

BUSINESS INTERNATIONALISATION AND THE CHOICE OF INTERNATIONAL STRATEGY IN CASE OF SLOVAK COMPANIES

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***Abstract:** The paper deals with patterns of business internationalisation in the Slovak Republic and the choice of their international strategy. The main objective of this paper is to present some results from the research about various aspects of internationalisation of Slovak enterprises as a part of a research project StG-21310034 with the title “Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics” financed by the International Visegrad Fund in the years 2013-2014. The empirical research was conducted by the consortium of five Central European universities, among them the Slovak University of Agriculture in Nitra, and led by the Cracow University of Economics, Poland. The research objective of the paper is to identify the time of internationalisation of businesses in Slovakia and the relation between the size of companies and the international strategy they use on foreign markets. The research was conducted through a questionnaire survey available in electronic document and online specifically designed password protected form. The sample consisted altogether from 143 businesses from Slovakia with international activities. To verify the scientific hypotheses, we applied procedures such as descriptive statistics and inductive statistics for calculations of frequencies and analysis of contingency tables, and Pearson's chi-square test of independence to reject or confirm the hypotheses.*

***Keywords:** internationalisation, business, marketing, strategy, SMEs, large firms*

Introduction

The current development of the world economy is increasingly influenced by integration and globalization tendencies. In the face of globalization and an increasingly interconnected world many firms attempt to expand their sales into foreign markets. International expansion provides new and potentially more profitable markets, it

helps increase the firm's competitiveness and facilitates access to new product ideas, manufacturing innovations and the latest technology. However, internationalisation is unlikely to be successful unless the firm prepares in advance (Hollensen, 2007).

Literature review

The world business has undergone significant changes in recent years. Each company, whether it is big or small, operates in a competitive environment and has its own global competitors (Kretter, 2010). Intensification of economic life in global view, especially in last decades, results in increasing number of firms involved in the process of decision-making whether to enter a foreign market and which mode would be the most suitable for them (Kleinová & Ůrgeová, 2011). However, if the firm does not know how to apply marketing in the domestic market, it cannot be able to carry out marketing in the international field. Therefore, an essential precondition for the company when entering the foreign market and trying to implement marketing in international scope, is excellent knowledge of marketing as it is (Horská, 2007). There are several characteristic trends towards greater internationalisation. Paul & Kapoor (2008) highlight three macro factors as the decline in trade barriers, the removal of restrictions on foreign investment and the technological change (e.g. the development in communication, information processing, or transportation technologies). During internationalisation migration and knowledge flow are both important factor nowadays (Gál, 2006a; Gál, 2006b).

The decisions of the company related to the market selection and entry or operation on the foreign market are based on the principles of international marketing which can be defined as implementation of marketing activities exceeding national borders of countries. It presents the philosophy of company management focused on foreign markets and aimed at optimal placement of goods and services on these markets (Horská, 2014).

Marketing activities are shaped by the environment in which they are carried out. Applying marketing activities in an international context is therefore a very complex process because a marketer faces two or more sets of uncontrollable variables originating from various countries. A firm's marketing mix is determined by the uncontrollable factors within each country's environment as well as by the interaction between the sets. The degree of overlap of the sets of uncontrollable variables will dictate the extent to which the four Ps of marketing must change –

the more the overlap, the less the modification (Onkvisit & Shaw, 2009). One of the greatest challenges to the global marketer is to understand when it is possible to exploit similar needs and behaviour and when it is important to adapt to different buyer conditions. In addition, many buyers increasingly search the world for products. This intensifies competition and requires global marketers to understand their markets and address the needs of their buyers (Mühlbacher, Leih, & Dahringer, 2006).

The form of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about the nature of doing business around the world. This worldview of a firm's business activities can be described as the EPRG framework (Perlmutter, 1969 in Hollensen, 2007), its four orientations summarized as follows:

- ❖ Ethnocentric: the home country is superior and the needs of the home country are most relevant. Essentially, the headquarter extends ways of doing business to its foreign affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations is the same as in the home country.
- ❖ Polycentric (multidomestic): each country is unique and therefore should be targeted in a different way and viewed independently. The polycentric enterprise recognizes different conditions of production and marketing in different locations and tailors strategic decisions to suit those different conditions in order to maximize profits in each location (Kotabe & Helsen, 2010). The control with affiliates is highly decentralized and communication between headquarters and affiliates is limited.
- ❖ Regiocentric: the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing programme within regions, but not across them.
- ❖ Geocentric (global): the world is getting smaller and smaller, the company may offer global product concepts with local adaptation ('think global, act local').

The regio- and geocentric firm (in contrast to the ethnocentric and polycentric) seeks to organize and integrate production and marketing on a regional or global scale. Each international unit is an essential part of the overall multinational network, and communications and controls between headquarters and affiliates are less top-down than in the case of the ethnocentric firm (Hollensen, 2007).

Research materials and methods

The paper deals with patterns of business internationalisation in the Slovak Republic and the choice of their international strategy. First, we gathered secondary data to our literature review. Next, as the main objective of this paper we presented some results from the research about various aspects of internationalisation of Slovak enterprises as a part of a research project StG-21310034 with the title "Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics" financed by the International Visegrad Fund in the years 2013-2014. The empirical research was conducted by the consortium of five Central European universities, among them the Slovak University of Agriculture in Nitra, and led by the Cracow University of Economics, Poland.¹ The research was conducted through a questionnaire survey available in electronic document and online specifically designed password protected form. The questionnaire was distributed among internationally involved businesses in Slovakia between October 2013 and February 2014 (Horská & Gálová, 2014; Wach, 2014a; Wach, 2014b; Wach & Wojciechowski, 2014; Knežević & Wach, 2014; Kiendl-Wendner & Wach, 2014; Daszkiewicz, 2014; Duréndez & Wach, 2014; Gubik & Wach, 2014).

The research sample consisted altogether from 143 businesses from Slovakia with international activities. For data analysis the software "MATLAB® R2010b" was used. To verify the scientific hypotheses, we applied procedures such as descriptive statistics and inductive statistics (to obtain critical values) for calculations of frequencies and analysis of contingency tables, and Pearson's chi-square test of independence (Berenson & Levine, 1993) to reject or confirm the hypotheses (the calculated G characteristic was compared with the appropriate χ^2 value).

The research objective of the paper is to identify the time of internationalisation of businesses in Slovakia and the relation between the size of companies and the international strategy they use on foreign markets. Therefore, the following research hypotheses were assumed:

H1: In general, firms from the Slovak Republic implement traditional process approach toward their internationalisation.

¹ Further information at: <http://www.visegrad.uek.krakow.pl/> (accessed on March 20, 2015).

H2: SMEs from the Slovak Republic apply mainly ethnocentric and regiocentric strategy of internationalisation.

H3: Large firms from the Slovak Republic apply mainly polycentric and global strategy of internationalisation.

Research sample and its characteristics

The consistency of the sample of surveyed companies according to the year of their establishment and their first international activity is shown in table 1. The year 1993 indicates the formation of the independent Slovak Republic, in the year 2004 Slovakia joined NATO and the EU and in 2009 it became part of the Eurozone. Considering the year of establishment, the majority of the firms were established after 1993, there is very similar distribution until the accession of the EU in 2004 and in the period after it (44.1 %, respectively 39.2 %). Taking into consideration the year of the first international activity, the situation is a bit different; nearly half of the companies (49.0 %) stated that they began their international operations after the entry of the Slovak Republic to the EU. In many cases it was a matter of classical business development, following Uppsala model of internationalisation when firms first gain experience from the domestic market before they move to foreign markets (Johanson & Vahlne, 1977).

Table 1 Companies from Slovakia participating in the survey according to the year of establishment and the year of their first international activity

		Establishment Year		Year of the First International Activity	
		Frequency	Share in %	Frequency	Share in %
Before 1993		24	16.8	15	10.5
1993-2003		63	44.1	58	40.6
2004-2013		56	39.2	70	49.0
from which:	2004- 2008	36	25.2	35	24.5
	2009- 2013	20	14.0	35	24.5
Total		143	100.0	143	100.0

Source: own study based on the V4 survey results of 2014 (n = 143).

Table 2 Number of years of the company's life in Slovakia before starting international activities

Time of Internationalisation	Frequency	Share in %	Cumulative Frequency	Cumulative Share in %
The same year	61	42.7	61	42.7
1–5 years	56	39.2	117	81.8
6–10 years	12	8.4	129	90.2
11–15 years	6	4.2	135	94.4
16–20 years	2	1.4	137	95.8
More than 20 years	3	2.1	140	97.9
Total	140	97.9	.	.
Missing	3	2.1	143	100.0
Total	143	100.0	.	.

Source: own study based on the V4 survey results of 2014 (n = 143).

The comparison of the year of establishment and the start of the international activity firstly showed that three companies must have been left out from the analysis because they stated incorrect information (the international activity was sooner than the establishment). 61 surveyed companies went international immediately after their incorporation and 56 within five years (together comprise 81.8 % of all companies). Detailed distribution of the sample is presented in table 2.

We further analysed the surveyed firms based on the criteria of employment and categorized them according to the Centre for Strategy and Evaluation Services (2012), results can be found in table 3. The categorization showed the highest share of micro firms nearly equal to small firms (together accounting for 69.2 %), followed by medium size companies (21.7 %) and large ones (reaching 9.1 %).

Table 3 Size of the studied firms in Slovakia

Category	Number of employees	Frequency	Share in %	Cumulative Frequency	Cumulative Share in %
Micro firm	<10	51	35.7	51	35.7
Small firm	<50	48	33.6	99	69.2
Medium firm	<250	31	21.7	130	90.9
Large firm	250≤	13	9.1	143	100.0
Total		143	100.0	.	.

Source: own study based on the V4 survey results of 2014 (n = 143).

Primary economic activity based on NACE classification ensured dividing firms according to the groups of business sectors. One-third of all companies are involved in manufacturing; followed by wholesale and retail trade, repair of motor vehicles and motorcycles (nearly 21 %); other service activities (17.4 %); transporting and storage (12.5 %); agriculture, forestry and fishing ((9.1 %), and construction (8.3 %). Other NACE categories have not reached 3 % each. However, it must be noted that some enterprises were involved in more than one NACE category, therefore 15 businesses chose two categories, 4 enterprises selected three categories and 1 company is active in six NACE activities.

Figure 1 presents the territorial scope of activities in surveyed firms. Within and beyond the EU markets was the most frequent answer (in 30.1 % of cases) followed closely by activities within the EU market (26.6 %). Approximately similar number of companies operates only within the national market either on national, regional or local level (accounting for 31.5 % in total). Only neighbouring countries are target for nearly 12 % of companies. No company stated its activities only beyond the EU markets. Answers related to the territorial scope are very important from viewpoint of further research on directions of further expansion, not only within the neighbouring V4 countries, EU, but also beyond the EU borders (Gálová & Horská, 2013; Omarkulova, Horská & Gálová, 2013).

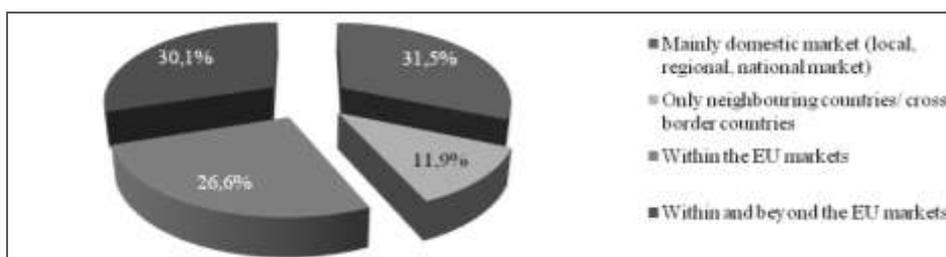


Figure 1 Territorial scope of activities among studied firms in Slovakia
Source: own study based on the V4 survey results of 2014 (n = 143).

Results and discussion

The first scientific hypothesis was dealing with the relation between the year of establishment and the year of the first international activity on foreign markets, as follows:

H1: In general, firms from the Slovak Republic implement traditional process approach toward their internationalisation.

This hypothesis was rejected by descriptive statistics. The research question was answered by 140 firms from the total sample of

143. There were only 36 enterprises which implemented traditional process approach (25.71 %) while the other 104 businesses (which is the majority 74.29 %) implemented accelerated approach, that means three out of four investigated firms internationalised faster – within three years after establishment. After further research of the answers we found out that mainly the majority of micro enterprises had rapid internationalisation process, in case of the other firms the rapid internationalisation was just slightly prevailing.

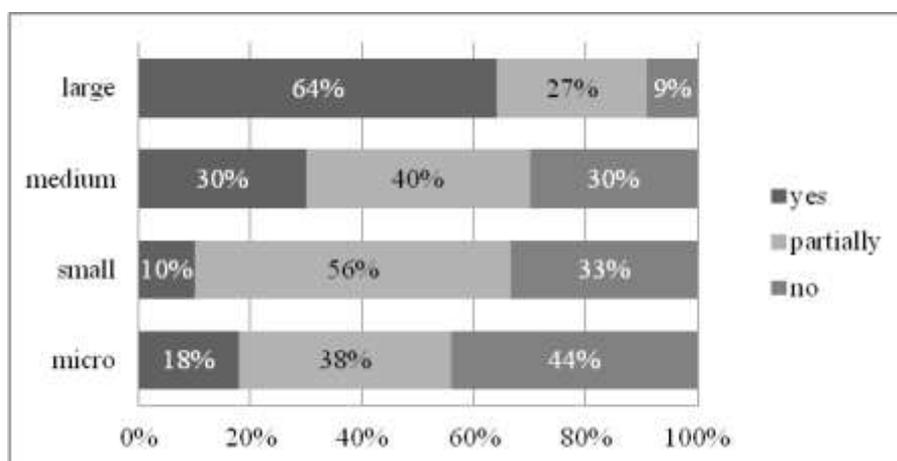


Figure 2 International strategies by the size of the studied firms
 Source: own study based on the V4 survey results of 2014 (n = 143).

Next, we were focusing on the fact whether there is relation between the size of the firm and the planning and formalization of their international strategy. First, we must note that 48 Slovak companies have no planned strategy for internationalisation (34.5 % from the total number of firms answered), 61 have partially planned, but not formalised strategy (43.9 %) and 30 have the international strategy (21.6 %) while four enterprises gave no answer (figure 2).

Next, we offered the possibility to describe the type of strategy used on foreign markets by choosing between four answers, that is from ethnocentric strategy (on international markets the use of the same marketing and management specifics as on domestic market, the international activity has secondary meaning), polycentric strategy (on particular international markets the specific conditions for marketing and management strategy are included), regiocentric strategy (the use of different strategies for a couple of blocked international markets, in which there are similar marketing and management conditions) and finally geocentric strategy (on all or at least most of international

markets the use of standardized and single marketing and management strategy). These four strategies create the EPRG framework. Here, we formulated the following scientific hypotheses:

H2: SMEs from the Slovak Republic apply mainly ethnocentric and regiocentric strategy of internationalisation.

H3: Large firms from the Slovak Republic apply mainly polycentric and global strategy of internationalisation.

Calculated on the basis of Chi-square (for H2 $\chi^2 = 3.84$, $df = 1$, $G = 0.05$; for H3 $\chi^2 = 3.84$, $df = 1$, $G = 8.72$) it was proved that there is a correlation between the type of the ERPG strategy and the size of the company in case of SMEs (small and medium sized firms) where the hypothesis was supported, but in case of large firms the hypothesis was rejected (figure 3). SMEs use mainly ethnocentric and regiocentric strategies (which is 55 % of all companies using any strategy and 91 % of companies using ethnocentric and regiocentric strategy), as stated in table 4. The same strategies are preferred by large enterprises, however, only 11 of them answered the question related to their strategy, from which 7 companies prefer the mentioned ethnocentric and regiocentric strategies over polycentric and global ones.

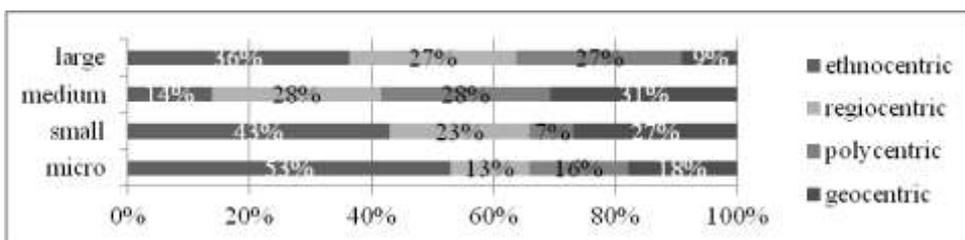


Figure 3 The EPRG strategy type by the size of the surveyed firms in Slovakia
Source: own study based on the V4 survey results of 2014 (n = 143).

Table 4 The EPRG strategy type of internationalisation in case of companies in Slovakia

		Strategy type		Total
		ethnocentric (E) and regiocentric (R)	polycentric (P) and global (G)	
Size of firms	small and medium firms	71	47	118
	large firms	7	4	11
Total		78	51	129

*Note: 14 values missing

Source: own study based on the V4 survey results of 2014 (n = 143).

Statistical evaluation of the hypotheses led to the following conclusions considering sample firms:

- | | |
|---|------------------|
| H1: In general, firms from the Slovak Republic implement traditional process approach toward their internationalisation. | <i>supported</i> |
| H2: SMEs, from the Slovak Republic, apply mainly ethnocentric and regiocentric strategy of internationalisation. | <i>supported</i> |
| H3: Large firms, from the Slovak Republic, apply mainly polycentric and geocentric strategy of internationalisation. | <i>rejected</i> |

Conclusions

Based on the empirical results and the statistical calculations we can conclude that taking into consideration the year of the first international activity, observed companies started their international operations mostly after the entry of the Slovak Republic to the EU. In most cases it was a matter of classical business development, following traditional process approach toward internationalisation.

As a focus market, within and beyond the EU (global) markets was the most frequent answer (in 30 % of cases) followed closely by activities within the EU market (27 % of the sample). Only neighbouring countries (Central and Eastern European – CEE markets) are target for nearly 12 % of companies and no company stated its activities only beyond the EU markets.

It was supported statistically that in our survey SMEs (small and medium enterprises) from the Slovak Republic apply mainly ethnocentric and regiocentric strategy of internationalisation. On the other hand, in case of large firms the statement about applying mainly polycentric and geocentric strategies was rejected.

Some business relations to Eastern countries follow the European Neighbourhood Policy (ENP) as a foreign relations instrument of the European Union which seeks to tie those countries to the east and south of the European territory of the EU to the Union. Using similarities of neighbouring markets accounts the advantage for smaller and less experienced businesses. Entering the Eastern European markets means implementation of the Eastern policy rhetoric into real practice. This issue can be in the centre of further research.

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