THE ROMANIAN SME’S DIFFICULTIES IN THEIR INTERNATIONALIZATION PROCESS

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ABSTRACT. The role of SMEs in the Romanian economy is indisputable. They are those that provide clearly continue development of the industry. The development of this sector has brought a problem regarding the internationalization of their activities. This process is very important for improving their competitiveness, export being considered vital to increase Romanian SMEs activity. Therefore, the purpose of my paper is to investigate and describe the internationalization process of SMEs from Transylvania, what methods they applied for developing this process and understand which are the main barriers which limited this process.

Keywords: SME’s, internationalization, strategies, weaknesses, difficulties

Introduction

The economic reforms applied in Central and East European countries have to emphasize on the role of SMEs because they are able to create an important number of new jobs, to stimulate competition for larger firms alike, to create a diversified and flexible industrial environment, to stimulate innovation, to improve industrial relations and to provide a superior working environment for employees inside of a national economy. Based on these features, the SME sector was considered a key factor for assuring the restructuring of the old centralized economies and maintaining economic dynamism.

After 1989, the Romanian economy restructuring should be understood in the general context that of the transition from a state owned economy to a decentralized economy. This was possible only by stimulating a large number of entrepreneurs which increased the competition for the large companies, have implemented innovations and contributed in this manner to a more performing industry.

During the last eight years Romanian economy knew an accelerating pace of growth, with a 5 to 8 % rate of the GDP growth, which placing Romania among the most dynamic European economies. Due to this situation the volume of foreign direct investments grew substantially as the preparations for E.U. integration of our country intensified.

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In 2006, as a result of business environment improvement and of the positive effects of unique income tax quote, the volume of foreign investments grew with 57.5% with a total of 34512 million Euros. More than 70% of this is direct investments in Romania, especially in industry, as well as Greenfield investments, financial operations, insurance and commerce (wholesale and retail). As a consequence, after the first year of E.U. integration the rate of economic growth was of 6%, industry maintaining a growing trend this being a sign of economy’s reindustrialization process consolidation.

In Romania, more than 99% of the active enterprises are small and medium size enterprises, the largest share being in the commercial services sector. There is a strong polarization of the SMEs on fields of business. Thus the first 7 activities: wholesale trade, retail, construction, wholesale trade and retail, maintenance and repair services for companies, food and beverages and transport, made about 70% of the total turnover. Of the total number of SMEs, microenterprises remain a representative segment.

A study on the competitiveness of Romanian SMEs for 2006, conducted by the National Authority for the SMEs Council (NASMEC), has revealed the accelerated but not sufficient evolution trend of this sector. Thus, while in the EU, from demographic point of view, there are over 50 SMEs per 1000 inhabitants, in Romania we have around 26 SMEs / 1000 inhabitants, but according to zone the weight differs. In Bucharest the average is 48.56% of SMEs per 1,000 inhabitants, followed by the Nord-West, West and Center regions, with demographic intensities of over 25 SMEs/1000 inhabitants.

### Table. 1.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of active enterprises</td>
<td>313508</td>
<td>317555</td>
<td>322188</td>
<td>359399</td>
<td>404339</td>
<td>442868</td>
<td>471952</td>
<td>499857</td>
</tr>
<tr>
<td>SMEs total</td>
<td>311077</td>
<td>315149</td>
<td>319816</td>
<td>357071</td>
<td>402090</td>
<td>440714</td>
<td>469919</td>
<td>487682</td>
</tr>
<tr>
<td>Microenterprises share in total SMEs (%)</td>
<td>88.03</td>
<td>87.39</td>
<td>87.2</td>
<td>87.02</td>
<td>88.14</td>
<td>88.34</td>
<td>88.01</td>
<td>88.01</td>
</tr>
</tbody>
</table>


Regarding the development of SMEs, according to NASMEC, in the first half of 2007 the number of newly established companies over the first half of 2006 increased by 9.15%, the number of canceled companies subtracting by 74.18%.
during the same period. The results of SMEs in the first half of 2007 improved compared to the same period of 2006, the number of SMEs which have made profits increasing by 4-5%, while those who experienced loss subtracting by 0-5%. Positive developments recorded in the first half of 2007 both the investments made by SMEs (6-8%) and the exports volume of the private sector (12-15%).

2008 meant a reducing of the international activity for the Romanian firms, exports decreased by 24.3%, while imports with more than 37.4% compared to 2007. In January 2009 exports reached 1912.4 million euros while imports 2488.8 mil. Euros. Those who felt that the greatest decline were SMEs, whose export value in January 2009 represented a decrease of 47% from the previous year.

**Literature Review**

For long time the internationalization activity of small companies wasn’t be seen as habitual and appropriate process for their development. This idea was indurated also by the fact that in many countries the internal market was large, offering real and profitable opportunities for SME’s continuous growth. But the intensification of globalization phenomenon determined a shift in the SME’s behaviour pattern. The importance of internationalization activity of a firm grows in the last 20 years along with global competition all around. Others important factors which determined internationalization process were the integration of European markets, development of IT technologies, increase of e-commerce and transportation infrastructure. For this reason many researchers started to study this process from different points of view: strategic management, organization theory, international management, marketing and small business management.

Regarding the small firms international activities there are several classical areas of research like foreign market expansion and entry modes, motives which influence the international decision-making, which are completed by more recent topics like favorable and unfavorable factors for internationalization activity of the firm (Ruzzier et al, 2006), relations between import and export activity (Karlsen et al., 2003), factors with impact on firms’ performance (Kuivalainene et al., 2004).

Known as so-called Uppsala internationalization model (Johanson and Vahlne, 1977), the dynamic theoretical model argues that the present state of the firm is the important factor in explaining future changes and subsequent stages which is represented by the firm’s market commitment to foreign market and the market knowledge about foreign market and operation.

The market commitment is formed by two factors: the amount of resources needed to make the investment in the market and the difficulty for transforming them in practice. Developing international activities required also general knowledge about markets operations and market specific knowledge. In conclusion for getting this market knowledge the primary objectives of the firms is to hire personnel with international experience, able to interpret information from inside the firm and from the market. The change aspect was been see as a commitment
decision to respond to uncertainty and opportunities on the market. The Uppsala model stated that firm’s starts with less risky forms of internationalization in close markets and gradually increases its commitment and its geographical reach based on a process of experiential learning (Eriksson, 1997). According to this model, lack of knowledge is an important obstacle in the development of international operations and such knowledge can be acquired mainly trough operation abroad. The gradual acquisition of knowledge increase foreign commitment.

Similar stages models were developed based on Uppsala theory and tried to explain better the evolution of internationalization process. Moberg and Palm came with their “Six steps model”, which describe internationalization phenomenon as a process with six steps (see figure no.1): motives for internationalization, possible resources for internationalization, the marketing commitment for internationalization, ways for entry into the international market and the moment for doing this.

In the decision process for starting internationalization activities of a firm there are many factors: internal competition, degree of external demand, decline of the domestic market, plus of resources or the cost of them, which influence the company in this direction. Stewart and McAuley (1999) explain that the factors which influencing internationalization activity could be separated into proactive (those that pull the firm into foreign markets as a result of opportunities available there) and reactive (those that push a firm into foreign markets, often because opportunities are decreasing in the domestic market) factors. Proactive factors explain that the companies’ choice to internationalization is influenced by its interest in exploiting unique products, competences or opportunities of the foreign market. Reactive factors describe a passively action or respond to the internal and external pressure.

There are many motives for which the firms enter the international marketplace, but this decision is adopted in connections with the firms’ strengths. Even if the firm has a unique product that is wanted by the international market or a new technology for making product there are some problems that should be clarify through SWOT analysis: which are the firm resources, if these enough for the internationalization process, what opportunities support the firm development, which is the cost for this process and what performance could be expected. The SWOT analysis will bring forward firms’ capabilities in the main areas of activities: personnel, marketing and production systems for doing these.

In the third step firms should choose the product or services to offer into the international market. The internationalization’ success depend on what products were offered to the market and how well were these differentiated from the competition’s offer. This decision is correlated with the market selection. Seeking new markets is also a common motive for international expansion. Beside a larger demand, a new international market can offer to firms the capability to achieve economies of scale, lowering the firms’ average costs, improvement of general revenues. Also for their success, firms should focus on the cultural, legal, social, and economical differences among markets. They must analyze and understand these differences before entering into foreign market.
After market selection the management team of firm should decide how will internationalize their activities. Hill (2007) describes six ways for entering into a foreign market. The best way is a relative decision depending on the firm’s size, age, resources, commitment to market and the market itself. Generally at the beginning firms will export to a closer market from both geographical and cultural points of view. When they are well known in the foreign market firms are interested by licensing contract manufacturing or management contracts. When they acquire knowledge regarding foreign market and expect a high potential profit decide to select a foreign direct investment. Major factors which influence this gradual process of internationalization are the uncertainty of different markets and the fear of investing resources where market knowledge is limited. So, firms with less capital resources or personnel capabilities may be unable or unwilling to commit themselves to large capital investments and may prefer an entry mode that economizes their financial and managerial commitments, such as licensing. The choice of entry mode is often a balanced between the level of risk taking, the potential rewards to be obtained from a market, the degree of resources needed to compete effectively and the level of control that a firm seeks into the foreign market. Furthermore the choice of market-entry time is determined for the product success or failure.

Holmung et al (2007) come with the idea that import activity could be considered as a vehicle to develop overseas business and suggest links between importing and exporting. They considered that imports activities are focused on operation while exports on marketing. Even if there is no consensus regarding ways to measure the effect of internationalization on SMEs performance, Mc Dougall and Oviatt (1996) remarked that firms which had an intensive international
activity also reported a superior performance in terms of both relative market share and return on investment (ROI). Bloodgood et al. (1996) found that international activity was marginally significantly associated with ventures that reported higher profits. Even if a causal relationship between internationalization and firm’s performance has not been established in longitudinal studies made by different researchers, one consideration come up for sure: starting activities in the international markets, especially export, drives to strategic approach of the business and deepen elements of planning.

The Methodology and research objectives:

The paper is concerned with studying the specific factors that influenced Romanian SME’s behavior to be involved in international operations. As many Romanian entrepreneurs associate the Romanian accession to the European Union with new business opportunities, and based on other theoretical and empirical studies about international business and internationalization process our intention is to obtain answers to the following questions: Which is the order of appearance: importing or exporting operations?; Which are the main motives for developing those types of operations and how much the entrepreneurs are interested to increase their intensity in the future?; What kind of changes is needed for the improvement of firm capabilities?; How do international operations contribute to the achievement of growth strategy and to firm development?

In this respect we analyzed the evolution of the SMEs sector from North-West Region of Romania and used secondary data from National Institute of Statistic, National Council of Small and Medium Sized Private Enterprises in Romania and National Agency for Small and Medium Sized Enterprises and Co-operatives. Furthermore, for a better understanding of this behaviour, we have conducted a survey based on questionnaire about the international activities of the Transylvanian SMEs with their entrepreneurs or managers.

Sample characteristics

Our sample comprises 226 SMEs from North-West Region of Romania (Cluj, Bihor, Sălaj, Satu-Mare, Bistriţa-Năsăud, Maramureş). Romania has a service oriented economy and this is shown also by our sample structure, the majority of the companies acting in the field of services (38.3%) and commerce (37.2 %). In terms of economic results, our sample companies have registered in 2008 an average turnover of 2.3 million Euros.

SMEs sector from Nord-West Region

North-West Development Region (Northern Transylvania) is considered, after the Bucharest-Ilfov Region, the most attractive in terms of economic development of
Romania's regions. This is due to the labor market and wages, to foreign investment, and private environment and market competition and also to the input of modern technology. Relevant is that the service sector has come to occupy a large share of total regional economy, nearly 50%, with significant industries trade and tourism.

Table 2.

The structure of enterprises based on activity and number of employees

<table>
<thead>
<tr>
<th>Main field of activity</th>
<th>Number of employees</th>
<th>Production (%)</th>
<th>Services (%)</th>
<th>Commerce (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-9</td>
<td>15.38</td>
<td>51.28</td>
<td>38.89</td>
<td>37.62</td>
</tr>
<tr>
<td></td>
<td>10-49</td>
<td>50.00</td>
<td>38.46</td>
<td>47.22</td>
<td>44.55</td>
</tr>
<tr>
<td></td>
<td>50-249</td>
<td>34.62</td>
<td>10.26</td>
<td>13.89</td>
<td>17.82</td>
</tr>
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</table>

Regional economy is growing with a dynamic growth in recent years in sectors like construction, textile industry, industry of machinery and equipment. Here are nearly all industries and an increasingly important number of major foreign companies, some of them located in industrial parks in the region - Tetarom Cluj, Bors, Jibou and Satu-Mare.

The driver of exports and also the main importer in North-West Region (Northern Transylvania) is the Bihor county, followed by the counties of Cluj and Satu Mare, while the counties of Bistrita-Nasaud and Salaj, which are predominantly rural, take very little part in all foreign transactions of the region. The development potential of the region is based on services and access to a well-qualified workforce, which led to attracting foreign investors which took over factories and have opened industrial parks in the area. Genuine drivers of regional economic growth small and medium enterprises are around 65,000 in 2006, 13.78% of the total number of companies registered in Romania, contributing with about 11% in the turnover achieved by SMEs in Romania. In terms of labor productivity, North-West region is in second place after Bucharest-Ilfov.

Table 3.

Turnover, number of employees and labor productivity in North-West Region

<table>
<thead>
<tr>
<th></th>
<th>Turnover (mil. lei)</th>
<th>Turnover structure (%)</th>
<th>Number of employees</th>
<th>Number of employees structure (%)</th>
<th>Labor Productivity (thousands lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nord-West</td>
<td>39400</td>
<td>10.82</td>
<td>351242</td>
<td>13.61</td>
<td>112.173</td>
</tr>
<tr>
<td>Total</td>
<td>364000</td>
<td>100.00</td>
<td>2580927</td>
<td>100.00</td>
<td>141.035</td>
</tr>
</tbody>
</table>

Source: Romanian SMEs White Charter, 2008
The findings and discussions:

Firm growth is one of the main motives for internationalization activities. After getting a significant market share in domestic market, firm increasingly look abroad for new opportunities. Many studies on export decisions show that firms are stimulated to exploit the potential for extra growth, profits and sales resulting from exporting (Leonidou, 1995). An objective for our research was to identify which are these motives for internationalization and what group of factors, proactive or reactive, plays a more important role in determining the internationalization process of the Transylvania’s SMEs. In order to have a more specific and correct image of this aspect we detached factors which could be determinant for import and for export. Thus, for importing came in the first position the lack of domestic resources and the continuous increasing of domestic market. These reactive motives were indurate by some favorable factors identified by the firms in: lower prices on foreign market and closed cooperation with foreign partners.

![Factors determining import activities](image)

Fig. 2. Factors determining import activities

Regarding the export activity of Transylvania SME’s resulted that the main motives for starting this process are successful cooperation with foreign partners and growth opportunities of external market. In his studies Dunning has argued that it is inherent for firms, for increasing their international spread, to rely more and more on cooperative agreements. When firms entry into international marketplace they need to identify suitable partners abroad in order to get the complementary resources they need, as well as to save time and money. Our study’s results reveal that the Romanian SME’s are depending on chance to identify an external partner, having few information about the external markets e.g. competitors, consumer behaviors and needs, rates and prices etc. The entrepreneurs seem to have a more proactive behavior when they decided to start an international activity. Also in a high proportion they consider that for internationalization development play an important role the opportunities identified in the environment, as: firm capacity to increase production system and improvements in communication and transportation infrastructure.
Even if many researchers found out that the first international operation developed by SMEs is exporting, for our sample result the contrary, first action was inward operation for more than 70%, 28 have both international operations. In the top of the countries with which are developed these activities are: Italy, Hungary, Germany, Austria and Spain, countries which are also representative for foreign investments in our economy. Importing operation represent a large part of the Romanian SMEs businesses, thus for almost 44% of sample firms ponder of import in total turnover are more than 50%. The conclusion that import activity is much more developed by Romanian SMEs comparing with export is indurate by the higher average percent of the import activity in the total turnover of the firms of 51,4% than export with an average of 32,8%. For determining the relation between importing and exporting activities we tested the hypothesis about the appearance order, resulting a strong correlation between import and export.

Table 4.

<table>
<thead>
<tr>
<th>Correlation between inward and outward operations</th>
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<tr>
<td>N = 209</td>
</tr>
<tr>
<td>Correlation coefficient</td>
</tr>
<tr>
<td>First operation</td>
</tr>
<tr>
<td>Second export</td>
</tr>
<tr>
<td>Second import</td>
</tr>
<tr>
<td>First operation</td>
</tr>
<tr>
<td>Second export</td>
</tr>
<tr>
<td>Second import</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)
This means that for those firms which started international operations with importing, this activity influences their capabilities and offers them an important international experiences for developing after that export activities or international cooperation.

Last 2 years brings important opportunities for the Romanian SMEs, which indicated in a high proportion (64%) a positive evolution of their overall performance. Also for the following 2 years the managers and entrepreneurs are optimistic 57% from them indicated as strategic priorities a moderate growth of the business activity. Our intention was to see also if this strategic development is connected with the international activity and for this reason we tested correlation between company’s general objectives and the actual opportunities offered by international market.

SME sector is one of the major actors in the development of a dynamic economy and of exports, as well as the share in GDP. In any case, the SME sector is still limited in terms of technical development or science because it cannot restrain itself and in isolation this role in terms of capital, nor in terms of human, but only in collaboration with other subjects (including the state or local level). Major problems faced by SMEs in this respect are related to insufficient liquidity and own funds for their development, and difficult access to credit.

According to NASMEC, less than half of new businesses created in 2006 (47.5%) faced problems in obtaining contracts having difficulties related to their supply or demand (17.1%) or with both (30.4%). On the supply side, new companies face, mainly with financial issues, particularly related to their lack of resources (69.8%), limited access to loans (39.5%) and lack of customers or clients pending payments (38.2%). Regarding demand, entrepreneurs consider that their problems are the constraints of competition on their market (75%), that firm is not sufficiently well known (54%) and lack of economic resources of their prospective clients (51%).

The companies that participated in our study indicated as the main factors affecting their international activity the limited financial resources, the problems with marketing and distribution and the pace of diversification/adaptation of products to foreign markets. On the opposite side are technical restrictions. Export companies are especially affected by lack of financial resources and lack of information on demand and supply.

Although there are many difficulties in the internationalization process, the Romanian SMEs are willing to further develop international operations. Using a 5-point Likert-type scale for assessment of future opportunities presented by international markets, based on sample’s responses, resulted a mean of 2.55 (1-absolutely favorable). We consider that Romanian entrepreneurs are interested to fructify the opportunities resulted from Romanian adhesion to EU. Besides after 2000 it also increase the interest of European companies for our economy and for developing businesses and cooperation with Romanian partners. As a consequence, at the question about the future directions of action most companies have opted for developing the activities on foreign markets, a higher percentage of 84% choosing the development of exports, compared with 60% of imports.
Conclusions

The results of our study show a strongly concentration of Romanian SMEs to import, entrepreneurs having as main motives the lack of resources and the increasing domestic demand. In a high proportion these companies declared as future intention engaging in export activities mainly for the opportunity to cooperate with foreign partners and due to the dimensions of international markets. This fear to enter in the international affairs with export operations is first of all a cultural trait for Romanian entrepreneur which didn’t achieve until now enough experience in their business in order to be able to accept a higher risk. We think that Romanian SMEs need help for improving their knowledge of foreign markets, in attracting funds and also in improving their competitiveness to face to strong and global competition.

Despite of limited resources and lack of production and marketing capabilities many entrepreneurs are interested to expand their involvement in international operations. In today international markets more and more challenging the SMEs position depend on their capacities to reinforce and develop important strengths. For these results they are need to established an appropriate international business strategy and strive to various forms of cooperation both in domestic markets, including cooperation with larger companies, and also into external markets.

REFERENCES