

THE IMPORTANCE OF SME'S IN THE CONTEXT OF INTERNALIZATION

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Abstract:

SMEs have become increasingly important in our society as providers of employment opportunities and key players for the well-being of local and regional communities. During the last decades, the global business scene and the European one in particular have enhanced international competition affecting both enterprises with an export profile and enterprises focusing on the domestic market. Some of the main drivers for the increasing internationalization of SMEs are rooted in political, technological and economic changes.

Key words: SME, internationalization, know-how

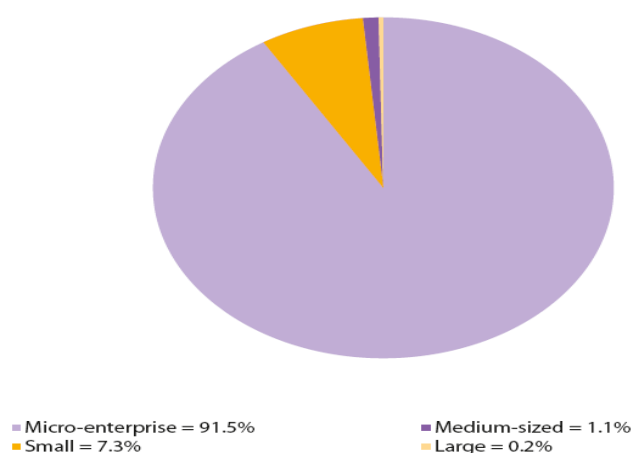
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SME's in Europe

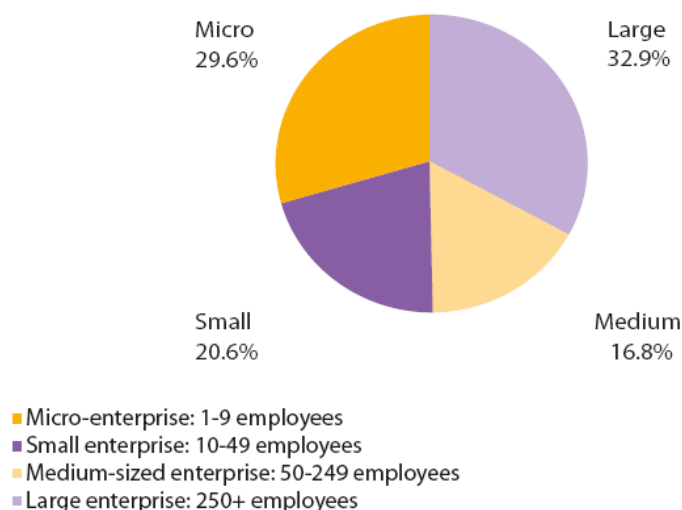
Companies classified as small and medium-sized enterprises (SMEs) are defined officially by the EU as those with fewer than 250 employees and which are independent from larger companies. Furthermore, their annual turnover may not exceed €50 million, or their annual balance sheet exceeds €43 million. This definition is critical in establishing which companies may benefit from EU programmers aimed at SMEs, and from certain policies such as SME-specific competition rules. SMEs may be divided into three categories according to their size: micro-enterprises have fewer than 10 employees, small enterprises have between 10 and 49 employees, and medium-sized enterprises have between 50 and 249 employees.

European SMEs represent: 99.8% of all European enterprises 67.1% of private-sector jobs more than 80% of employment in some industrial sectors such as the manufacture of metal products, construction and furniture.

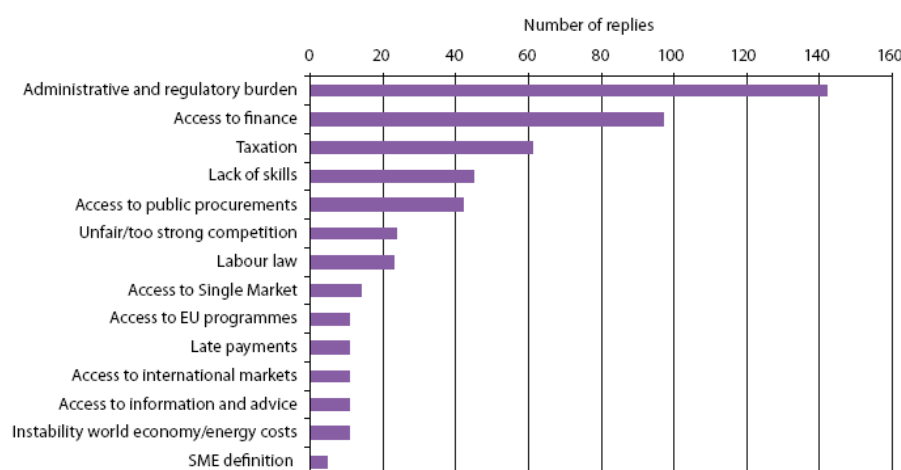
SME's are the driving engine of European economy:



SME's hold up to 67% of the private sector jobs:



Although SME's represent 98% of the total number of companies in the European Union and are the driving engine of the European economy they face a series of problems which are revealed by the European Commission Report



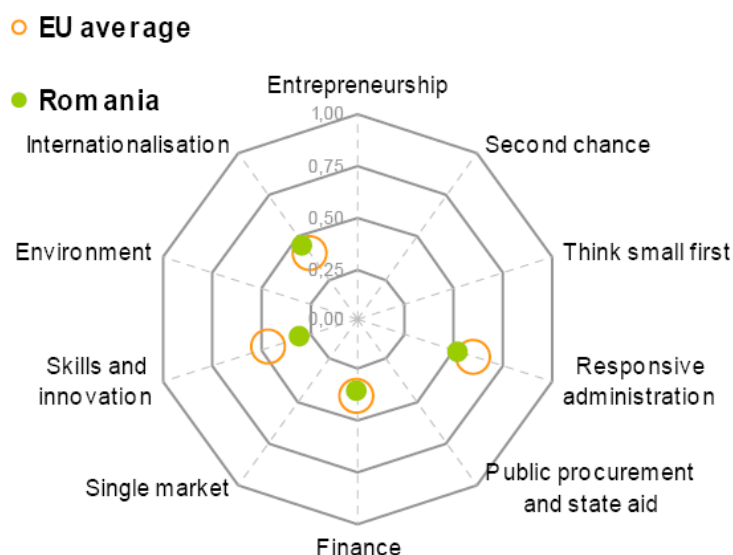
SME's in Romania

There are approximately 19 SMEs per 1000 inhabitants in Romania, which is considerably below the EU-27 average of almost 40. In line with this figure, the available data point to a slightly less prominent role of SMEs in the local economy as compared to the EU average, as measured by number of employees and the added value.

	Number of enterprises			Number of persons employed			Value added (MEUR)		
	Value	%	EU-26 average	Value	%	EU-24 average	Value	%	EU-26 average
Micro	364.359	88,4%	91,8%	813.516	20,1%	29,6%	3.748	14,5%	21,1%
Small	37.187	9,0%	6,9%	747.499	18,5%	20,6%	4.184	16,2%	19,0%
Medium	8.898	2,2%	1,1%	902.400	22,3%	16,8%	5.399	20,9%	17,8%
SMEs	410.444	99,5%	99,8%	2.463.415	61,0%	67,1%	13.331	51,5%	57,9%
Large	1.860	0,5%	0,2%	1.574.932	39,0%	32,9%	12.554	48,5%	42,1%

In Romania, in the areas for which data could be collected the figures are mostly below the EU average.

Regarding the internationalization, Romania's performance in this category stands up well to the EU average. In fact, this holds true for almost all indicators in this category. The only notable upward deviation relates to the relatively high share of inputs purchased abroad by SMEs (23% versus 12% for the EU). On the other side, the only significant deviation downwards relates to the share of SMEs gaining income from subsidiaries and joint ventures abroad. As for the share of SMEs exporting outside EU-27 in total SMEs, it more or less resembles the EU-average



The benefits of SMEs internationalization

Several different motives can be identified for the internationalization of SMEs indicating a diversified approach to internationalization.

Access to new and larger markets is clearly the most frequent motive for internationalization for the SMEs that export or have establishments abroad. This reflects the possibilities of expanding the market for a company's products by exporting or creating subsidiaries or joint ventures abroad.

For SMEs that have only imports, access to new and larger markets, is not a more frequent motive than access to know-how and technology or high production costs on the domestic market. This indicates, that the decision to actively go abroad does not simply arise as a subsequent stage to import (having a foreign supplier), but rather the different internationalization types are related to different strategic goals.

The larger market may refer to the market for the company's own products or it may refer to the market for purchasing raw materials or other input products or services. For importers, the motive of access to larger markets may be different according to the interpretation of 'market'. Importing products, components or services may allow the company to gain larger market shares on the domestic market for its own products or, engaging in import of goods or services for production purposes may be a way to access larger input markets and thereby lower input prices.

Access to know-how or technology is the most frequent motive for pure importers and the second most cited motive for SMEs with more complex forms of internationalization. Also among SMEs that only export, more than one third do it - at least partly - to acquire knowledge. The decision to go international is thus not merely motivated by a potential to increase sales. The internationalization is also an important

means of gaining know-how and insight into new useful technologies as an input to strengthening the competitiveness of the SMEs.

The access to new and larger markets motive, as perceived by the SMEs themselves, may actually correspond to one of two different types of more fundamental drivers for internationalization:

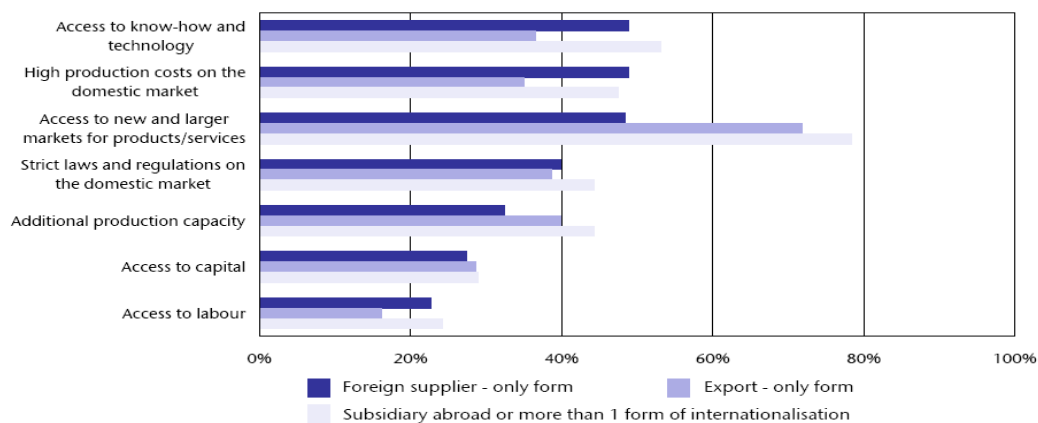
- Push drivers - the domestic market is too limited for a highly specialized or niche product or the competition on the domestic market is too intense
- Pull drivers - typically when foreign buyers make unsolicited demands for a product, but also more frequently, a major customer requests that the company accompanies them onto foreign markets.

In the perspective of the value chain - and the increasing competition between manufacturing, distribution and trade - access to new and larger markets as a motive for internationalization has wider implications. In order to make their distribution and trade activities more cost-effective and to have direct access to market information, some manufacturing SMEs and larger enterprises establish their own distribution channels. This is also a way to control the entire distribution process. Through this process, distribution and trade will become an integrated part of the activities of the manufacturing industries. Examples are found within fashion production/fashion retail as well as production and retail of clothing and electronics.

A co-operative arrangement based on the motive of access to larger markets for one partner and the motive of access to know-how and technology for the other partner may also become an interesting model of internationalization for more SMEs in the future. Such an arrangement could consist in one partner providing market access and the other partner providing insight into product development. This can be associated with the increasing cooperation between different businesses within the value chain. A Swedish survey³⁶ describes that closer cooperation between buyers and sub-suppliers in the forest and paper product industry is in progress, as the buyers are increasingly involved in product development. In return, the sub-suppliers get access to the buyer's global distribution network for marketing their own products. In addition, the Swedish survey reveals a strategy of decreasing dependence by small enterprises on larger enterprises, a conscious strategy on the part of the SMEs to lessen their vulnerability and secure long-term profitability.

Internationalization is also very often initiated in order to gain access to cheaper sub-suppliers and/or additional production capacity. This activity oriented towards the management of production has its roots in the manufacturing industries where activities have been outsourced internationally due to high production costs or a strategic decision to focus on core skills with the result that other activities have been outsourced.

The main reasons for internationalization of SME's



Problems regarding SME's internationalization

When analyzing the different types of drivers and motives SMEs may have for internationalization, it may be useful to look into the reasons why non-internationalized SMEs abstain from internationalization. The group of non-internationalized SMEs may be divided into two categories: those who find internal or external barriers too high, and those who would not even consider going international.

When it comes to the group that never considered internationalization, their hesitations are often not based on barriers as such. Some may consider internationalizing irrelevant for their line of business and some believe the domestic demand to be sufficient both now and in the future. Some SMEs (or founders) may simply not have any ambition to grow beyond a certain size, or beyond the domestic market. Different national studies indicate that there is a relatively widespread belief among SMEs that the home market is large enough both now and in the future.

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