

Contemporary Issues in Business, Management and Education 2013

Trends in international business of the Slovak small and medium food enterprises

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Abstract

Small and medium enterprises today create an organic part of the market economy. Their importance for the national economy, but also from microeconomic perspective is unquestionable. At present the trends in small and medium food enterprises activities contain operation not only in the domestic environment, they are increasingly drawn into international business. The internationalization of business creates new market opportunities, the possibility of organic growth and strengthening the market position. Aim of submitted article is to introduce current trends in international business of Slovak food SMEs and to examine motivation, or factors that lead them to this activity. According to our findings in business practice the Slovak food SMEs are economically active predominantly in Central European economic area and there are only simpler forms of expansion into foreign markets. Analysis was made via quantitative methods using SAS statistical software.

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Selection and peer-review under responsibility of the Contemporary Issues in Business, Management and Education conference.

Keywords: entrepreneurship; small and medium enterprises; international business; business trends.

1. Introduction

At the beginning of the 21st century business environment has transformed from simple and stable environment to complex and dynamic, which represent serious threat for many businesses. Adaptability and flexibility, i.e. ability to adapt to constantly changing environment, became the key capabilities, easily fulfilled by small and medium-

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sized enterprises. In a market economy the entities, buying goods in order to sell it without any substantial modifications to the final consumer, known as business enterprises, play an important role.

Development of small and medium enterprises is a priority of the Slovak economy. Creation of suitable business environment, i.e. to simplification and clarification of the legislation; reduction of administrative, payroll and tax burden; strengthening the support infrastructure; and also improvement of access to capital are the most important factors in its development (Koráb & Estélyiová, 2007). In the European Union, portion of small and medium-sized enterprises (SMEs) reaches 99.8%, and this sector employ about two thirds of all employees. SMEs are generally considered to be carriers of a substantial part of innovative initiatives; they are also very flexible due to the changing market environment and represent an important segment for regional economic growth (Raisová & Pavlíková, 2008; Szabo, Šoltés, & Herman, 2013).

SMEs create an important and integral part of the Slovak economy. Their importance in the national economy lies in the fact that they are the driving force behind its development, particularly by its flexibility in adopting and using the most progressive technologies, job creation, and as the main initiator of the growth of living standard of the population (Mižičková & Ubrežiová, 2007). A prosperous economy is based on the efficiently functioning business sector, the most important parts of which are freelancers, physical entities, and self-employed farmers, small and medium entrepreneurs.

SMEs fulfill multiple functions of the national economy, especially the economic (decentralization of economic system, production and growth, public supply function, regional development, etc.), social (employment, ecology, education, freedom, etc.), and also political function (which concerns the stability of democracy, putting pluralism into practice, etc.) (Johnson, Scholes, & Whittington, 2006).

Process and business conditions in the Slovak Republic, as well as in the European Union, are constantly changing and improving. Entrepreneurs acquire knowledge, skills, the level of business professionalism and ethics are increasing. Integration into the European market gives to Slovak businesses opportunity to expand previous business activities. The place for close cooperation with foreign partners outside of our territory was opened. Adaptation to new conditions and creation of new business environment is a complex and long-term process. Therefore, the present position of the Slovak entrepreneurs in the international business environment is turbulently changing (Westhead, Wright, & Ucbasaran, 2002; Ubrežiová, Bujňáková, Kapsdorferová, & Majorová, 2009; Jasińska-Biliczak, 2012).

In the context of integration processes in economics and business, processes of globalization and the creation of multinational corporations, is an ongoing debate about the status of SMEs (Pauličková, 2001; Foran, 2003). SMEs fill the gap in the range of products and services offered by large companies. Development of economy also in global environment will still require activities of SMEs.

Internationalization of business has become an everyday reality. Central and Eastern European countries have undergone significant political and economic changes, which set the base for formation of new geographic area with economic activities and business relations in the market environment of the European Union (Kjellman, Sundmäs, Ramström, & Elo, 2004; Westhead, Wright, & Ucbasaran, 2004). This was one of the reasons of focusing the research to examination of international business of SMEs.

Information on the participation of international business in total business activities of analyzed companies can be divided into 5 stages of development (Ubrežiová, Bujňáková, Kapsdorferová, & Majorová, 2009):

- partial interest in international business (Level 1): an enterprise performs random orders, but does not seek to gradually expand export opportunities;
- developing export (Level 2): companies actively developing export activities, which takes less than 5% of the total sales volume;
- experimental exporter (Level 3): enterprise exports on an experimental basis to countries that are geographically and culturally close to his country, export creates more than 5% of total sales volume;
- experienced exporter with limited possibilities (Level 4): experienced company exporting more than 5% of total sales volume. Optimal adaptation of export policy to changes of external environment (exchange rates, custom duties, etc.), but still linked only to geographically close countries with similar culture;
- experienced exporter (Level 5): experienced company exporting more than 5% of the total volume of sales. In contrast to the Level 4 company already exports to geographically distant countries or to the countries with a different culture.

Business subject has two basic approaches for the choice of an appropriate strategy for international business. Management has to carefully consider internal business conditions for penetration to foreign markets, as well as the impact of external factors (Katsikeas & Morgan, 2007; Schermerhorn, 2005). One approach represents business strategy directly adapted to own conditions of the company. This approach is known as adaptation, when the company tactically adapts to local conditions. The principle of the second approach is a unified global strategy, known as standardization. In this case the enterprise expects similar behavior of customers worldwide (Rugman & Hodgetts, 2000).

The adaptation process reflects the need of adaptation to local market demands and represents the degree of adaptation to external factors. Adaptation may include all elements of marketing management (O'Farrel, Wood, & Zheng, 2001). For business practice it is important to determine the appropriate degree of adaptation. It is realized on the basis of comparison of costs and benefits of different levels in different markets. In consumables, for example, the degree of adaptation increases with the level of foreign cultural awareness of the target foreign customers. In term of the factors underlying the necessity and the need of adaptation obligatory, and voluntary adaptation could be recognized.

2. Aim, material and methods

Aim of submitted article is to present the current trends in international business of Slovak food SMEs; to analyze the enterprises as the actors in international business; to expand the theoretical knowledge, and identify practical opportunities for business subjects. In our work synthesis of knowledge and experiences obtained by realized research was done, and data on current trends in international business were summarized. Analyses of specific branch of national economy: food industry reflects long-term focus of research activities of both authors.

Material used in the article consists of data of primary research realized in 2012 in form of questionnaire. Additional resources are secondary sources from scientific publications of domestic and foreign authors.

In submitted research following main research hypotheses were formulated:

H₁: We assume that there is a correlation between acceptance of the business internationalization as the current trend in a globalizing world and the evolution of the volume of sales to foreign markets in the analyzed companies.

Our research is based on the assumption that for the businesses which reflect (accept) internationalization trend of business (enter the foreign markets) there is a change (increase) of the volume of sales on foreign markets. They do not provide internationalization of their business activities just because it is the actual trend in the world, but for pragmatic reasons. They realize that the domestic market is saturated and doesn't bring so many opportunities for trade and profit as the business in an international environment.

H₂: We assume that there is a difference in perceptions of the factors that give rise to international business of individual businesses subjects.

Our assumption was that each business subject emphasizes the weight of factors representing the business internationalization differently. In the questionnaire following factors (categories) were used: single trade; regular orders; management experience in international business and management in a global environment; intensive competition in the domestic business environment; increase of businesses competitiveness; sufficient information about the external business environment; acceptance of trends of internationalization related to the globalization of the world; success of competitors in this business sector; activities of the institutional base (programs to promote foreign trade); and others. All mentioned factors were evaluated by points 1–5 (1 = the most important impact; 5 = the lowest impact).

Determined hypotheses were tested at significance level $\alpha=0.05$.

Methodology was subordinated to the submitted aim. Processing of the obtained data was made by standard computer software (MS Office 2010 in an operating system Windows 7), and the professional software SAS (Statistical Analysis System). Through the SAS commands existence of dependence using chi-square test was examined, and studied economic phenomena were quantified.

For the processing and analysis of the examined data following procedures were used:

- Database creation—filled questionnaires were subjected to control in terms of the accuracy and completeness.
- Independence test—carried out using χ^2 test (chi-square test),
- Dependence strength test: provided by correlation coefficients (Pearson's correlation coefficient C, Cramer contingency coefficient V). Interpretation using the p-value was identical as in the χ^2 test.

2. Results and discussion

Nowadays, all the companies doing their business in the Slovak Republic are inevitably active also on the unified EU market. Their business adapts to conditions of both Slovak and the international markets. Basic statistical set of submitted questionnaire survey consists of enterprises having their registered office in the Slovak Republic, and active in the food industry. The file was obtained from the Statistical Office of the Slovak Republic. Companies were selected into the sample by stratified sampling according to characteristics of the macro level (economic activity, size structure) and according to their interest to participate in the research. All observed companies consist of Slovak capital only, therefore without the participation of foreign investors.

One of the first questions was aimed to legal form of the company. 56 businesses out of 200 took the form of a physical entity (28%). The largest group (84 companies) in term of legal form consists of businesses in the form of a limited liability company (42%). 10 subjects (5%) operate as joint stock companies. 50 businesses subjects (25%) declared other legal form of the company. All mentioned results were visualized in Figure 1.

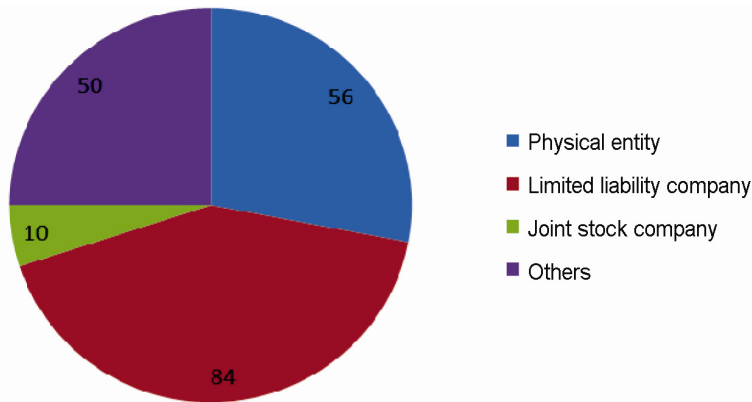


Fig. 1. Legal forms of examined enterprises

Size categorization (according to EU Directive 2003/361/EC) of examined enterprises was following (Table 1):

Table 1. Structure of companies according to size

Type of the company	Absolute number	Relative number
Micro enterprise	62 companies	31%
Small enterprise	116 companies	58%
Medium-sized enterprise	22 companies	11%

Business activities in the Slovak food industry have almost absolutely character of small and medium enterprises. According to Green Report (2011) published annually by the Ministry of Agriculture of the Slovak Republic we have found that the current share of SME enterprises represents 94.3% of the total number of business subject operating in the food industry.

Question "Are you making business on the foreign markets?" divided the sample of companies into two large groups: companies realizing international business (penetrate to foreign markets) and the companies which do not realize international business (not penetrate to foreign markets, operating only on domestic market). The situation is illustrated by Figure 2.

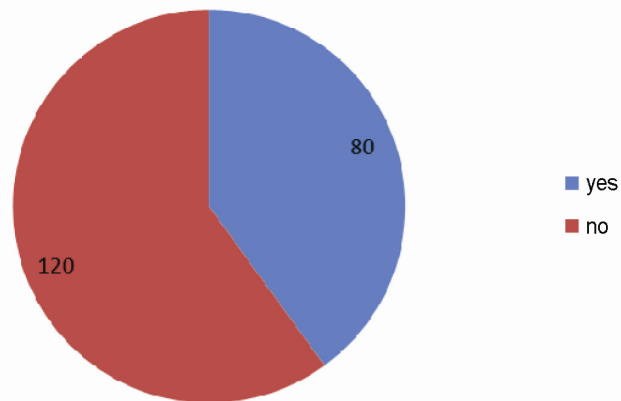


Fig. 2. Are you making business on the foreign markets?

Two fifths of the companies, representing 80 subjects (40%), gave positive answer to this question. These companies are active on the foreign markets, thus realizing international business. Three-fifths, or 120 subjects (60%) responded negatively to the question, i.e. they do not realize the international business.

By subsequent issue "Territory of International Business" we have investigated the territorial focus of international business subjects. In this question, respondents had the opportunity to write their answers to a number of specific territories: the EU business environment, business environment of Europe without the EU, the America's business environment, the Asian business environment and other business environment. Replies of companies were clustered within the first two entrepreneurial environments (the EU environment, Europe without the EU countries). 16 companies (8%) realize their business outside of the Europe. The most significant market positions in the European Union in term of analyzed enterprises are shown in Figure 3.

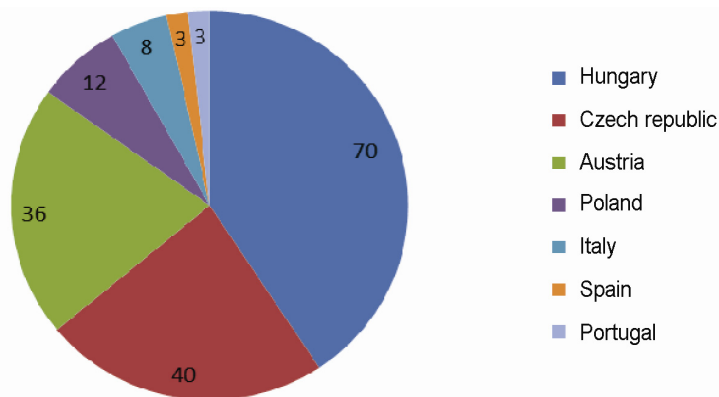


Fig. 3. The most significant market positions in the European Union

As it is evident from Figure 3, companies as their international business territory select from EU member states mostly the Visegrad countries. For Slovak companies they represent neighboring countries with well-established business relationships. Undisputed leadership for foreign trade occupied Hungary. This country indicated in their responses as an international business location 70 of companies (35%). The second most important territory for international business is the Czech Republic, with export of 40 companies (20%), followed by Austria (36 companies, 18%). Poland was designated as territory for international business by 12 companies (6%), Italian markets by 8 firms (4%). Spain and Portugal were indicated in their replies by 3 and 3 companies (3% together).

We were interested in the reason of making international business in the appropriate country. In case of Hungary and the Czech Republic companies mentioned as the most significant determinant the language knowledge. In these countries, eating habits, and consumer preferences are similar to those in the Slovak Republic. Austria was as a target market for their products chosen by management of examined companies mainly due to higher purchasing power and the possibility to obtain higher price for the same product in comparison to the Czech Republic, Hungary and Poland. Polish market is for the companies interesting because its market size and similarity of both languages. Reasons to enter the markets of other territories (Italy, Spain, and Portugal) are usually a contact to business partner, or some previous business activities on this market.

Except making international business in the territory of the EU Member States realize the examined companies their business activities also in the business environment of other European countries. Number of companies entering foreign markets in Europe, but outside of the EU, is relatively small, from the analyzed sample they represent 5% of business entities, i.e. 10 companies. Majority of this territory, (6 companies from the entire sample) is represented by the Russian Federation. We have found foreign trade activities of the only one company in case of the territories of Ukraine, Kazakhstan, Lithuania and Kyrgyzstan. Obtained results are illustrated in Figure 4.

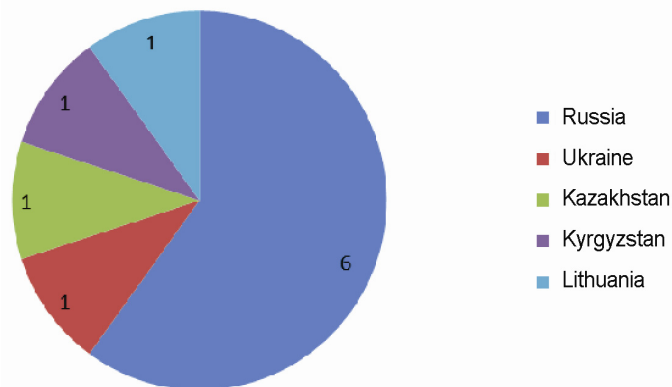


Fig. 4. International business outside the European Union Member States

Despite the international competitive dynamics and generally declared homogenization of customer needs, as the direct result of globalization processes, also the latest research accepts the necessity of adaptation processes in order to meet the needs of the local markets. Tonzali (2005) argues by social and cultural aspects of consumer habits, Lozza, Gallezot, & Galliano (2008) mention differentiation in developing new products, and Anastassopoulos & Rama (2008) by geographical diversification.

In international business practice, there are technical barriers of internationalization of business activities, determined by technical standards related to technical specifications or certification requirements (Wright, Westhead, & Ucbasaran, 2007). Companies have to take mentioned conditions into account when developing their own strategies.

Advancing globalization also supports marketing management strategies focused to global market segments (such as income, age, language group, environmental conditions, public communications, etc.). For corporate practice it means priority of effective market segmentation.

In our research we have focused to an analysis of several key factors of international business activities of the Slovak SMEs. We have determined and verified following two hypotheses:

H₁: We assume that there is a correlation between acceptance of business internationalization as the current trend of globalizing world, and the development of the volume of sales to foreign markets in the analyzed companies.

Using the χ^2 (chi-square) test of independence, we tested the hypothesis that there is a correlation between acceptance of the business internationalization as the current trend of globalizing world and the development of the volume of sales to foreign markets in the analyzed companies in the last three years (2010, 2011, 2012).

H₀: there is no relationship between the acceptance of the business internationalization as the current trend in a globalizing world, and the development of the volume of sales to foreign markets.

H₁: there is a correlation between acceptance of the business internationalization as the current trend in a globalizing world, and the development of the volume of sales to foreign markets.

Based on the results of chi-square test ($p = 0.2802$) and dependence on the significance level $\alpha = 0.05$ we cannot reject the hypothesis H₀. This means that for a set of companies, analysed in our research, there is no statistically significant correlation between acceptance of internationalization as the current trend in a globalizing world, and the development of the volume of sales to foreign markets. Cramer coefficient value on the level $p = 0.0890$ only, is thus smaller than 0.1. In this case it is a trivial dependence. It has been shown, that for analysed companies there are more important stimuli to provide international business than "copying" the trends of business internationalization. These factors include the regular orders and increase of competitiveness. Mentioned factors achieved the highest score on the rating scale of significance. The reason results from the fact, that real order from foreign buyers, and diversification of business activities by acting on both the domestic and foreign markets brings particular results.

We have also tested an additional hypothesis:

2: We assume that there is a difference in perceptions of the factors that give rise to international business of individual companies.

We were interested in, whether the differences in answers of the respondents to various questions about the factors that give rise to international business, were random or statistically significant. We tested whether the differences between the different factors, which are the reasons of international business of companies, are statistically significant.

H₀: there is no difference in the perceptions of the factors that give rise to international business activities of business subjects,

H₁: there is a difference in perception of the factors that give rise to international business activities of business subjects.

According to the results of the chi-square test ($p = 0.002$) we reject the hypothesis H₀ on the significance level $\alpha = 0.05$, that there is no difference in the perception of the factors that give rise to internationalization of business subjects. We accept the hypothesis H₁. Results are verified also by the Pearson coefficient ($p = 0.447$). Company perceptions of the different factors that represent the reasons of international business are individual. This means that companies are not motivated to provide an international business by the same reasons.

4. Conclusion

In the submitted article importance of small and medium enterprises active in the food industry in the condition of the Slovak Republic was described. Analysis was focused to international business activities of the Slovak the enterprises. Results of analysis of questionnaire contain data on legal status of the enterprises, classification of the companies according to their size, activity on foreign markets, as well as the territory of foreign market activities. Using the χ^2 (chi-square) test of independence we have found, that there was no statistically significant correlation between acceptance of internationalization as the current trend in a globalizing world, and the development of the volume of sales to foreign markets in the analyzed companies. Another analysis has confirmed there is a difference in perception of the factors that give rise to international business activities of business subjects.

Acknowledgements

Processing of this article was supported by Scientific Grant Agency of Ministry of Education, Science, Research and Sport of the Slovak Republic and the Slovak Academy of Sciences under the grant VEGA No. 1/0381/13.

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