Theory review: critical success factors for internationalization of small and medium-sized enterprises

Bojan MORIC MILOVANOVIC\textsuperscript{a}, Matea CVJETKOVIC\textsuperscript{b}

\textsuperscript{a}Associate professor, Institute of Public Finance, Smičiklasova 21, Zagreb, Croatia, 10000 Zagreb, Croatia
\textsuperscript{b}Student, Libertas International University, Trg J.F. Kennedya 6b, 10000 Zagreb, Croatia

Abstract

Internationalization of small and medium-sized enterprises is getting more attention from researchers who study different paths, strategies, entry modes and their behavior on international market, while also identifying their limitations, potential risks, and threats. Globalization, especially the growth of online sales channels and fast (and affordable) communication have simplified the complexity of internationalization, which has made it easier for small and medium-sized enterprises to participate in the international market. Gradual step-by-step internationalization process and long-term planning have been replaced with new, fast market entrance strategies. Lately, many companies are being founded that put their focus and operational activities on internationalization from the beginning (born global). This paper gives an overview of the main internationalization theories (traditional internationalization theory, the network theory, and international entrepreneurship theory) and discusses their importance. Additionally, it examines the motives for the internationalization, main barriers, main risks, and explores the critical success factors that are important in the process of internationalization. Information provided can be useful to the companies that consider expanding their business operations abroad.

Key words: internationalization; internationalization theories; critical success factors; SMEs

JEL Classification: F23, L26, M13

1. Introduction

Internationalization can be defined as any form of a business activity that crosses the national borders (Ruzzier et al., 2006) and it can include just a specific segment or an entire operational activity (Daszkiewicz and Wach, 2012). Integration of global markets followed by fast development of information and communication technologies opened up new opportunities for small and medium-sized enterprises
(SMEs) and enabled them to place local products and services on international markets (Ensari and Karabay, 2014). The growth of global market stimulates competitiveness, connects national economies and forces governments to adopt new regulations that boost cooperation between foreign companies. Globalization brought many new opportunities for small and medium-sized enterprises whose role also increased in the national economy, since they offer local products on the international markets and at the same time compete with multinational companies for a share of their domestic market (Ensari and Karabay, 2014). International business brings great change in day-to-day operations for small and medium-sized enterprises who are more affected by different risks due to the lower financial base, local focus, and limited geographical reach (Lu and Beamish, 2006). Internationalization includes more than just the import or export activities (European Commission, 2004); it also comprises of cooperation, alliances, and networking activities with partners abroad. At the same time, gaining the access to knowledge, technology and high-quality workforce are becoming one of the most important reasons for companies to expand outside the national borders.

Small and medium-sized enterprises are the backbone of every modern society (Has, 2019); they are the generators of new ideas and technologies and have a big effect on national economic growth (Savlovscchi and Raluca, 2011). World-wide statistics show that small and medium-sized enterprises are dominant in the economy; they represent about 99% of all the businesses and have a large effect on gross domestic income and job creation. Two thirds of all new jobs are created in the segment of small and medium-sized enterprises (Savlovscchi and Raluca, 2011). Moreover, they represent the balance factor on micro and macroeconomic level by making counterbalance to the monopolies and oligopolies in restricting their ability to control the market.

European Commission emphasizes the importance SMEs have on innovation and social integration in the European Union (Papadopoulos et al., 2018). According to Eurostat (2019), in 2016 in the European Union (EU-28) there were 24.7 million small and medium-sized enterprises that employed 95 million people and contributed 4,018 billion EUR of value added. In Croatia, small and medium-sized enterprises also comprise most of the market (99.7%) and provide jobs to 70% of all the employees, where largest number of SMEs operate in the service, trade, and construction sectors (Croatian Bureau for Statistics, 2018).

The purpose of this paper is to present the main theories of internationalization and to address the key motives why small and medium-sized enterprises enter new markets. It also briefly discusses the main barriers and risks of the internationalization process and describes the different modes of entry into foreign markets. At the end, the critical success factors are discussed as an important element that needs to be recognized and addressed by every manager to successfully run day-to-day
operations. Identifying the critical success factors can help SMEs reach their goals and accomplish their plans when entering new markets.

2. Theories of internationalization

Many internationalization theories were developed to explain different paths and performances of companies on foreign markets (Andersen et al., 2014). Most research on internationalization theories started in the early 1960s and 1970s. The first theories observed internationalization as a steady entrance into a foreign market, where each new step would include more engagement on the international level. However, new theories started to develop due to the various rapid changes that started in the 1990s which led to the emergence of the new kind of companies that operated internationally from their inception (born global). Internationalization for each company includes different levels of involvement and commitment on the foreign market (Ribau et al., 2015). Various elements of internationalization were being observed by scholars and eventually became a part of many theories and models - some of these theoretical models are presented in table 1.


<table>
<thead>
<tr>
<th>Internationalization Theory/Model</th>
<th>Founder(s)</th>
<th>Main concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment (FDI) decision models</td>
<td>Hymer (1971)</td>
<td>Entering new markets is associated with learning experience which reduces risk and uncertainty. Company needs to possess a unique competitive advantage to overcome difficulties on the foreign market.</td>
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<tr>
<td>Transaction cost theory (TCT)</td>
<td>Williamson (1975, 1985)</td>
<td>Emphasis is put on all the additional costs that a company faces when operating on a foreign market. Three main groups are: asset uncertainty, asset frequency, and asset specificity. Asset specificity represents the crucial dimension since it marks the company’s availability to enter the market with its own resources or relates to a decision to make additional investments.</td>
</tr>
<tr>
<td>Uppsala model</td>
<td>Johanson and Wiedersheim-Paul (1975); Johanson and Vahline (1977)</td>
<td>Internationalization is seen as a gradual market entrance where each new step marks higher level of the international involvement.</td>
</tr>
<tr>
<td>Innovation-related model</td>
<td>Bilkey and Tesar (1977)</td>
<td>Through innovations a company gains its competitive advantage which is necessary to successfully operate in the international markets.</td>
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<tr>
<td>Eclectic paradigm</td>
<td>Dunning (1980, 1988)</td>
<td>Also known as OLI (ownership – location - internationalization) paradigm; a combination of different approaches. Internationalization will occur if the company: (1) possesses a competitive advantage, (2) has specific ownership characteristics, and (3) when operating on a specific location can result in increase in profits.</td>
</tr>
<tr>
<td>Network models</td>
<td>Johanson and Mattsson (1986, 1988)</td>
<td>International markets are seen as a relationship network in which companies can learn and develop.</td>
</tr>
<tr>
<td>Network based perspective</td>
<td>Johanson and Vahlne (1990, 1999)</td>
<td>Emphasizes the importance of business networks in order to accomplish business goals. Four stages of internationalization: 1) the early starter, 2) the late starter, 3) the lonely international, 4) the international among others.</td>
</tr>
<tr>
<td>Resource based view (RBV)</td>
<td>Barney (1991)</td>
<td>In order to enter new markets, a company has to possess resources that help accomplish competitive advantage. Resources have to be valuable, rare, inimitable and non-substitutable.</td>
</tr>
<tr>
<td>Institutional theory</td>
<td>North 1990; Oliver 1991</td>
<td>Analyzes the relationship between a company and its external environment to overcome different constraints.</td>
</tr>
<tr>
<td>International entrepreneurship model</td>
<td>Jones and Coviello (2005)</td>
<td>Focuses on innovative activities and creating added value for customers.</td>
</tr>
</tbody>
</table>
Born again global

Bell at al.

(2005)

Companies enter a new market in a traditional way, but due to different circumstances their internationalization process rapidly increases.

Mostly, three theories prevail: traditional internationalization theory, the network theory and international entrepreneurship theory. *Traditional internationalization theory* (or Stage theory) emphasizes the gradual entrance on foreign markets (Daszkiewicz and Wach, 2012). Johanson and Wiedersheim-Paul (1975) noticed that at the beginning most of the companies sell their products on the local market until they reach certain level of profits and market share when they get involved in indirect export activities, after which they start with global internationalization or direct export activities. Each phase represents new and larger level of international involvement, as shown in figure 1.

The above-mentioned phases are called the “establishment chain”. During the internationalization process, not all the companies will follow every step, mostly because of the two reasons: (1) the market is not large enough, or (2) the management has the international experience, and it can manage complex decisions (Johanson and Wiedersheim-Paul,1975). Traditional internationalization theory has two main models: Uppsala model and Innovation-related model (Kunday and Senguler, 2015). *Uppsala model* was developed in 1977 when Johanson and Vahlne, by observing Swedish companies, noticed that for the most of them internationalization was a result of a series of incremental decisions made primarily due to the lack of knowledge about the foreign market (Johanson and Vahlne, 1977). By entering gradually on the new market, company gains knowledge and steadily increases its level of involvement. The theory is based on four different concepts: *market commitment* (investments planned for the international operations), *market knowledge* (information about the foreign market), *current activities* (current operations that help in establishing the business
 abroad) and commitment decision (resources allocated for international operations) (Andersen et al., 2014). Model accentuates the physical distance as an important element in internationalization decision-making process. Physical distance can be defined as a group of factors that prevent or interfere with the information flow between the company and the market and includes the differences in the language, culture, political systems, educational level and the industrial development. With the gradual market entrance companies can easily deal with the market changes and make more risk-adjusted decisions (Lin, 2010). The second model in traditional internationalization theory is Innovation-related model, established by Bilkey and Tesar in 1977 (Kunday and Senguler, 2015). According to the model, the company sees the internationalization as an innovation process, or as a process of achieving competitive advantage through its characteristics, skills and production modes. Product innovations are necessary in order to successfully operate on the global market (Kunday and Senguler, 2015), therefore, the model explains that the company’s learning abilities lead to the innovation of the products and services which then in turn lead to the company’s incremental involvement on international markets (Lin, 2010). There are several drawbacks of the traditional internationalization theory when being applied to modern times (Rialp and Rialp, 2001). First, it mostly focuses on export as a foreign market entry mode and neglects the other options that are available to contemporary companies. Second, it lacks flexibility since all entry steps are already predefined. Lastly, it does not explain the background of management decisions to move to the next phase. Therefore, to better understand internationalization processes in today’s contemporary environment, other models and theories need to be considered as well.

The second group of theories, the network theory, was developed by Johanson and Mattsson (1987) who, through their network approach, emphasized the importance of business networks where companies can establish different types of cooperation with the purpose of reaching their business goals. Johanson and Mattson (2015) pinpoint four types of international enterprises: 1) the early starter, 2) the late starter, 3) the lonely international, and 4) the international among others. For the early starter the biggest challenge can represent forming a network since the company has limited experience in international business, while the lonely international possesses the experience but operates on a market with local focus, so it can encounter different problems while coordinating its activities (Chetty and Blakenburg Holm, 2000). The late starter enters the market on which there are already established networks, so the company can experience difficulties fitting in and establishing long-term connections. On the other hand, the international among others has international experience, but is involved in several networks in different markets, and can experience problems managing them (Daszkiewicz and Wach, 2012). Johanson and Mattsson (1987) see internationalization as a natural process that arises from the cooperation that a
company creates with the foreign companies or partners. That cooperation, called network, assumes division of responsibilities, which means that all the participants are interdependent and rely on coordination of activities that are established through the interaction of companies inside the network.

Due to the new concepts and changes in the markets and internationalization process, in 2009 Johanson and Vahlne have modified Uppsala theory and formed a Network-based perspective, replacing the concept of market commitment with business networks (Daszkiewicz and Wach, 2012). Uppsala model from the 1975 assumes the resemblance of domestic and foreign markets (Forsgren, 2016) and neglects change factors that affect business operations (Johanson and Vahlne, 2009). When operating abroad, companies change in two ways: (1) by learning, gaining experience and adopting new knowledge, and (2) by establishing different agreements (commitments) with other companies. According to Johanson and Vahlne (2009) Network-based perspective brings novelty in the way markets are observed and views international market as a business network. Furthermore, network-based perspective emphasizes the importance of creating internal and external organizational networks that accelerate the internationalization (Bose, 2016). Stated differently, different forms of networks will affect the mode and the degree of internationalization process. Cooperating in technological, financial, and other business segments with different network members, companies are able to deepen their relationship and gradually increase their activities outside the national borders, until they become international (Bose, 2016). Moreover, from the business perspective, network theory recognizes the difference between the insider and the outsider (Blankenburg Holm et al., 2015), where insider is the company that does not have specific knowledge about the foreign market, while outsider is the company that has well-established relationships in foreign markets. Johanson and Vahlne conclude that the insidership is the key to successful internationalization (Johanson and Vahlne, 2009).

International entrepreneurship theory represents combination of entrepreneurship and international business, and it refers to companies that launch their innovative activities across the national borders, regardless of their age or size (Al-Aali and Teece, 2013). International entrepreneurs are characterized by a proactive behavior directed towards innovations while creating added value to the clients. In 1994 McDougal and Oviatt noticed that a certain number of companies internationalize from their start and that they do not follow the steps predefined by the former theories. They named those companies International new ventures -INV (McDougal and Oviatt, 1994). To understand the expansion of INV on new markets, three elements need to be taken into account: their founders, motives for internationalization and the modes of operation on international markets (McDougal et al., 1994). The founders observe and monitor the potential markets to identify new opportunities to allocate the unique
resources they possess on domestic market and launch them on the foreign markets. The internationalization is incorporated into their business strategy from the beginning. They usually enter new markets by forming a network or a partnership to overcome their weakness and constraints. Changes at the beginning of the 1990s, driven by a globalization, formed another concept: born global. It implies many terms, such as: “innate exporters, high-tech start-ups, instant internationals, etc.” (Kunday and Senguler, 2015). The born global concept was created during the research done by The Australian Manufacturing Council under the guidance from consulting firm - McKinsey (Falahat et al., 2015). They were the first to recognize the group of entrepreneurs who engaged in export activities within the just two years of their foundation. Therefore, this type of entrepreneurs is seen as a group that wants to accomplish competitive advantage by placing their products or services on international markets right from the start. The companies are characterized by great activity and presence on foreign markets, the lack of material and financial resources, extensive use of information and communication technologies, strong entrepreneurial orientation, strategy differentiation, and a superior product quality (Falahat et al., 2015). They usually concentrate on a market niche and expand their operations on several markets at once (Daszkiewicz and Wach, 2012). All three theories are depicted in the figure 2, which outlines the basics of companies’ behavior on international market and displays the key elements that each previously presented model focuses on.

![Diagram of Internationalization Theories](image)

Figure 2. Internationalization theories (source: modified from the Kunday, Ö., & Şengüler, E. P. (2015). ‘A Study on Factors Affecting the Internationalization Process of Small and Medium Enterprises (SMEs).’ *Procedia - Social and Behavioral Sciences*, 195, p 976)

A number of authors consider the above-mentioned theories fragmented in a way that they represented just a part of the internationalization process (Daszkiewicz and Wach, 2012; Fletcher, 2011; Rialp and Rialp, 2001). Considering the complexity and
multidimensionality of internationalization in today’s environment, they suggest developing a new approach that combines several aspects and features of internationalization. For example, Richard Fletcher (2011) believes that in today’s fast-paced market characterized by rapid changes in which the customers are accustomed to receiving products and services “instantly”, companies will need to deliver their products simultaneously on several markets, faster than before, while at the same adjusting the product features for each market segment. New approach is based on inward-driven activities (such as import), outward-driven activities (export), and linked activities (e.g., partnerships), which are interconnected and under the influence of numerous external and internal elements (Daszkiewicz and Wach, 2012). For that reason, new, holistic approach needs to be considered when discussing about the internationalization. The model needs to accept: (1) the dynamism of the market, (2) the internationalization costs, (3) different entry modes and choices available to SMEs when considering expanding their activities abroad, (4) relationships with partners, suppliers, or customers and (5) learning experience that managers gain which benefit internationalization further. Integration of all these elements helps in better understanding the internationalization process today (Rialp and Rialp, 2001).

3. Entry modes and motives for internationalization

Before entering a new market, company usually has to think about answering four basic questions: (1) what? (product dimension), (2) where? (market dimension), (3) how? (operations dimensions) and (4) when? (time dimension) (Ruzzier and Konečnik, 2006). For majority of entrepreneurs the most important decision and the first step when starting the internationalization process is the way how the company will enter the new market (operations dimension). This decision directly has an impact on all the other decisions which come later. Since there is not just one ideal strategy for internationalization, companies can follow various ways when entering foreign market(s). However, every entry mode differs in the complexity of responsibilities, levels of risk, and control (Malenica and Dorbić, 2014). Mostly, the ones with more risk and commitment bring the larger profits. Export represents the easiest way to enter the foreign markets, and usually is the first choice of internationalization for small and medium-sized enterprises, where they can choose either to export directly, or indirectly. In indirect export a company enters a new market through an agent, usually local importer or a dealer who then takes over the responsibility to sell the products. This type of operations is characterized by low levels of risks and expenses, but also low levels of control. When exporting directly on the foreign market, the company takes over all the risks and commitments, but at the same time has higher level of control and can harvest larger profits.

When answering the “where” question (market dimension), most companies will probably first enter the markets they understand the best and where the “perceived
“uncertainty” is low (Ruzzier and Konečnik, 2006). Evaluation of potential foreign markets usually consists of four phases: identification, preliminary research, detailed research, and selection (Malenica and Dorbić, 2014). One of the main reasons businesses fail in internationalization is the lack of information about the target market. Information can be collected from primary (first-time research) or secondary (existing research) sources and represents the foundation for internationalization decision-making process. Geographical distance plays a big role in the decision to internationalize, and it includes cultural, political, and environmental dimensions (Ruzzier and Konečnik, 2006). The larger the distance between the domestic and foreign market and the greater the difference in the way companies operate result in fewer information about the target market. For that reason, when deciding which countries to enter, most of the companies choose the markets in the neighboring countries they know the best. Product dimension refers to the variations of the products that a company offers on a foreign and local market, and it comprises of different categories: products, services, knowledge, and systems (Ruzzier and Konečnik, 2006). The style and the level of product adjustments depend on the preferences of the customers, so they can differ on every single market. Time dimension represents the time required to enter a foreign market. Today, the time dimension is getting shorter since lots of companies are founded with the purpose of operating on foreign markets. The process of entering new markets is extremely complex; it requires business and operation analysis, strategy development and intensive planning, and usually involves many different steps which are shown in figure 3 (Hollensen, 2014).
The growth and the increase in profitability are the two main reasons why small and medium-sized enterprises expand their business into international markets (Lu and Beamish, 2006). Other important reasons why SMEs enter new markets are to increase their competitiveness and to gain access to new customers and new suppliers (Škrtić and Mikić, 2009). Stated differently, company will most likely enter the process of internalization if the local market is declining or is being saturated, if there is a risk of the market share loss, or if the owner wants to expand the operations outside national borders (Paunović and Prebežac, 2010). It is often emphasized that management characteristics represent important element in the internationalization decision-making process, since in most SMEs all the important decisions are made by
only one person or a smaller group of people (Mikić et al., 2019). Moreover, an empirical study on 88 Croatian SMEs showed that there is a positive relationship between managerial characteristics and internationalization (Mikić et al., 2019).

Decision to enter foreign markets is often linked with the age, education, language skills and market knowledge of the owner/manager. When defining their market entrance strategy, managers can consider six different ways to expand their operations internationally: exporting, turnkey contracts, licensing, franchising, joint venture, and wholly owned subsidiaries (Hill and Hult, 2019). Advantages and disadvantages of each entry mode are shown in table 2.


<table>
<thead>
<tr>
<th>ENTRY MODE</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exporting</strong></td>
<td>Realization of location and experience curve economies</td>
<td>High transportation costs</td>
</tr>
<tr>
<td></td>
<td>Increased speed and flexibly</td>
<td>Possible trade barriers</td>
</tr>
<tr>
<td></td>
<td>Low development costs, low risks</td>
<td>Problems with local agents</td>
</tr>
<tr>
<td><strong>Turnkey contracts</strong></td>
<td>Ability to earn large returns in regard to the investments</td>
<td>Unable to create long-term presence</td>
</tr>
<tr>
<td></td>
<td>Moderate degree of involvement</td>
<td>Creation of competition</td>
</tr>
<tr>
<td><strong>Licensing</strong></td>
<td>Low development costs, low risks</td>
<td>Lack of technology control</td>
</tr>
<tr>
<td></td>
<td>Moderate degree of involvement</td>
<td>Inability to create location and experience curve economies</td>
</tr>
<tr>
<td></td>
<td>Lack of global coordination</td>
<td></td>
</tr>
<tr>
<td><strong>Franchising</strong></td>
<td>Low development costs, low risks</td>
<td>Lack of control over the quality of operations</td>
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<td></td>
<td>Possibility of overcoming the trade barriers</td>
<td>Lack of global coordination</td>
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<tr>
<td></td>
<td>High sales potential</td>
<td></td>
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<tr>
<td><strong>Joint ventures</strong></td>
<td>Access to the local knowledge</td>
<td>Lack of technology control</td>
</tr>
<tr>
<td></td>
<td>Shared risks and costs</td>
<td>Lack of global coordination</td>
</tr>
<tr>
<td></td>
<td>Politically acceptable</td>
<td>Inability to create location and experience curve economies</td>
</tr>
<tr>
<td></td>
<td>No ownership restrictions</td>
<td></td>
</tr>
<tr>
<td><strong>Wholly owned</strong></td>
<td>Technology protection</td>
<td>High costs and risks</td>
</tr>
<tr>
<td><strong>subsidiaries</strong></td>
<td>Global coordination</td>
<td>Increased need for human and material resources</td>
</tr>
<tr>
<td></td>
<td>Realization of location and experience curve economies</td>
<td>Need for integration with local employees</td>
</tr>
</tbody>
</table>
Factors that motivate companies to internationalize can be classified into *push* and *pull* factors (Škrtić and Mikić, 2009). *Push* factors relate to the local market conditions that “force” the company to look for new markets and clients outside their national borders and these factors can include: saturated local market, large number of competitors on domestic market, restrictive legal regulations, etc. (Andrijanić and Pavlović, 2016). *Pull* factors are associated with the attractiveness of the international market, such as: economic and demographical growth of the target market and various incentives like easiness of doing business, legal system, and free trade, etc. (Andrijanić and Pavlović, 2016). The company can also enter new markets to gain access to new technologies, reduce production costs, or take a certain niche that best fits its products/services (Knego, 1998). The way the company enters a foreign market depends on the strategy it follows and the competitive advantage it transfers from domestic market to the international markets that lack those elements (Hill and Hult, 2019). Internationalization depends on many aspects that are shown in figure 4 and can be divided into: internal and external factors, characteristics of product, entry mode, and transaction characteristics (Hollensen, 2014).


### 3.1. Challenges and barriers to internationalization

According to the European Commission (2004), small and medium-sized enterprises decide not to enter foreign markets for two main reasons: (1) it does not fit their business strategy or (2) they find internationalization barriers being too high.
and the process too risky. Internationalization barriers can be divided into internal or external. The most common internal barriers are:

- High costs,
- Undeveloped internationalization strategy,
- Lack of skilled employees with the necessary knowledge about the international business operations,
- Price of products and services that is not competitive on the international market,
- Lower quality of the products not suitable for foreign customers.

Laws and regulations in foreign country represent the biggest external barrier for internationalization (European Commission, 2004). Other barriers can include: local/national laws and regulations, limited financing options, weak governmental support, lack of information about the foreign markets, and language and cultural differences (Škrtić and Mikić, 2009). Many companies also face trade barriers, import standards and restrictions, or governmental measures that protect domestic production.

### 3.2. Internationalization risks

Operating on a foreign market is very risky for small and medium-sized enterprises. Due to their size, and the fact that SMEs sometimes lack skilled employees and financial resources, it can be very difficult to identify potential risks and develop adequate strategies (Kubičkova and Toulova, 2013). SMEs usually do not have fully developed risk mitigation plans and are not well prepared to respond and to manage all the potential threats that could come from their environment (Asgary et al., 2020).

As stated earlier, globalization and information-communication technology allowed SMEs to operate on international markets, however, by being present on the global market also means being aware of the global problems and risks. In today’s interconnected world, all major crises are inevitably felt on every market and have a certain effect on various business operations. Internationalization risks can be classified into economic and country risks (Andrijanić and Pavlović, 2016). Economic risks arise from day-to-day operations, and they include:

- Market risk – can originate from subjective weaknesses (unprofessional employees, errors in the work systems, poor business planning, etc.), or from objective weaknesses that can occur during import or export activities (administrative restrictions, etc.).
- Price risk – represents the risk that the already agreed price of the product or service could change and the cost caused by the price movement will bear either the buyer or the seller.
Credit risk – represents adverse possibility that product or service sold on credit would not be paid on time.

Non-performance risk - represents the threat that the agreed obligation will not be met. It can occur in two forms: (1) the seller does not fulfill his/her responsibilities (does not deliver the product), or (2) the buyer does not accept the product.

Country risks represent insecurity for a company since these risks arise outside of the company’s direct control. These risks can be classified as: (1) political risk that occurs from political instability in a foreign country (wars, revolutions, protests, etc.), (2) risk of limitations or prohibition to make international money transfers comes with the various government measures, and (3) conversion risk which is characterized by the inability to make payments from one country to another because of different state regulations (Andrijanić and Pavlović, 2016).

World Economic Forum regularly issues Risks Reports in which 30 major global risks have been identified that affect businesses all around the world. Apart from economic and (geo)political, they have also identified technological, social, and environmental risks as new threats for the contemporary societies (World Economic Forum, 2019). Financial market instability, growth of global debt and the increase of inequality between the rich and poor comprise the economic factor. Small and medium-sized enterprises are more affected by economic crises and recover slower, due to the limited resources, weaker financial structure, inability to lay-off employees, etc. (Asgary et al., 2020). On the geopolitical level the risk can represent the growing tensions between world’s largest powers, which can reflect on the economic level as well. The weakening of multilateralism; loss of trust in international institutions and withdrawal from the multilateral agreements can also represent the problem for many businesses (World Economic Forum, 2019), especially small and medium-sized since multilateral agreements gave new possibilities for them to do business on global market (Asgary et al., 2020). These fragmentation trends can lead to the increase in costs of insurance, transportation, raw materials, etc. which can in turn significantly affect their business operations. Environmental problems are also getting more attention and are recognized as an important issue in today’s world. Extreme weather conditions with catastrophic consequences and climate degradation affect not only the human health, but also have an impact on social and economic development. Research has shown that around 25% of small and medium-sized enterprises do not recover after the large environmental accidents caused by extreme weather manifestations, natural disasters, etc. (Asgary et al., 2020). Even though the statistics show that from 1980 to 2013, there were total of 12,012 disease outbreaks (Smith et al., 2014), and each month World Health Organization follows-up on 7,000 potential pathogen threats (World Economic Forum, 2019), current COVID-19 pandemic showed that the society is completely unprepared for pathogen outbreaks. The
pandemic has paralyzed various business activities all around the world and has had devastating consequences for many of them. It is estimated that 41% of SMEs in United Kingdom stopped working due to the COVID-19 crises, out of which 35% of them will not re-open for business (Juergensen et al., 2020). Even larger effect was seen on Italian business, where 70% of SMEs were affected by lockdown. The pandemic has had short-term and long-term effects on small and medium-sized enterprises. In the short run, for example, the lockdown has caused logistics disruptions which had immediate effect on their supply chains. On the long-run, the effects will be seen through the increase in investments that lots of SMEs had to undertake – many of them had to invest in online sales channels, training, and education of their employees and to re-organize their business operation. On the other hand, for some of the companies, these investments will represent the business opportunity as well (Juergensen et al., 2020). Analysis of social risks demonstrated that we currently live in the “age of anger”, with negative feelings being expressed on all the levels of society. Over 700 million people are affected with mental health problems, stress, and fear of change (World Economic Forum, 2019). It is something that cannot be neglected since people are the most important asset in every business. An independent UK Survey showed that in the period from 2009 to 2017 work absences caused by mental health problems increased by 5%. Depression, loneliness, lack of empathy, and addiction problems are connected to technology that also represents a big risk in today’s business environment. Cyber-attacks, hacking, loss of privacy, and data theft are increasing and pose a great threat to the companies. These trends demonstrate the immense number of changes that put pressure on individuals, companies, and societies to handle and absorb. That is why it is necessary to regularly monitor the situation on foreign markets, anticipate and prepare for the risks and proactively react to different events.

4. Critical success factors for small and medium sized enterprises

The idea about the critical success factors was first developed by Rockart (1979) to help decision makers identify the most important elements in the operations in order to bring competitive advantage to the company. Critical success factors are those elements of the business where everything must function “smoothly” to successfully realize management plans (Bullen and Rockart, 1981). Critical success factors relate to the strategy, purpose, goals, measures, and problems that are mutually dependent and affect each other. There are many advantages of identifying critical success factors (Bullen and Rockart, 1981), such as:

- The focus is being placed on the precise elements that require most attention, which results in time and cost reductions connected with collecting the information and creating reports,
- The management can create plans that target specific elements,
It gives the clear picture of the areas that require the most work and that need additional improvement.

When critical success factors are placed within the internationalization framework, they vary and are different in each country where a company does business, and depend on economic, geographical, and cultural differences. Research has shown that internationalization success depends on the following critical success factors: characteristics of a manager/entrepreneur, characteristics of a company, knowledge and experience of employees, product/service quality and its innovative features, customers and market characteristics, financial resources, strategy development, and external environment (Ensari and Karabay, 2014)

Lately, additional three elements are getting more attention: strategic partnerships (networking), Internet and innovation. Networking can be defined as a mutually formed groups of entities that collaborate in order to accomplish certain business goals (Morić Milovanović et al., 2016). Through the established network, companies can gain access to those resources they are not able to control and, in that way, create a competitive advantage. In addition, networks and partnerships help SMEs surpass internal and external barriers and minimize risks, which in the end can increase their success on the international market (Bose, 2016). Networks do not just include cooperation with other companies, but with various other entities, such as individuals, public agencies, and organizations, including the competitors as well (Mikić et al., 2016). When partnering with competitors in international markets, companies build up the knowledge they have on the industry and can successfully develop and accomplish their business strategies. Moreover, competition positively affects internationalization since competitors constantly try to outperform each other and look for new ways to improve (innovate) their products and services (Mikić et al., 2016).

Another factor that positively affects internationalization process is the capacity increase through the development of e-commerce business (Bose, 2016). Investing in e-commerce and e-marketing seems as an indispensable step in today’s era of rapid growth of communication and information technologies. If companies do not invest in online business, they could lose their competitive advantage. “Cross border e-commerce (CBES)” refers to selling products or services on international markets via Internet channels (Elia et al., 2019). Main initiators of this trend are the world’s largest e-commerce markets: China, United States of America, and Great Britain. CBES today accounts for 30% of total world online commerce, so it represents a great opportunity for traditional, local companies to expand their business into international markets. Innovation development for some of the authors marks the most important factor for successful internationalization (Bose, 2016; Navarrete-Hinojosa et al., 2016). Innovation can be defined as presenting new or significantly modified product,
service, or a process within the company’s internal operations, or towards the external actors (Navarrete-Hinojosa et al., 2016). The process of launching the new product or service on international markets most of the time includes some sort of modification or adjustment to the customer’s preferences, which implies a certain degree of innovation. If the company wants to gain a competitive advantage, it is very important to continually innovate its products or services, since imitators can easily copy the product and offer it at a lower price.

5. Conclusion

Small and medium-sized enterprises, as a significant factor in the economy of every state, became important international players, as well. Numerous emerging SMEs have demonstrated that even with the limited financial and human resources, it is possible to successfully enter foreign markets. It seems that SMEs no longer doubt if to internationalize, but rather their main concerns are when and how (Mroczek, 2014). Foreign markets bring new opportunities, but also new risks and threats. However, due to their flexibility and adaptability, small and medium-sized enterprises can adjust to those changes faster than the large companies. The studies have shown that the reason why most of the SMEs internationalize nowadays is not only to increase their profits, but also to gain access to knowledge, technologies or join partnerships and alliances. Even though some of the companies enter foreign markets from their foundation, internationalization is a complex process that requires intensive planning. Knowing the opportunities, but also recognizing and understanding the threats and the risks, can help in successful strategy implementation. The advantages of doing business on international markets are numerous, but only if the companies prepare well for them. Their decision to enter foreign markets also depends on many internal and external factors. Identifying the risks and barriers on time is extremely important since SMEs have limited resources and cannot always adequately react to every potential problem. High cost of internationalization, lack of skilled employees, national and foreign laws and regulations, and lack of information about the foreign market are just some of the most frequent barriers SMEs face while trying to internationalize.

There are many factors that affect SMEs success on international markets, such as: characteristics of entrepreneurs, innovative products/activities, partnerships, and the internet usually being emphasized as the most important ones. By recognizing the critical success factors managers can save time and money since it will allow them to better understand on which part of the business they need to focus on and devote their time to. Considering the ever-increasing importance small and medium-sized enterprises have in international markets, their entry strategies are being observed and examined by researchers to better understand what kind of actions and strategies successful SMEs take when expanding their business abroad. Three most common theories explaining such process, traditional internationalization theory, the network
theory and international entrepreneurship theory, unfortunately show only a segment of the successful internationalization strategy, i.e., a piece of the puzzle. Twenty-first century, characterized with rapid changes, requires new points of view and an integration of different perspectives that would provide a more holistic approach. Taking into the account SMEs’ entrepreneurial spirit and innovative capabilities, it will be interesting to see what the development of theoretical framework brings in the future.

References


Moric Milovanovic, B., Cvjetkovic, M. / Theory review: critical success factors for internationalization of small and medium-sized enterprises


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