

From In-House Towards International Contexts. An Insight into Romanian SMEs Internationalization

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Abstract. *In the fast-paced global economy, SMEs that aim to be competitive and thrive are compelled to enter the international arena, innovate and capitalize on the knowledge advantages. Recent studies show that although SMEs may be tempted to strive for internationalization endeavors, they may find themselves in difficult situations regarding the resources necessary for expanding their operations abroad. In the European Union, under the umbrella of the Small Business Act, a number of measures have been taken to support entrepreneurship and SMEs' growth. However, not all EU countries have managed to perform well. By shedding light on this phenomenon, in this article, we explore the level of Romanian SMEs internationalization as depicted by European documents, with a focus on the internal factors that facilitate or create barriers in this regard.*

Keywords: *small and medium-sized enterprises (SMEs); internationalization; knowledge; resources.*

Introduction

Nowadays, a relevant assumption in the case of small and medium-sized enterprises (SMEs) is that organizations which “manage organizational and individual knowledge better will deal more successfully with the challenges of the new business environment” (Handzic, 2006, p.1). Over the past years, both academic studies and real-life examples have iterated the need for consistent frameworks that can assist SMEs managers to make the best of knowledge strategies and practices, methodologies and procedures, techniques and tools, processes and operations in relation to their specific context, especially in view of the internationalization strategies. In this vein, a growing number of conceptual and empirical contributions have commenced to focus on the benefits of capitalizing intangible assets within SMEs and, simultaneously, to uphold the idea that we deal with a poorly understood area of scrutiny to date (Edvardsson & Durst, 2013; Bennet et al., 2015; Le, 2017; Ferraris et al., 2017; Vrontis et al., 2017; Vătămănescu, Gorgos, & Alexandru, 2018). Handling all organizational processes with a higher level of professionalism and proactivity springs as a necessary condition in order to thrive in a very dynamic environment.

Current investigations (Hutchinson & Quintas, 2008; Gabrielsson et al., 2008; Vătămănescu et al., 2016, 2017a; Gorgos, Alexandru, & Vătămănescu, 2019; Vătămănescu et al., 2019) have urged that SMEs lack the proper resources to substantively thrive abroad, especially in terms of material and financial assets, international performance depending on a wide spectrum of factors which should be simultaneously capitalized. Alongside the deficit of material and financial resources, the lack of managerial competence and know-how in international settings emerges as a solid constraint even though adopting a proactive attitude towards international opportunities is liable to generate significant and multifold competitive advantages (Frazier et al., 2009; Vătămănescu, Gorgos, & Alexandru, 2018). The managers' work experience, educational ground, and experiential learning increase the right tracking of opportunities (Dimitratos et al., 2012; Volery & Mazzarol, 2015; Choongo et al., 2016; Çakmak & Akgün, 2018). Here, governmental agencies have the power to implement - in the education system - classes supporting the development of managerial skills and channel the learning opportunities to an international market for engaging SMEs in functional upgrading (Navas-Aleman & Guerrero, 2016).

In spite of the existing opportunities and solutions, SMEs still lack resources, so they are determined to place more emphasis on internal networks, informal cooperation, which may trigger innovative organizational structures (Giannacourou et al., 2015). It is noteworthy that, in general, managers' actions are more reactive to events rather than proactive: when some enterprises take action for risk management, it is an extension to new strategies and not an action in the sense of better handling future events (Wedawatta et al., 2011).

Starting from these considerations, the current undertaking aims at investigating the state-of-the-art of SMEs internationalization with an emphasis on their internal contexts in terms of resources and capabilities. The empirical focus is on the Romanian SMEs' level of internationalization as depicted by European official documents. To this end, the remainder of the paper was organized as follows: firstly, a short description of the theoretical background is introduced, secondly, the method is presented, and finally, the secondary analysis of available data is performed.

Theoretical background

The knowledge-based economy has pushed SMEs towards new business models and managerial strategies which should acknowledge the paramount function of knowledge creation, acquisition, processing, harnessing, storage, transfer, dissemination, and thus of the multifaceted knowledge management. All these processes account for the spring of innovation and further for sustainable competitive advantages, overall organizational growth and development (Kim & Lui, 2015; Le, 2017; Vrontis et al., 2017; Vătămănescu et al., 2016, 2017a, b). As advanced by OECD (2017, p.7), innovation in SMEs is very much dependent on "knowledge spillovers, access to networks and opportunities to partner with other players".

As SMEs often lack resources, managers are determined to lay more emphasis on the development of social and business networks meant to ensure environmental-friendly frameworks for international partnerships. They strive to boost the usage of intangible assets and knowledge sources as a basis for future collaborations. In this front, attaching importance to the value of strong relationships in the internationalization of their organizations comes forward as a suitable knowledge strategy and as a pertinent compensation for the shortage of material and financial resources (Vătămănescu et al., 2019).

In spite of their flexibility, most of the SMEs do not possess effective management systems and tools to foster sustainable outcomes (Garagorri, 2016; Pauw & Chan, 2018), all the more so as one of the greatest challenges stems from the difficulty to access and exploit the best practices in handling the existent knowledge and to explore new knowledge repertoires available in international ventures (Vătămănescu et al., 2019). These inconveniences were previously captured by OECD (2013) which underlined SMEs' challenges related to how, when, where to identify and connect to suitable knowledge actors and sources at different levels (i.e., local, national, global) and to develop the needed skills, management strategies and practices for the selection, organization and coordination of the external knowledge with the in-house context.

Given these aspects, in the report on *Enhancing the Contributions of SMEs in a Global and Digitalized Economy*, OECD (2017) elaborated on the areas where knowledge gaps occur and, therefore, a closer examination and prompt actions are required. Here, the report discusses the external and internal constraints of SMEs in today's ecosystem, most of them referring to the "access to strategic resources, such as skills, knowledge networks, and finance, and on public investments in areas such as education and training, innovation and infrastructure" (p. 5). A somehow connected picture is captured by the European Commission (2018a), in the *Annual Report on European SMEs 2017/2018*, where the lack of knowledge at different organizational levels (including management) poses substantive obstacles for SMEs; moreover, SMEs' incapacity to capitalize knowledge in an articulate manner raises the awareness of its importance and of the benefits yielded by adequate training modules/ programs of knowledge management.

The ability to access strategic knowledge resources and to properly harvest them through efficient internal structures, methodologies, procedures, tools emerges as a *sine-qua-non* condition of SMEs competitiveness and forms the basis for multifold activities such as decision-making, strategic planning, critical thinking and problem solving, dynamic learning and pro-action, innovation, etc., as clearly indicated by studies and supported by empirical evidence (Kim & Lui, 2015; Le, 2017; Kianto et al., 2018). The exigency for

improving and developing the knowledge management strategies within SMEs is even more stringent as they regularly fall short to establish solid collaborations with education and training institutions and this shortcoming reflects itself in the low leverage of organization-level learning strategies, of managerial practices and methods related to knowledge management, as also highlighted by OECD (2015). This is one of the reasons why OECD (2017) advances the imperative for “a cross-cutting perspective on SMEs” which also covers policies “to foster innovation, sustain business dynamism, support skills development...” (p.17), including here the development of managerial skills and expertise to efficiently handle the knowledge content, process, and context with a view to create or add value to the organization.

In this context, the entrepreneurial agility describes the alternation of traditional activities with creative exploration activities, with a minimum fray (Garagorri, 2016). SMEs managers have not been particularly interested in finding strategies to run against environmental problems even if their businesses have been confronted with these events. But accepting and applying usual rules and practices to ensure the continuity of their activities is not sufficient anymore for meeting future difficulties, with consequences in the continuity of the business (Wedawatta et al., 2011). Managers’ approach to opportunities is different now and the exploration of international entrepreneurial culture characteristics in terms of risk attitude, networking propensity, and market orientation may be associated with possible illuminating mechanisms (Vătămănescu, Alexandru & Gorgos, 2014; Dimitratos et al., 2016). The managerial culture characteristics provide valuable insights for managers so as to find organizational attributes for performing international activities. The empirical findings of Dimitratos et al. (2016) suggest that individual characteristics of the SME’s managers contribute to the diagnosis outcomes of the internationalization dimension.

Moreover, partnerships with strategic actors unfold the ability to increase performance: they bring expertise and qualitative management from the private sector and establish procedures that have not been applied before internationally or nationally and reduce other environmental risks (Pauw & Chan, 2018). Managers’ actions are influenced by perceived uncertainty and their perceptions and expectations are guided towards reducing environmental uncertainty, choosing formalization and innovation for their enterprises.

The evaluation of the uncertainty regards the examination of different sectors: market, government, suppliers, and competitors (Giannacourou et al., 2015). This can be achieved via building awareness, mapping alternative scenarios and expected outcomes, appraising key factors and critical steps, capitalizing on knowledge assets and resources, and eventually via elaborating and implementing the solutions that have the best potential to generate business value. All these facts aim at putting into the hands of SMEs’ managers the conceptual foundation and practical tools liable to unleash the power of knowledge in their enterprises.

Method

The present analysis aims to scrutinize the state-of-the-art of SMEs internationalization with an emphasis on their internal contexts in terms of resources and capabilities. The empirical focus is on the Romanian SMEs’ level of internationalization as depicted by European official documents. In this respect, the available statistics presented in official reports (the Annual Report on European SMEs 2017/2018. The 10th anniversary of the Small Business Act, the Small Business Act for Europe (SBA) EU-28, and the Small Business Act for Europe (SBA) Romania 2018) were brought to the fore and a secondary analysis of the facts and figures was performed. Our first objective was to understand the level of internationalization of Romanian SMEs, mostly by referring to their exporting activities. Second, we aimed at identifying the factors that drive or limit the export activities of EU-28 SMEs. Third, we looked at the international performance of the Romanian SMEs through the lens of the Small Business Act, with a focus on the dimensions *Skills & Innovation* and *Internationalization*, in order to understand the internal specificities.

Secondary analysis of available data

SMEs growth is a priority for the EU and a number of measures aimed at improving the approach to entrepreneurship and facilitating the good functioning of SMEs (through simplification of the regulations, reduction of the barriers to development, and facilitation of the access to financing and the internal market) have been adopted, starting with “*Think Small First*”. A “*Small Business Act*” for Europe (European

Commission, June 25th, 2008). Ten years later, and after a rather turbulent time for business during the economic crisis, SMEs' growth in the EU is a fact, yet differences between countries are still stark.

According to the *Executive Summary of the Annual Report 2017-2018* (DIW ECON, July 27th, 2018), while the resurgence of EU-28 SMEs continued between 2008 and 2017, marking a 14.3% increase in value-added and a 2.5% increase in employment, Romania did not fare as good: in 2017 the employment level in SMEs was below the one in 2008. The same report argues that since 2012, EU-28 SMEs exports of goods have increased by 20%, SMEs counting up to 88.3% of all EU-28 exporting enterprises, even though in 2016 around 80% of these exports were only intra-EU trade and made by a rather small number of regular exporters. These results lead us to believe that a significant number of Romanian SMEs might still have much work to do before being able to compete as equals with foreign players in the single market, although obvious progress has been recorded (Hope, 2018).

The level of internationalization of Romanian SMEs

There are a number of ways in which an SME could expand internationally: export or import goods and services, invest directly on foreign markets, attract investors or become a part of a national value chain aimed at conquering foreign markets or becoming part of a global value chain, working together with partners in other countries for R&D, licensing and franchising services or products (DIW ECON, July 27th, 2018). We decided to focus on exports as these represent a direct means of measuring the internationalization level, are relatively easier to measure as compared to other direct and indirect means and are a type of activity which can be performed by a relatively large number of SMEs, in numerous domains.

For Romania in general, as compared to EU-28, the context for internationalization seems to have been beneficial between 2009 and 2017: the domestic demand increased with 45.6%, twice as much as the EU-28 median of 21.1% (Hope, 2018, p.82). Regarding exports, Romania had in 2015 an average value per SME to EU-28 average export value of 0.9, the same as Italy, Sweden and the United Kingdom (EUROSTAT in Hope, 2018). The same report shows that in 2016, 81% of Romanian SMEs exported to EU-28 more than the median of 69% reached by the other EU-28 countries, Romania is among the four countries, together with Finland, Poland and Portugal, where SMEs have significantly increased the rate of their exports since 2008, in comparison with large enterprises (p.86). However, the majority of SMEs in EU-28 do not export directly but may participate in other ways in international trade (p.90).

Romanian SMEs through the lens of the Small Business Act

The general landscape regarding SMEs' performance in EU-28 and Romania is balanced. The Small Business Act report on Romania 2018 (European Commission, 2018b) portrays the situation of Romanian SMEs as broadly similar to the EU-28 average. The number of employees (Figure 1), as well as the value-added by the SMEs (Figure 2), have increased since the launch of the Small Business Act in 2008, and the rate of growth of Romanian SMEs seems to go steadily up.

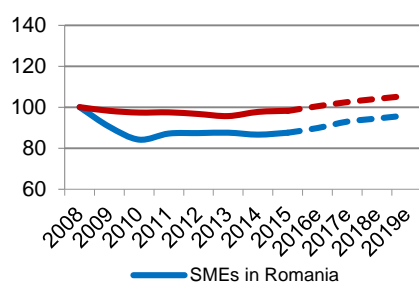


Figure 1. Number of persons employed in SMEs (Source: DIW ECON, May 18, 2018)

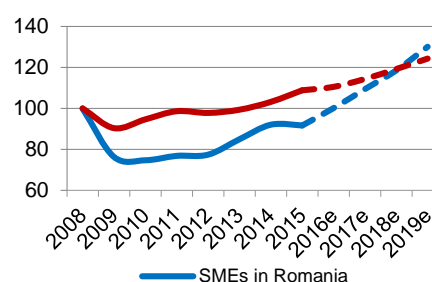


Figure 2. Value-added of SMEs (Source: DIW ECON, May 18, 2018)

There are differences regarding the fields in which Romanian and EU-28 SMEs operate (Figure 3): there are slightly more Romanian SMEs in *manufacturing* and significantly more in *trade* than in EU-28, however significantly less in *services* and *construction*. Concerning the number of employees in these sectors, the EU-28 SMEs average has a much larger number of people involved in services than do Romanian SMEs, while Romanian counterparts employ a slightly larger number of individuals in manufacturing and trade and a similar number of people in construction.

In regards to *manufacturing*, although Romanian SMEs seem to employ more people and count up to more companies than EU SMEs, the numbers are similar. Also, almost identical numbers can be found in what concerns the *construction* and differ in regards to *trade*, where Romanian SMEs have a more significant impact, also counting up more companies and a significant difference (RO 34.7% while EU 44.5%) in regards to services. This large difference in what concerns the *services* is expected, as Romanian has a smaller number of SMEs in this sector and employs a smaller number of people.

The value-added of Romanian SMEs has reached 28.8% between 2013 and 2017, exceeding the value-added growth of large businesses (19.7%); labor productivity measured in value-added per worker increased more in SMEs than in large firms, still, it reaches less than 1/3 of the EU average.

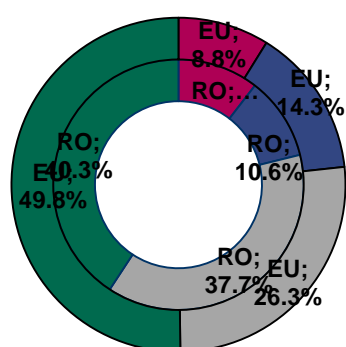


Figure 3. Number of SMEs (Source: DIW ECON, May 18, 2018)

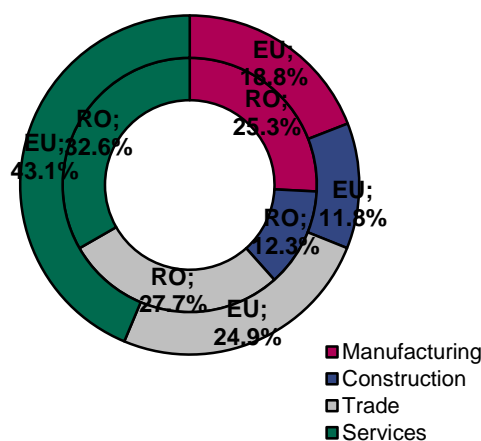


Figure 4. Number of persons employed in SMEs (Source: DIW ECON, May 18, 2018)

The *SBA 2018 Fact Sheet – Romania* report states that the sector that has marked the most obvious increase in recent years is *information and communication*, with its subsectors *computer programming* and *information services*, which added up to 58.1% growth in value-added in 2017 as compared to 2013. Between 2010 and 2017, they doubled the workforce employed. The main source of growth was based on

service exports supported by investors who were attracted by the relatively inexpensive and qualified workforce. At the other end of the continuum there is the sector of *constructions*, where between 2013 and 2017, three-quarters of the value added by the large companies disappeared. The number of construction workers in employment decreased from almost 565000 in 2008 to less than 385000 in 2017. However, SMEs in this sector seem to have benefited from the relaunch of the residential construction sector and from the access to financial instruments that were aimed at supporting entrepreneurship, including EU funds.

Another sector where changes are significant is the *wholesale and trade*, where a consistent failing has been observed between 2008 and 2013. By 2017, SMEs in this sector surpassed the numbers of 2008, but large numbers of players in the market disappeared under the pressure of large companies, which already had passed the milestone of 2008 level in 2014. It is expected that SMEs would continue to lose market share in favor of large companies and maintain a total share of value-added near 66%, which is the EU average.

The outlook for 2019 is presented as positive, 88000 new positions with SMEs being forecasted, almost seven times more than in the case of large companies.

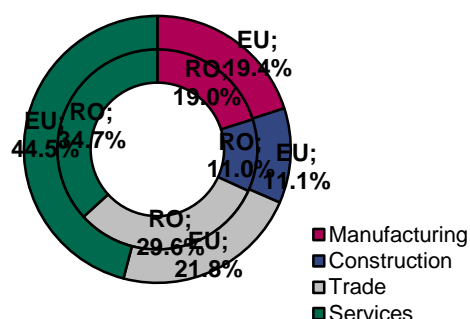


Figure 5. Value-added of SMEs (Source: DIW ECON, May 18, 2018)



Figure 6. Romanian SMEs compared to EU average on the 10 SBA criteria (Source: European Commission, 2018b)

Looking at the general picture, through the ten dimensions used by SBA to measure progress (Figure 6), we observe that Romania has made significant improvements between 2008 and 2018 regarding supporting 'entrepreneurship', surpassing the EU average, and performs in line with the EU average in 'second chance', 'responsive administration', 'state aid & public procurement' and 'internationalization'. There are areas that still perform below the EU average: 'access to finance' (significant improvements have been made in this regard since 2008), 'environment', 'single market' and 'skills & innovation'. Progress has been made with respect to 'responsive administration', but the situation is stagnant in regards to 'skills & innovation' and 'second chance' and even deteriorated in a 'single market'. The report states that the situation of 2018 is similar to the one in 2017, a sign that progress is slow to happen.

Skills & Innovation in Romanian SMEs

The situation regarding performance in *Skills & innovation* was poor in 2018 in Romanian SMEs, with the lowest score in the EU and well below the EU average. This level of performance has remained almost stagnant since 2008, even though some positive developments have been observed: the turnover from e-commerce went up from 4.3% to 5.2%. Online purchases and online sales are below the EU average with approx. 10%, while innovation in regards to product or processes is almost nonexistent (4.92 for Romanian SMEs; 30.9 for EU average). Marketing and organizational innovations are introduced by only 8.74% of Romanian SMEs, compared to the EU average of 34.89%.

A small improvement can be seen in the share of companies that provide training to their employees, which rose from 24.1% in 2010 to 26.7% in 2015. However, the EU average of companies training their staff is

72.6%, 20.07% of European SMEs train their employees for ICT, compared to 3.57% of Romanian SMEs, and only 8.59% of Romanian SMEs employ persons with ICT skills, compared to EU average of 17.77%.

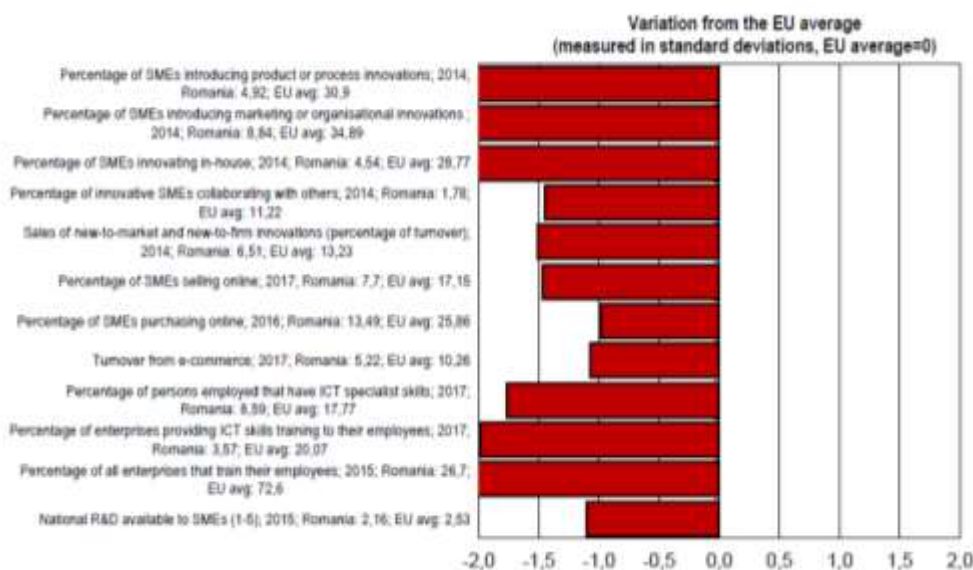


Figure 7. Skills & Innovation of Romanian SMEs
(Source: European Commission, 2018b)

The Romanian national research, development, and innovation (RDI) strategy has been supported by initiatives such as the 2015-2020 national RDI program and the 2014-2020 Operational Program for Competitiveness, coupled with other measures such as tax reductions, tax incentives and vouchers have positively influenced the development in this area. Some specific programs, such as the 'RO Innovation — SMEs Growth Romania' program (*Programul RO Innovare — Creșterea IMM din România*) aim to support the sustainable growth of business in Romania. One particular fiscal measure was adopted to incentivize the RDI activities (*Facilități fiscale pentru activități CDI*) by exempting innovative start-ups from income tax for 10 years. The results we see are modest, the European Innovation Scoreboard still classifying Romania as a modest innovator comparing with other EU countries, yet the average score for EU is quite close.

Internationalization of Romanian SMEs

In spite of the poor performances regarding *Skills & Innovation*, Romanian SMEs perform in line with the EU average in what concerns *Internationalization*.

Information seems to be more available in Romania than in the EU average (1.9 compared to 1.76), still, the number is very low. This is one of the highest scores of all EU countries and shows that, besides progress in advance rulings and formalities, Romania's context has improved. Involvement in the trade community is however lower in Romania (1.25) than the EU average (1.65), even though both numbers are low. These numbers advance the idea that networking and involvement in organizations that support international trade are far from being a common ground for the European SMEs. The results of the surveys presented in the sections above regarding perceived barriers such as lack of networking and poor level of knowledge regarding foreign markets could be easily linked to them.

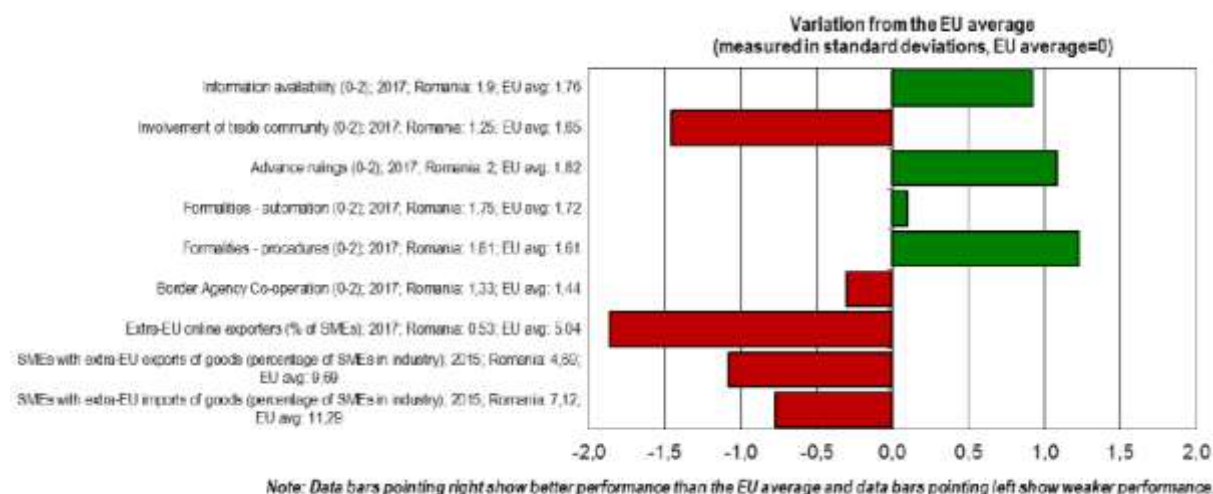


Figure 8. Internationalization of Romanian SMEs
(Source: European Commission, 2018b)

As previously stated, Romania does perform slightly better than the EU average in regards to advance ratings, the automation and procedures of formalities, but does not fare as well on Border-Agency Co-Operation and lags far behind the EU average concerning extra-EU exports (online, goods), as well as extra-EU imports. Crossing the EU borders seems to be the biggest challenge for Romanian SMEs in this regard, with a score that has grown very slow since 2008.

A number of measures have been launched to support the promotion of Romanian SMEs between 2017 and 2018, such as the program to support the internationalization of Romanian companies (*Programul de susținere a internaționalizării firmelor românești*), which helped SMEs attend fairs, exhibitions and participate in economic missions; the export promotion program (*Programul de promovare a exportului*), which aimed 'to increase the production of high-value Romanian products and services by supporting the diversification of export markets and participation in international promotion activities', as well as the establishment of new agencies that promote export and attract foreign investment (*Înființarea agențiilor pentru IMM, atragere de investiții și promovarea exportului*).

Conclusions

Romanian entrepreneurs and SMEs have been supported in recent years by a series of European and national governmental initiatives. The results are reflected in the increased number of persons employed by SMEs and in the increased value-added. EU SMEs, including Romanian SMEs, face a number of restraints when contemplating internationalization, even in the case when they just aim at selling their goods in a foreign market.

The results of the studies conducted at EU-level confirm the conclusions of some well-reputed academic works: many SMEs are lacking in resources that may propel them in the international arena and face significant internal limitations, which concern - to a great extent - the lack of a coherent knowledge management strategy and the lack of staff that would be able to perform in international markets. Insufficient financial resources and risks associated with operating on foreign markets are only secondary problems comparing with the lack of staff that is ICT competent, has a good command of foreign languages, is able to search for information regarding foreign market characteristics and is able to network with foreign counterparts, thus leading to potentially profitable collaborations with companies abroad.

Although both EU respondents and Romanian respondents have pointed that there is a lack of information regarding a business, such affirmations need to be considered perceptions, as long as staff members are also presumed not to be skilled for international business and are not involved in networks supporting international trade.

Further studies could explore the characteristics of the staff involved in SMEs that aim to perform in international contexts, in order to identify potential skills that need to be acquired by staff members in

order to facilitate international cooperation. As regards the modest rating of Romanian SMEs concerning innovation, this may be connected with the lack of involvement in networks that would stimulate innovation and may also be a consequence of the staff qualifications and openness to collaborate with foreign partners for propelling innovation.

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