to the latest statistics for the first four months. 5% more companies export to the CIS and the Middle East when compared to last year, in other countries the share is similar to 2016.

²AMSP CR survey with the title "Export of SMEs" available at http://amsp.cz/uploads/dokumenty_2017/eNL/Ipsos_pro_AMSP_Exporteri_06_2017_.pdf. The author of this article was directly involved in this research.

³AMSP CR (Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic), www.amsp.cz, an influential non-profit non-governmental representative of this segment of companies, mapping regularly the business environment, making analyses and consulting the new legislation with an impact on small and medium sized businesses. The author of this article has been involved in the Board of Directors of AMSP CR since 2008 and actively participates in the market surveys.

⁴The Commonwealth of Independent States (CIS) is an organisation comprising 9 of the 15 former Soviet Union republics: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan.

The survey has further revealed that a half of the enterprises exports to 6 or more countries. A quarter of the enterprises exports to a maximum of 3 countries. Not uninteresting is the fact that the entire 15% of the exporting enterprises surveyed exports to more than 21 countries. The share of companies exporting to at least 11 countries increased by 7% compared to last year. The intention to expand exports is dominated by Germany, where 6% of the enterprises plan to expand their export. Germany has long been not only the largest export territory, but it is also very stable from the point of view of exports. In the last year-on-year comparison for the first four months of the year, exports to China are very good, and in the USA, high added value is achieved. SMEs increasingly diversify risk by spreading the overall turnover to more countries.

4.2 Obstacles in International Business Perceived by SME and their Competitive Advantage

The survey conducted on SMEs has shown that enterprises consider regulation and bureaucracy (13%) and rising costs associated with it to be the biggest problem of export. Regulation/bureaucracy and the need to comply with regulations or local customs were major export issues in the last year's survey (2016).

In contrast to last year, the topic of exchange rate and exchange rate risks appeared more and more frequently, probably in connection with the events related to the Czech crown. In view of the major media discussions regarding the termination of the intervention system, a large proportion of exporters started to be secured in recent months, which has reflected in increased costs and the increased rate of uncertainty. Foreign exchange interventions were initiated by the Czech National Bank due to fears of deflation in order to weaken the Czech crown and keep its exchange rate close to CZK 27/EUR at the beginning of November 2013.

From the viewpoint of the open assessment of export barriers, the survey showed that the companies perceived fragmentation of information to be the problem rather than its shortage, they lack consistency of information about the market and location. Enterprises also lack the response from the Czech Embassies in some countries, pointing to the long-term problem of the fluctuating quality of economic diplomacy services in our country. As a significant assistance and export support, enterprises would for example appreciate a website where it would be clearly and coherently outlined what export documentation is needed for a particular country. However, an interesting result of the survey was that the vast majority (80%) of enterprises do not lack any information to export.

Competition was also the often stated "barrier" of export between companies (7%). On the other hand, they consider the quality of their products/services and their special character to be the biggest competitive advantage of the enterprise on foreign markets. Supply flexibility is considered to be equally important and appreciated by foreign customers. An example of respondents' open answer was, for example: "The

production in the Czech Republic is an advantage now – people have already had enough of China, it is a question of quality and service". We can say that enterprises are self-confident, they bet on the quality of their products and do not rely on the fact that low prices would be the main competitive advantage. The fact that entrepreneurs incline to a move towards higher value-added, based on special services, is an important fact.

4.3 SME Support in Foreign Trade

While state support may always be a matter of controversy, certain support instruments exist in the Czech Republic. The survey showed that more than one third (34%) of exporters know the instruments of export support, whereas most often these are official participations of the Czech Republic in exhibitions and fairs. Compared to the previous year, knowledge of state support instruments increased slightly (30% in 2016). Other instruments that enterprises are familiar with include "Single Contact Points" or "Anti-dumping Investigations". Compared to the previous year, the knowledge of anti-dumping investigations fell by 10%, while Market Access Database knowledge rose by 11% and the knowledge of the customs suspension increased by 9%. We may observe that enterprises are increasingly focusing on specific products of government departments, yet services on the basis of the support of business presentations abroad are still a priority to them.

Support for presentations abroad (43%), information service (38%) and export insurance (33%) showed to be the most important state supportive service for export. This was closely followed by the perceived importance of the assistance service abroad (32%). It is clearly shown that, unlike often even persistent pushing of business missions by the state administration, for SMEs, business missions are not the most important support instrument. They were marked as "absolutely unimportant" by 39% of respondents.

On the contrary, small and medium-sized enterprises require information and marketing services, personal support at the export destination, and financial export instruments. In the presence of foreign representatives in the enterprise's territories, knowledge of the environment and know-how are the most appreciated. Linguistic skills and business contacts were also significantly perceived advantages of these representatives. This concerns, in particular, Czech Trade, the state agency, which, with regard to the institutional sphere, is the most natural partner for SMEs in the long-term (30%). Entrepreneurs consider it as proven and independent state support. Support for participation in exhibitions and fairs (71%) is the most frequently used service of this agency, followed by export consultations (46%) and finding a business partner (45%).

In general, however, enterprises assess the government's export support services rather as average, the biggest problem being the relevance of services for a particular business. The survey also shows that commercial banks still maintain a strong

position (22%). By far the most often, however, enterprises rely on themselves: information on the activity of foreign trade and all their activities are solved by their own people (63%).

5. Conclusion

The survey conducted in 2017 on a sample of 500 small and medium-sized enterprises active in foreign trade has produced some interesting findings. The trade of small and medium-sized enterprises with Russia seems to revive, which, after several years of drop and the period of sanctions, is now growing at a double-digit pace. Compared to last year five percent more enterprises export to the Middle East, which indicates that small and medium-sized enterprises are eager to trade even with geographically more remote territories. Half of SMEs export to 6 foreign markets.

Regulation/bureaucracy and the need for compliance with regulations or local customs proved to be the strongest perceived barriers to foreign trade also year-on-year. It can be argued that high bureaucracy is generally the main barrier of domestic SMEs, which may be reflected in their lower performance.

Implications for state institutions include, in particular, a strong appreciation of business missions as a totally ineffective instrument of export support for SME segment. On the contrary, it would be appropriate to strengthen the area of assistance with marketing and promotion and search for suitable business partners/distributors, as well as providing easier access to contacts in the export territory. Smaller enterprises do not have marketing specialists for all territories and they expect from the state (or rather from the export agency of the Ministry of Industry and Trade, called Czech Trade, mentioned earlier in the survey) good local knowledge and an assistance with finding business partners.

Acknowledgment:

This academic text has been affiliated to the internal research project with institutional support – University of Finance and Administration, Prague, CZ (RVO 7773 – Topical trends in financial markets' development).

References:

- Arndt, C., Buch, C.M. and Mattes, A. 2012. Disentangling barriers to internationalization. *Canadian Journal of Economics/Revue canadienne d'économique*, 45(1), 41-63.
- Arteaga-Ortiz, J. and Fernandez-Ortiz, R. 2010. Why Don't We Use the Same Export Barrier Measurement Scale? *Journal of Small Business Management*, 48(3), 395-420.
- Břečková, P. and Havlíček, K. 2013. Leaders Management and Personnel Controlling in SMEs. *European Research Studies Journal*, 16 (4), Special Issue on SMEs.
- Breckova, P. 2016. SMEs Export Activities in the Czech Republic and Export Risk Insuring. *European Research Studies Journal*, 19(1), 84-92.
- Haddoud, M.Y., Jones, P. and Newbery, R. 2017. Export promotion programmes and SMEs'

-
- performance. Exploring the network promotion role. *Journal of Small Business and Enterprise Development*, 24(1), 68-87.
- Havlicek, K., Breckova, P. 2015. Export risk management of SME. Prague, University of Finance and Administration, Edition EUPRESS. ISBN 978-80-7408-113-2.
- Havlíček, K., Thalassinou, I.E. and Berezkinova, L. 2013. Innovation Management and Controlling in SMEs. *European Research Studies Journal*, 16(4), 57-70, Special Issue on SMEs.
- Jones, M.V. and Coviello, N.E. 2005. Internationalisation: Conceptualising an entrepreneurial process of behaviour in time. *Journal of International Business Studies*, 36(3), 284-303.
- Kneller, R. and Pisu, M. 2011. Barriers to exporting: what are they and who do they matter to? *The World Economy*, 34(6), 893-930.
- Leonidou, L.C. 2004. An analysis of the barriers hindering small business export development. *Journal of Small Business Management*, 42(3), 279-302.
- Leonidou, L.C., Katsikeas, C.S., Paliawadana, D. and Spyropoulou, S. 2007. An analytical review of the factors stimulating smaller firms to export: implications for policy-makers. *International Marketing Review*, 24(6), 735-770.
- Ministry of Industry and Trade, MIT. 2017a. Development tendency of economy, industry and foreign trade (Hlavní tendence vývoje ekonomiky, průmyslu a zahraničního obchodu). Available at: https://www.mpo.cz/assets/cz/zahranicni-obchod/statistiky-zahranicniho-obchodu/2017/10/99-Hlavni-tendence_2017_09_18--bila.pdf
- Ministry of Industry and Trade, MIT. 2017b. Report on SME development and their support (Zpráva o vývoji malého a středního podnikání a jeho podpoře). Available at <https://www.mpo.cz/cz/podnikani/male-a-stredni-podnikani/studie-a-strategicke-dokumenty/zprava-o-vyvoji-maleho-a-stredniho-podnikani-a-jeho-podpore-v-roce-2016--232792/>
- Pangarkar, N. 2008. Internationalization and performance of Small and Medium-sized Enterprises. *Journal of World Business*, 43(4), 475-485.
- Ried, S. 1984. Information acquisition and export entry decisions in small firms. *Journal of Business Research*, 12(2), 141-157.
- Samiee, S. and Walters, P.G.P. 1990. Influence of firm size on export planning and performance. *Journal of Business Research*, 12, 141-157.
- Wach, K. 2014. Internationalisation and Globalisation as a Wider Context of Europeanisation from Micro and Macroeconomic Perspective. *Horyzonty Polityki*, 5(10), 11-30.