

STRATEGIC ASPECTS OF SMEs INTERNATIONALIZATION

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SMEs play a crucial role in driving economic growth, job creation, fostering innovation through creation of knowledge and technology in the nation's economic and social development. The evolving process of globalization along with rapid development of ICT technologies and digitalization set a pressing need for SMEs to internationalize their activities in order to gain competitive advantages or simply to increase their market shares. While sufficient evidence and empirical analyses of internationalization activities exist among large companies, the SME's internationalization potential has been rather underestimated.

According to the OECD report, SMEs represent 99% of all businesses and between 50% and 60% of value added, and almost one person out of three is employed in a micro firm with less than 10 employees and two out of three in an SME. SMEs are gaining pace with R&D, digitalization processes by developing disruptive innovation or breakthrough innovations.

The obvious advantages of internationalization include access to new markets, resources, customers, talents, knowledge, as well as value chain participation, brand amplification, risk diversification, acquiring international business experience. However, internationalization imposes additional costs on logistics and coordination, organization changes, currency fluctuations, institutional and business culture differences.

Globalization serves as a "catalyst" for growing uncertainty in turbulent business environment. Globalization creates high volatility of the business environment, as an economic or political upheaval in one country or region immediately impacts other countries and regions, thereby creating permanent entropy. Therefore, the focus of international business has shifted from considering the benefits and risks of internationalization as such to considering internationalization strategies of companies operating in the global market.

The turbulence and unpredictability of business conditions do not allow companies to follow rigid pre-selected strategies, since forecasting the future is impossible. The company should monitor all possible conditions of the future and

provide managerial decisions leading the company to success in any of these conditions. For this purpose, the company should create its own specific resource which is the ability to describe the future state and the ability to prepare in advance for any developments. Uncertainty is a coherent feature of international business that requires various strategic solutions to manage uncertainty and mitigate risks.

SMEs canvas of participation in global markets and global value chains is represented by “born global” companies and international new venture companies which are highly innovative SMEs fully integrated into global markets (“small multinationals”) and SMEs that export or are embedded in global value chains as suppliers of exporters. Outsourcing has evolved into a common global business practice with the prior motif to lower production costs and increase knowledge that allows for companies to improve their competitive position. Taking into account SMEs internationalization motifs, outsourcing can be basically related to cost reduction in terms of purchase or production, and exporting to cost reduction in terms of sales. Traditionally outsourcing has been approached for cost-containment purposes, companies would outsource their non-core activities of their operation to foreign firms in order to focus on their core competencies which will provide these firms with a stronger source of competitive advantage. The recent research suggests that SMEs are motivated to outsource in order to gain access to knowledge, technology and skills that is most evident in the high technology sector.

Knowledge is widely recognized as the driver of productivity and economic growth. Economic, social and technological changes in the world’s economy have been recently explained by the concept of knowledge economy, i.e. production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance. SMEs are important elements of knowledge-based economy as they represent demand for new technological solutions and mobilize highly skilled human resources. SMEs collaborative initiatives in the international arena contain a great potential not only to drive innovation and to also produce synergy results as to improvement of quality and standard of living in specific areas.

It is imperative to enhance SME’s internationalization intelligence, i.e. systemic process of acquiring knowledge and information on international opportunities for SMEs that involves proactive participation in various networks. The ability to initiate, create and sustain networking is the key factor for SMEs to acquire information and knowledge on internationalization. SMEs’ maintenance of internationalization intelligence is an important decision-making tool on evaluation of a company’s readiness to internationalize, choice of foreign markets, product development, identification of an entry mode, formulation of internationalization

strategy on foreign market entry, international growth and expansion, ensuring long-term international operation, reduction of uncertainty related to venturing abroad, enhancing learning of international business culture.

The key networks include institutions, i.e. governmental bodies, ministries, Chambers of Commerce, SMEs development agencies, International Trade Organizations, NGOs, international business associations and foreign bodies; business associates, i.e. other suppliers/companies, foreign partners, foreign customers/clients, agents and distributors, experts, multinational companies, global supply chain, etc.

The key EU small and medium business support programs include:

- COSME: information on entrance the European market and starting a business in Europe, consultation and mentoring, networking platform;
- InnovFin (Horizon 2020): financial and consultative support of innovative business in Europe;
- SME Instrument: full-cycle support of high-risk and high-potential SMEs to develop and market new products, services and business models that can drive economic growth;
- Creative Europe: SMEs' consultative and financial support in the cultural and creative industries.

Sharing internationalization intelligence also takes place at various business networking platforms such as trade shows, forums, conferences and seminars. Access to appropriate networking business platforms can create international awareness which is an important driver for SMEs to accelerate their internationalization process.

Even though SMEs are to some extent self-motivated to seek opportunities of internationalization once such a decision is made, a substantial part of success is related to the corresponding economic policy pursued by a given country, available support and assistance programs to promote SMEs internationalization and international collaborative initiatives based on transparency principles.

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