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„Internationalization Strategy of Family SMEs:
Focus on the Czech Distribution Firm“

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List of abbreviations

SME – Small and Medium Sized Enterprise

EU – the European Union

EIF – the European Investment Fund

EIB - the European Investment Bank

US – the United States

1 Introduction

1.1 Background

The internationalization of family firms is reaching a significant research area (e.g. Sciascia/Mazzola, 2012). Small family firms have traditionally concentrated their activities on domestic markets, but in the last years changing market conditions force them to internationalize. Otherwise, their survival would be threatened by increasingly competitive global market. Since family owned firms may internationalize differently in comparison to firms with other ownership structures, it is important to study family businesses separately and identify their characteristics in the internationalization context (Grave/Thomas, 2006; Fernandez/Nieto, 2006; Johanson/Vahlne, 2009). For example, Zhara (2003) found out that managers of family-owned firms attempt to maximize their profits on a limited number of foreign markets instead of aggressive extension of their operations on broader front. There is also a theory that family firms may have problems to set up a portfolio of strategic resources, which complicates their foreign expansion (Fernandez/Nieto, 2006).

By planning and creation of the internationalization strategy, it is important to take these and also other features of family firms into consideration, because the clear idea and suitable strategy provide the basis for the successful business.

1.2 Problem statement

Planning of entry strategies is complicated process. To managers of family owned small and medium sized enterprises (SMEs) may appear that such steps can afford only large companies with sufficient knowledge and resources. Research of the huge amount of information using complex research techniques may lead to the misconception of the internationalization planning process. The basis is an idea of planning internationalization strategies. Once the manager has the idea, the internationalization process can be defined more clearly and thereby the market entry is much easier. In such a case, even the limited resources are not a barrier. Still, engagement of SMEs in new markets involves high risk arising from volatile market environment in the sense of economic and political instability

in the foreign country. Without the internationalization strategy, SMEs have to face superfluous obstacles, which lead to a substantial risk of failure.

1.3 Purpose

The purpose of this thesis is to analyse the current internationalization strategy and to propose the most suitable internationalization strategy for the Czech family owned SME Lindcare. In order to reach the purpose, it is important to define characteristics of the company, its motives and potential obstacles. Therefore, in this thesis the following research questions should be answered:

- What are the characteristics of Lindcare?
- How these characteristics influence firm's internationalization process?
- What are the motives of Lindcare to internationalize?
- Which internationalization theory does the firm follow and why?
- By which problems is the firm confronted?
- How to solve these problems?
- What internationalization strategy would be suitable for this SME in the future?

1.4 Delimitation

The internationalization of family owned SMEs is a broad topic and it is difficult to identify all external and internal factors influencing company's internationalization strategy. The restricting factor is that science cannot predict human behaviour and explain it by means of common. The internationalization behaviour varies and the scientific literature seems to lack explaining and predicting company's internationalization process accurately. Due to the complexity of the internationalization, many perspectives are necessary to understand. In order to manage a detailed description of all these factors, the analysis in this thesis is limited to the single firm.

2 Literature review

This chapter focuses on investigation of the relevant literature in order to identify information needed for answering the research questions.

2.1 Quantitative indicators of SMEs

The term SME is related to a large number of definitions and measures that varies from country to country. However, some common criteria do exist (e.g. employment size, annual sales turnover or the net fixed asset investment). To establish a clear picture of an economic situation of the firms and to exclude the enterprises that are not genuine SMEs, in 1996, the European Commission adopted the first common definition of SMEs. In 2003, due to the economic developments the definition has been updated and in 2005 officially entered into force (EU Commission, 2014a).

According to the new definition, SMEs are divided into three categories on the basis of three criteria: staff headcount, annual turnover, and annual balance sheet. As mentioned in the Table 1, the category of SMEs is made up of the companies that employ fewer than 250 employees and which have an annual turnover lower than 50 million euro and/or an annual balance sheet total not exceeding 43 million euro. For counting of thresholds are used the financial data and number of employees from the last approved annual accounts. Another condition that the company has to fulfil is autonomy of the enterprise. This means that the firm is totally independent (i.e. the enterprise does not participate in other enterprises and no other enterprises or outsiders have a stake of 25% or more of the capital or voting rights in the enterprise) (EU Commission, 2014a).

The new definition has been elaborated after extensive consultations with the stakeholders in order to improve business environment in the European Union (EU) and to promote entrepreneurship, investments and growth. A common definition is essential in a single market with no internal frontiers, since it improves consistency and effectiveness of SMEs and limits distortion of competition. This is more necessary considering the intensive interaction between national and EU measures designed to support SMEs in areas like regional research and development funding. Use of the definition is not mandatory, but the Com-

mission together with the European Investment Fund (EIF) and the European Investment Bank (EIB) are inviting the Member States to apply it as widely as possible (EU Commission, 2014a).

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 1: SMEs thresholds

Source: EU Commission (2014a)

2.2 Qualitative characteristics of SMEs

2.2.1 Importance of individual initiatives

Small number of individuals in a firm leads to the high degree of personality. Thus, operations of the firm are significantly determined by the variety of personal goals and motivations. Moreover, firm's independency provides a great opportunity for achievement of owner's diverse goals. Nevertheless, consequences of poor management skills are more visible.

2.2.2 Financial structure

Mayers (1984, p. 582) argues that "the firms prefer internal finance to external finance and if external finance becomes necessary, debt finance is preferred to equity finance". This means that small firms as whole prefer internal financing, because the external financing seems to be more difficult to obtain on the one hand. On the other hand, it can be also more costly due to the monitoring costs, possible bankruptcy costs and greater information asymmetries. Furthermore, concerning external funding SMEs often prefer debt to equity as they are more familiar with banks (KPMG Consulting, 2002).

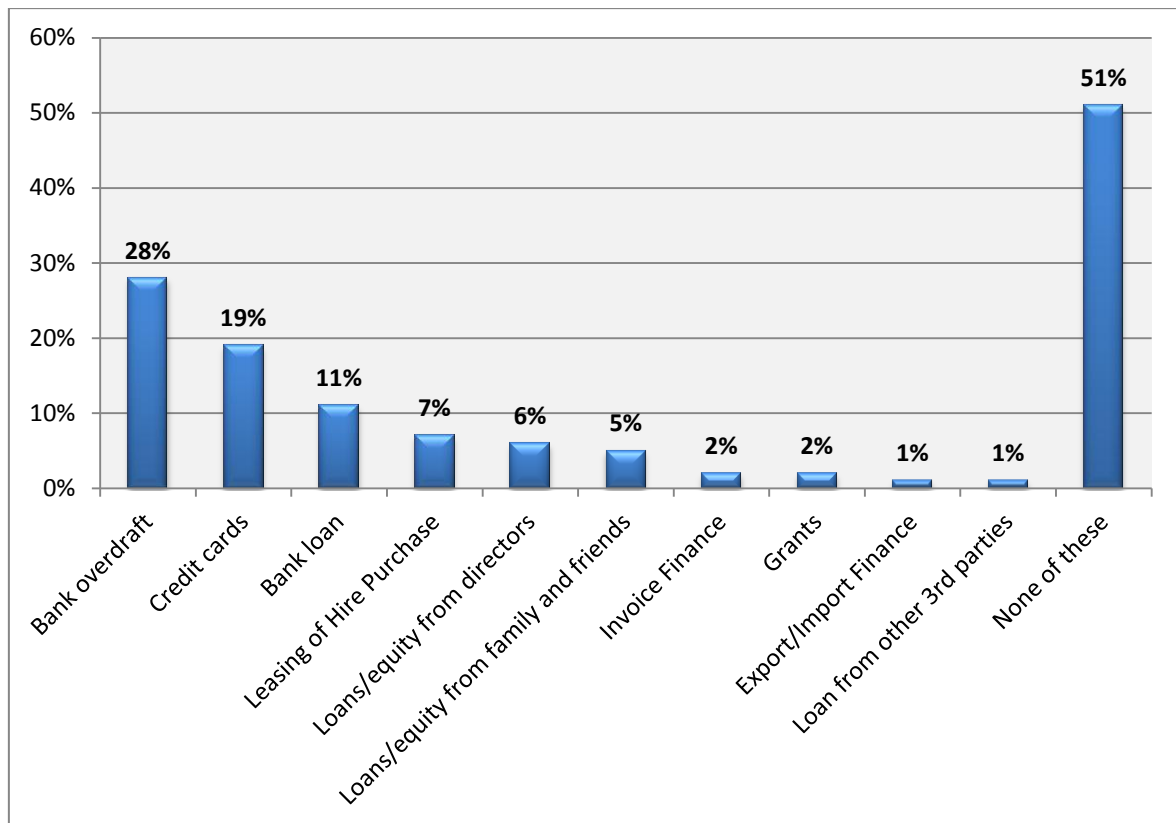


Figure 1: SMEs use of external finance

Source: SME Finance Monitor (2011, modified)

2.2.3 Low degree of formalization and simple organizational structure

The need for formalization of organization systems diminishes along with the small size of SMEs. In comparison to large firms, SME's organizational structure is rather organic and flat (Nicolescu, 2009). Ghobadian and Gallear (1996) explain that the organic organization is characterized by prevalence of informal working relationships on the one side, and by absence of standardization on the other side. This may be caused by strong human dimension in SMEs that leads to informality of the human relationships. Nevertheless, since the small enterprises require neither high volume of working process nor high degree of diversification, there is actually no need for complex structural systems (Nicolescu, 2009).

2.2.4 Greater operational flexibility

Evans (1991, p.71) defines flexibility as “the ability to do something other than that which was originally intended”. The characteristics of small firms such as independence, small scale, personal involvement, and flat organizational structure lead to reduction of bureaucratic costs, which enable the firm to react on the changing circumstances much easier (Levy/Powel, 1998). For this reason, firms are more likely to overcome turbulent environments, where flexibility and innovation are the key factors by adapting new situations (Ghobadian/Galleary, 1996). Other forms of flexibility might be more extensive use of team working, job autonomy, certain types of skills training, changes to remuneration packages, etc. (Levy/Powel, 1998).

2.2.5 Low cost of production

Because SMEs implicitly emphasize efforts towards adoption of a new manufacturing process, they are able to produce efficient that allow them to offer a relatively low cost product (Lefebvre, 1993). Lower production cost might also result from the lower overheads.

2.2.6 High propensity to adopt technology

In smaller companies the extent of adoption of new technologies is mainly based on the creative talents of few individuals, whereby these activities often remain informal (Santerelli, 1990). However, adoption of a new technology is a crucial decision, as it contributes to the competitive position of the firm. The advantage of small businesses is that they are less burdened by organizational ponderousness (inertia) than larger ones and therefore are able to react more quickly to various changes. Finally, in the smaller firms managers are less isolated by organizational hierarchy and so they can better coordinate a process of adopting the new technology (Meredith, 1987).

2.2.7 High capacity to innovate

The organizational structure of SMEs as well as their receptivity enables small firms to be innovative (Harrison/Watson, 1998). Burrone and Jaiya (2005) have revealed that the capacity to innovate tends to vary with the sector of their activity and the business environment in which they operate. For example, in manufacturing sectors innovation is related to the type of technology. Finally, the consequence of innovation is a process of Schumpeterian selection, i.e. the process of replacement of less productive firms by new innovators. Thus, the young and small firms play an important role as drivers of innovation (ECORYS, 2012).

2.2.8 High employment orientation

There is evidence that SMEs are important source of employment and productivity growth (Audretsch, 2002). Thanks to their flexibility together with high capability to absorb labour force, SMEs create an essential factor of economic development and social cohesion. The survey from 2011 confirms that SMEs in the EU create more jobs than large firms. Between 2008 and 2010, SMEs accounted for 85% of total employment growth. In addition, also the employment growth rate by SMEs (1%) ranks higher than in the case of large enterprises (0,5%) (EIM, 2011, EU Commission 2013).

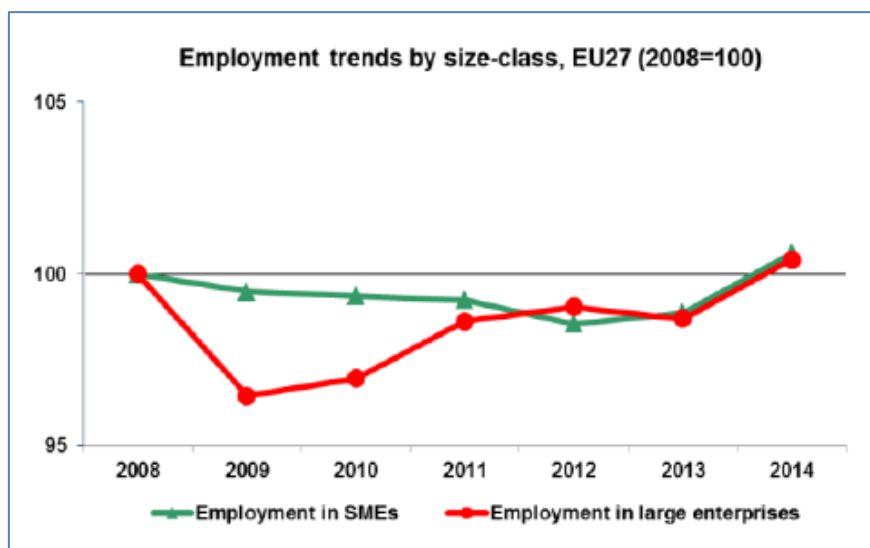


Figure 2: Employment trends

Source: EU Commission (2013)

2.2.9 Utilization of locally available human and material resources

In the European Union, the majority of SMEs uses materials originating from their domestic country. For example, in the Czech Republic 79% -81% firms belong to this group. The second largest share is created by firms working with materials from other EU countries (Eurobarometer, 2011). Regarding the human resources, another survey shows that 89% of SMEs are dependent on the regional labour market, which is by 12% more in comparison to the large enterprises (EIM, 2011).

2.3 Family business and its characteristics

There are several studies conducted in the area of family business, because family firms significantly influence the growth of economies as producers, innovators, and employers (Connolly/Jay, 1996). They do not make only an essential contribution to the economy, but they also bring the long-term stability, show the specific commitment to local communities, feel responsibility as owners, and stand for the values. The common feature for all family firms is the family dimension, where ownership and business are intertwined. One of the definitions of family firms proposed Litz (1995, p. 103) who says that “a business firm may be considered a family to the extent its ownership and management are concentrated within a family unit and to the extent its members strive to achieve and/or maintain intraorganizational family-based relatedness.” The definition incorporates three broad issues, namely the degree of family involvement, the extent of ownership, and the availability of family members for succession of the firm.

In Europe, family businesses have been widely classified as SMEs in policy and public discussions. However, there are also large companies owned and managed by families. Family firms make up more than 60% of all companies in Europe and they account for 40% -50% of employment. Family business involves a wide range of firms of different sectors and different sizes (EU Family Business, 2009).

Mandl (2008) described the most relevant characteristic features of the family business, which are divided into tangible (e.g. capital endowment, shares of ownership, education degree) and intangible (e.g. considerations of the managers). In the majority of cases, it is

difficult to assess whether a specific feature has positive or negative impact on the business in comparison to non-family firms. According to Mandl (2008), the effect will rather depend on how these characteristics will be manifested in the individual company.

2.3.1 Interrelationships between family and business spheres

As already mentioned, family business is characterized by intensive interrelationship between the family and business. In these firms, family lies at the centre and influences the business formally as well as informally. The firm copes with family developments and life situations that influence human resources and financial endowment (e.g. child birth, death, marriage, divorce). Popczyk (1999) found out that in some family firms the owners do not separate private and working hours. Thus, it is sometimes hard to find a boundary between these two dimensions. The family governance is therefore necessary for the family firm, since it regulates relationships and helps by resolution of problems between family members and the firm. In Spain, family firms usually use instruments like the Family Protocol or Family Council in order to facilitate the resolutions of conflicts within the firm. However, in Europe, family councils are only rarely part of the firm governance. Research conducted by PwC (2007) came to a result that only about 30% of family firms have defined internal rules to organize internal relationships. In Greece and France even 80% of family firms do not use family councils, family constitution or some other means for regulation and resolution of internal conflicts (PwC, 2007).

2.3.2 Drivers

Sirmon and Hitt (2003) are of the opinion that family firms prefer long-term commitment to short-term profits. The critical importance of long-term sustainability can be seen as the main difference between family firms and non-family ones. Family entrepreneurs often feel responsible for further development of the enterprise for the next generation. In comparison to the family firms, non-family business managers usually focus on the sustainability of the business only during the time period they are part of it. The entry of new generations into the family business is in many studies perceived to have a positive effect on the firm's business as the enterprise already disposes of networks, experience, a customer

base, and reputation (Fernandez/Nieto, 2006). Moreover, from generation to generation family firms train entrepreneurial talents and develop strong relationships among family shareholders. In contrast to non-family firms, business transfer is a process over the long time period, which makes new generation more qualified and better prepared for the future actions. Therefore, in many cases family-firms are older than non-family ones. This has been confirmed in the study from Heinonen and Toivonen (2003), who came to the result that family firms in Finland are on average 25 years old in comparison to 15 years by non-family businesses. The same results came out also in the survey analysing Slovenia and Sweden (Duh/Tomic, 2006). On the other side, there are still some studies that assume rather short life cycle of family firms resulting from poor management skills, lack of financial resources, inadequate cost control, etc. (Franks et al., 2010).

2.3.3 Social capital

With the transfer of a firm to the next generation usually also firm's social and cultural capital passes to the new owner. Thus, family firms are characterized by strong value system, which is the basis for the crucial long-term relationships. Credibility, honesty, and respect are the specific values that often implicitly or explicitly communicate towards stakeholders.

Within the firm, entrepreneur and other family members are strongly committed and involved in the business. For benefit of the firm, they are eager to share their personal resources and are willing to sacrifice their own interests (e.g. by accepting lower income). Their engagement is even stronger when the company is acting under the family name and/or the family is economically depended on the firm. Therefore, the family entrepreneurs have often an inclination to risk-averse behaviour, which results in a local business focus. For example, firm rather cooperates with the local suppliers or employs local inhabitants. Hence, domestic region involving local people like employees, customers and potential investors can be seen as natural driver for the firms' local CSR engagement. This confirms also Graafland (2002) who observed that family firms realize higher social investments and care much more about the quality of their products than non-family firms. On the other side, the smaller the firm the less engaged in CSR as it creates additional costs they are not able to bear. Finally, family firms can prioritize the interest of the family

above the interest of the enterprise and its stakeholders, which inhibits family businesses from acting socially responsible (Déniz/Suárez, 2005).

To sum up, the social capital of family firm has a specific strength mainly for two reasons. Firstly, social capital contributes to better economic situation of the firms. This is important especially in the economically difficult times as it is one of the most crucial factors that help the firm to survive. Secondly, social capital within the enterprise can limit the information asymmetries, since the high personal involvement of managers and employees reduces the danger that they will prefer their own interests to those of the company. However, there is still a threat that conflicting goals of family members can result in opportunism, adverse selection and shirking due to the lower monitoring efforts (Dyer, 2006).

2.3.4 Management

Regarding human resources, many family firms are characterized by their resistance to accept people from outside of the family. Their decisions related to the human resources are more influenced by family values and personal characteristic than by standard competence and performance indicators (Welsch, 1996). Melin and Nordqvist (2000) state that the reason for resistance to share control with external partners is the fear that non-family members won't understand company's inherent values and principles and will try to change firm's organizational culture.

In Slovakia, in 66% of family firms the management consists only of family members (Krošláková, 2007). The highest share of family members in the management positions is in Sweden where in 90% of family firms a company leader is a member of the family (Emling, 2000).

Concerning the education level of entrepreneurs, various research findings show that family business managers have generally lower formal qualification compared to managers in non-family firms. This is due to the focus rather on the practical know-how and on-job training than on the formal education. The management of family firms has been often set up by older generations who have very little tendency to change and do not let new experienced, open-minded managers to do their best (Glas et al., 2005).

The personal informal management style might lead to the neglecting of board activities such as writing of business plans, company strategy plans, or criteria for the roles of family members. With increased number of persons and lack of formal rules arises a danger of conflicts resulting in higher complexity of decision making. For example, in Great Britain, functions and responsibilities are formally regulated only by 22% of British family enterprises (PwC, 2007).

2.3.5 Financial structure

From the financial point of view, family SMEs avoid external financial intervention as much as possible. They perceive turning to the outside partners risky and restrictive to their independence (Coutts, 2005). An explanation is provided in the source dependence theory that states: the more the external partner is involved in a financial capital of the firm, the greater influence s/he has on the internal decision making (Davis et al., 2000). Therefore, family enterprises often draw on personal assets of the family members. They are characterized by retention of the earnings and creation of reserves. The owners often reinvest profits from the firm and wait for return on their investment, which is known as “patient capital” (Baskin, 2001). However, relying only on the costly internal capital is not that advantageous. Banks and other potential external financiers could be valuable, since they can enrich the management vision or provide proposals for investment opportunities. Generally, external ownership extends the knowledge base and thereby contributes to the successful business.

2.3.6 Reaction to the market changes

There are positive as well as negative expert opinions about adaptability of family enterprises to market changes. On the one side, family businesses are described as flexible and well adaptable market players. This arises from close relationships with firm’s stakeholders triggered by effort to maintain the market position in order to ensure intended sustainability (Heinonen/Toivonen, 2004). According to a Spanish study, family enterprises are better market-oriented due to the specific know-how and strong ties with the clients accumulated over generations (IKEI, 2008). Moreover, small management teams, flat hierarchical struc-

tures and rather small company size are the factors that facilitate reaction to changing environment.

On the other side, family SMEs are often under the supervision of old generations who believe in the constant correctness of current strategies. They do their business in the same way as always and do not have any inclination towards innovations that changing market environment requires.

2.4 Growth

Internationalization is part of the growth strategy of SMEs and therefore there is a strong tie between these two processes (Lu, 2002). Research to growth of SMEs has in the last years received considerable attention from policy makers and researches around the world. However, due to the heterogeneous nature of growth, there is no unified theoretical model concerning this issue (Delmar et al., 2003). Among the factors affecting the growth of the firm belong firm's age, size, turnover, strategy.

Success and survival of the firm are often associated with growth. Growth predicts longevity as well as achievement of further business goals. The probability to survive is much higher than by non-growing start-ups (Phillips/Kirchhoff, 1989). Finally, although in the short-run fast growth of the firm's profitability is reduced; in the long run it increases (McDougall et al., 1994).

In the literature, different measures of the firm's growth can be found. Among the most frequent measures belongs change in the turnover and change in number of employees (Huynh and Petrunia, 2010). Nevertheless, in the SME context firms are characterized by strong intercorrelation, which may not reveal by large companies. As a more appropriate measure of the firms growth could be strategy of the company, since it consists of decisions and actions along diverse dimensions.

According to some studies, it is hard to find any differences between growth strategies of family and non-family enterprises. For example, Heinonen and Stenholm (2006) explain that there is no reason why should growth differentiate between family and non-family

enterprises. However, looking at the characteristic features of the family firms some differences might occur. Since managers in family firms are rather risk averse, it is expected that the growth will be moderate in the short-run, while in the long-run is attained sustainability. This is in line with striving for longevity typical for family firms. Slow growth might be also caused by reluctance of valuable external financiers in order to stay financially independent. If the growth accelerates, it is only for a short run and often as a consequence of generational changes in ownership. In comparison to the non-family firms, for some family SMEs growth is not necessarily the business objective. For these firms more than short-term growth is relevant the firm's stability and its maintenance for the next generations. Nevertheless, when family business grows and more family members are involved in a business, many firms incline to diversification. Initial company is separated into several independent divisions and sometimes it is even hard to follow the growth trajectories over their complete life.

2.5 Life cycle of the firm

In research studies to date, firms are mostly seen as temporal phenomena that are born, grow, mature, decline and die. There have been presented numerous models of firm's life-cycles. These are for example: three stage model from Smith et al., (1985), four stage models (Kanzanjian, 1988), five stage models (Churchill/Lewis, 1983), and a seven stage model (Janssen, 2013). Identical for all these organizational life cycle models are patterns of organizational changes defined by individual stages of firm's development. Further common feature of these models is the sequence of events that indicate progress over the time together with organizational structures and activities within each stage of development.

The role of life cycle models is to clarify differences in success factors between particular stages of the firm's life cycle. Nevertheless, because of the simplification of reality these models have been also criticized. The limitations of the models lie in negligence of dynamics of growth and business models (Penrose, 1959). Still, strategic management research points out that life cycle theory is a powerful tool for predicting and understanding venture performance (Baron, 2004).

For the analysis of the firm stage I will use the five stage model from Churchill and Lewis, which involves the most important steps of the firm within its life cycle. The framework can support managers and owners of small business by the evaluation of current challenges (e.g. upgrade of existing computer system, hire of new employees to maintain planned growth, etc.). Secondly, it can be used as a basis for assessment of the impact of present governmental regulations on one's business (e.g. avoidance of useless double taxation). The framework may also help the firm in anticipating crucial requirements, such as huge time commitment for owners in the start-up period, and when the companies become larger the need for changes and delegation in the managerial roles. Finally, thanks to this model, activities of the firm become more transparent, which facilitates diagnosis of potential problems.

1. Stage: Existence

In this stage the main challenge for the firm is to obtain customers and to deliver demanded product or service. The firm needs to consider many important issues necessary for the viable business. For example, if it is possible to get enough customers, if it has enough money to cover the cash demands in the start-up phase, or if it is able to provide intended products and services. An advantage of this stage is a simple organization consisting of the owner who manages the business by himself and directly supervises his subordinates. Therefore, at least an average competence of running a business is necessary.

2. Stage: Survival

Firms reaching this stage are workable business entities. They have obtained enough customers and satisfied their demand. In this stage, the main problem that firms need to deal with is to balance revenues and costs. In order to move further towards next stages, firms need to generate sufficiently cash to break even, sustain the business, and finance further growth. Regarding the organizational structure, it remains simple and usually consists of few employees supervised by a general foreman. The major decisions are still made by the owner, whose main goal is to survive on the market.

3. Stage: Success

Firms at this stage generate profits and are characterized by product market penetration and sufficient size, which ensures their success. The organizational structure became larger and certain tasks and duties originally performed by the owner are overtaken by competent managers. However, even when the firm succeeds and first two stages are overcome, there are still decisions that the owner needs to make. The key decision at this stage is whether to keep the company stable or to exploit the company's success and expand. If the owner decides to continue the profitable business at this level, s/he can disengage from the company and use the profits as a base for his/her alternative activities. However, it is still necessary to control the effectiveness of the firm's management team and to be aware of the environmental changes influencing the market niche and competitive ability of the firm. On the other side, in the case of expansion, the owner is deeply involved in a business. Important tasks are for example, the consolidation of resources for growth, strategic planning, hiring competent managers, etc. If the firm is successful, it moves to the next stage.

4. Stage: Take-off

This is an important period of firm's life, since here the right decisions result in a big business. In this stage, there are two key problems that the owner has to deal with. It is necessary to find a way how to grow rapidly and how the growth will be financed. Concerning the organizational structure, the owner and business have become separated, where the owner together with stock control are in a dominated position. In the "Take-off stage" it is not rare that the owner, who founded the firm, is replaced by company's investors.

5. Stage: Resource maturity

A firm in the "Resource maturity stage" is distinguished by decentralized and experienced management, sufficient resources, extensive, well developed systems, and by separation of the owner and business, both operationally and financially. The main concerns of firm entering this stage is to retain the advantages associated with the small size, on the one side, and to control financial incomes from rapid growth on the other side (Churchill/Lewis, 1983).

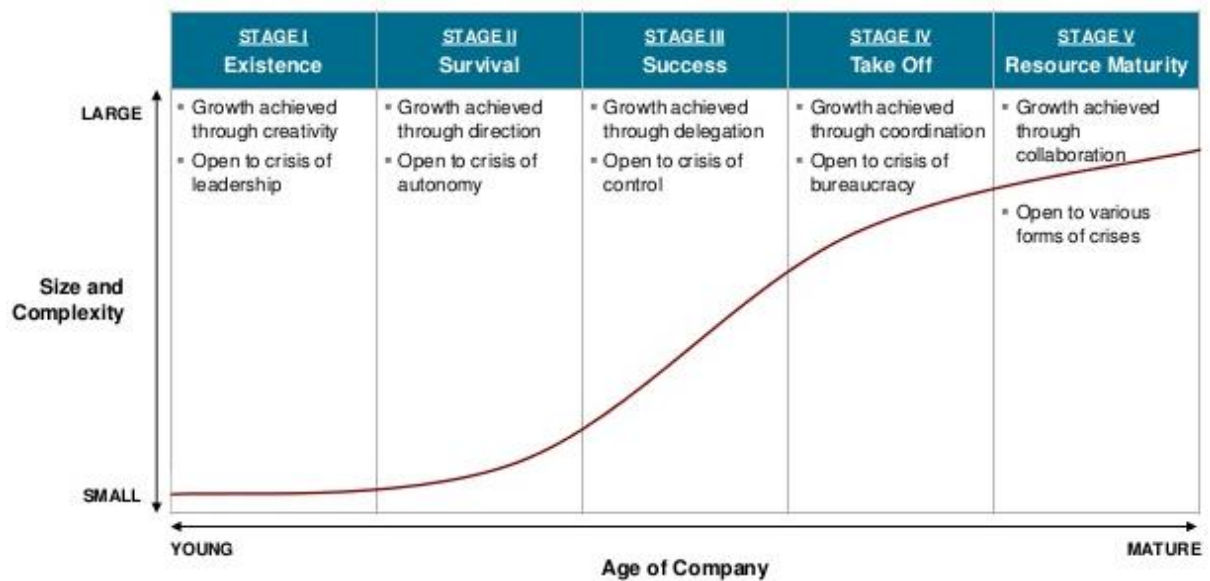


Figure 3: Model of firm's lifecycle

Source: Churchill and Lewis (1983)

2.6 Internationalization process

The term internationalization refers to the process in which firms gradually increase international involvement. In other words, it can be seen as an attitude of the firm towards foreign activities or as its current activities abroad (Johanson/Vahlne, 1977). In the context of SMEs, decision to internationalize plays an important role, since these firms are usually constrained by limited geographic scope, a small financial base, and domestic focus (Barringer/Greening, 1998). Therefore, small firms often concentrate firstly on their domestic market before going abroad. Thus, internationalization can be seen as a consequence of set of incremental decisions.

Traditionally, SMEs tend to internationalize by exporting. Although export is still one of the most preferred entry modes, firms have been involved in various business activities associated with internationalization in order to achieve competitive advantage. Increasingly important become partnerships with foreign companies, which help firms both to get important knowledge and formulate effective business strategies.

Nowadays, the number of SMEs that decide to internationalize incrementally increases. Some of the main drivers are globalization, political, economic, and technological changes. Although the literature introduces various theories of internationalization like “stages models”, the process of internationalization varies, since it is related to the specific capabilities and knowledge of each firm (Ruzzier et al., 2006).

Wiklund/Zahra (2005) analysed the influence of the ownership structure on the internationalization process. They found out that extent of family involvement correlates with level of internationalization. As mentioned above, there are several characteristics differentiating family firms from non-family enterprises. Therefore, it is important to investigate internationalization process not only from general SME perspective, but also with the special focus on family owned firms.

2.6.1 Positive factors influencing family business internationalization

Among the factors enhancing internationalization of family firms belong flexibility and fast decision-making, which is caused by small management teams, shared norms, and obligations between the family members. Family SMEs are also characterized by their long-term orientation and commitment based on a high level of trust resulting in the stable exchange of knowledge (Zahra/Sharma, 2004). This plays an important role in the international business where the firm needs to cope with long-distance communication within different cultures. Moreover, the informal communication instead of complex procedures and difficult organizational forms might have a positive impact on efficiency. It can be also assumed that small management teams consisting of the family members save costs, because they are only few and usually are willing to share their personal resources for the benefit of the firm. Additionally, succession can be considered as a unique factor to the family businesses. Welch (1992) claims that attitudes and behaviours can vary throughout the generations. For example, Ward (1998) found out that each generation brings new competencies and strategic ideas. Giving the owner's background (e.g. language, training, international experience) it can be expected that the later generation has more information and it is better prepared, which has certainly a positive impact on the internationalization process.

2.6.2 Negative factors influencing family business internationalization

Negative relationship between family businesses and export intensity was found in the study written by Fernandez and Nieto (2006). Beginning with managerial and strategic issues, family businesses were perceived as paying little attention to developments in the global markets resulting from their local business orientation (Gallo/Pont, 1996). It was also found out that internationalization was inhibited by lack of international experience and by poor managerial capabilities of the family entrepreneurs (Kets de Vries, 1993; Gallo and Pont, 1996). This can be seen as a consequence of avoidance to make changes in organizational structure and to hire experts from outside of the family, although the external actors would extend entrepreneur's social network (Van den Berghe/ Carchon, 2003). In order to sustain a total control over the business, the family firm is not only reluctant to recruit employees from outside, but it also refuses to raise its financial capital from the external sources. In the family businesses, managers and their family members prefer to invest most of their own wealth (Graves/Thomas, 2008). As their ownership increases, the risk of the failed investments is higher, which often results in the risk-averse behaviour (Zahra/Sharma, 2004). Because internationalization initiatives and innovation projects are always connected with a certain level of risk, many firms keep their operations in the local market. Other inhibitors of the internationalization might be conflicts between successors or disparate family goals, values and needs (Graves/Thomas, 2008).

2.7 International opportunities for SMEs

In the last years, technology and communications have undergone significant changes, which positively influenced conditions for the internationalization of small firms (Burca et al, 2004). New communication methods facilitate information flow and save costs, such as travelling cost, post fees, etc. New opportunities are also created by large firms that enable SMEs to be part of their value chain. According to the recent studies (OECD, 2008), SMEs intensively seek access into the lucrative supply chains of large international players and nowadays, they frequently gain business through sourcing from abroad. Such cooperation enables SMEs to benefit from know-how and new technologies of larger and more experienced firms, which might lead to mitigation of some resource-related barriers. Quality of

business as well as competitiveness has been also improved thanks to the increasing number of various management educational programs (Evans, 2008).

All these factors provide great international opportunities for SMEs, which allow them to be more flexible and at the same time be able to internalize relevant market information (Lietsch/ Knight, 1999). Furthermore, growth oriented firms can gain advantage from pursuing larger markets, exploiting technical advantages or lowering and sharing costs. Internationally operating firms may also spread risks and get new and better access to resources. Thanks to internationalization, SMEs gain substantial knowledge and capabilities, which greatly enhances their competitiveness (European Commission, 2011).

2.8 Motives of SMEs to internationalize

The main reason why firms decide to expand internationally is to make a profit. However, the business activities are rarely initiated only by one factor. There are usually numerous different motives of the small firms to take steps in given direction. These motives can be differentiated into proactive and reactive (Hollensen, 2011).

2.8.1 Proactive factors

Proactive motives are based on firm's interest to internationalize by exploiting opportunities that international markets offer. Among these motives belongs desire for short-term profit and motivation for growth, as well as drive of management towards international business activities, which in the case of SMEs may be the province of a single decision maker (Hollensen, 2011). It is expected that managers with experience of travelling abroad might be more internationally minded than others (Czinkota et al., 2005).

Economies of scale can be considered as a motivation to expand as well. Since the new markets broaden the consumer group and production volume increases, there will arise opportunity to spread out fix costs over more units. This results in lower production costs, which enhances competitiveness and firm's profitability. Moreover, if firms dispose of sufficient resources to enter a new market, opportunities connected with the foreign market are the main stimuli to expand (Albaum, Straskov/Duerr, 1998).

2.8.2 Reactive factors

Reactive motives deal with passive response of the firm not only to external, but also internal pressure of business environment (Cavusgil, 1982). Reaction to the competitive pressures can be considered as a prime form of reactive motivation. A firm might be losing its market share in the domestic market to other domestic competitors or to foreign enterprises that internationalized due to benefits from economies of scale gained by their global activities (Hollensen, 2011). Another trigger for starting export sales can be lower domestic market demand than previously expected. Since the excess capacities cause high inventory costs, broadening of distribution to foreign markets could be an effective solution for this issue (Czinkota et al., 2005). The internationalization can also solve a problem of shorter product lifecycles, since export of these products is a good way how to extend them. Especially in developing countries need for less demanded products in industrialized countries might still exist. Moreover, export is a good way how to make a sale of seasonal products more efficient. Finally, in the case of agricultural products, export enables a producer more stable demand over the year as the climate over the world differentiates (Hollensen, 2011).

Advanced technology makes distances between players on the international market closer. Even at the most distant places customers are able to get information about new products and trends (Nordström, 1991). Therefore, the closeness can be often seen as a major reactive reason to internationalize (Czinkota et al., 2005). In many cases firms become aware of opportunities through the foreign customers who order or enquire product, price or distribution information. However, this is more often by firms that are already exporting (Albaum et al., 2005). Researchers have found out that 80% of firms that have received foreign orders have been already internationally active (Simpson/Kujawa, 1974).

Nevertheless, driving forces motivating international activities are mainly found within the firm. External environment does not influence business activities of the firm as much as firm's own resources and capabilities, because the firm can succeed internationally only if they are appropriately combined (Suaréz-Ortega/Alamo-Vera, 2005).

2.9 Barriers to SME internationalization

Despite the wide range of opportunities connected with internationalization, many SMEs decide to stay at domestic market due to many barriers that still exist. There are number of cases, when the firm does not internationalize because of the lack of ambitions or because the entrepreneur is not ready to take risks related with international operations. Although the European Union have introduced regulations reducing trade barriers, many SMEs still do not have sufficient amount of resources to overcome difficulties in the initial stages of internationalization.

Factors impeding SMEs to internationalize can be generally divided between internal and external. The internal factors include lack of resources, perception of risk, entrepreneur's attitude to foreign expansion, lack of information and skills, insufficient networks and shortage of finance (Salmon/Tordjman, 1989). Many internal barriers reveal at initial stages of internationalization. In this period, firms contend with imperfect strategy, lack of know-how, assessment of market potential and identification of business partners (EIM, 2004).

The survey from EIM (2004) identified that the most frequently barrier by SMEs is the high cost of internationalization. These costs consist of expenditures for market analysis, translation of documents, legal consulting services, travel expenses, product adaptation, and other costs related to business and financial risks. Due to the smaller size, it is more difficult for SMEs to absorb high initial costs, which may result in unprofitable transactions. Moreover, scarcity of financial resources can lead to logistical and operational barriers. Since the SMEs subsequently need quick return on investment, it often results in limitations associated with entry mode choice and with capacities necessary for undertaking international operations (Morgan/Katsikeas, 1997). Knight and Liesch (2002) found out that the resource-poor SMEs have significantly more difficulties with overcoming competitive threats within unfavourable external environment. According to Maeseneire and Claeys (2007) the small firms face higher financing constraints for foreign direct investment than for domestic projects. In case of new ventures, the barriers occur in the form of limited access to finance and knowledge concerning labour, raw materials, and other market conditions.

Among external barriers belong also obstacles that may originate from institutions, general infrastructure and national economy in form of governmental regulations, political risks, corruption, exchange rate fluctuations, increased competition, etc. (Evans et al., 2008). Rudth (2001) has found out that among important external barriers belong economic distance involving administrative and legal difficulties, on the one side, and language and cultural differences, on the other. Another real challenge includes higher international competition and ability of firm to offer competitive prices in foreign markets (Leonidou, 1995).

According to the study from OECD (2006) internal barriers represent more significant obstacles than barriers related to the external business environment.

2.9.1 How can the barriers be overcome?

To be successful in a new market, it is important to know how the potential barriers should be overcome. Certainly, the basis of successful business is the product or service, which covers customer's needs. However, it might not be enough without knowledge and other important factors influencing international business.

Market knowledge and social networks

Market knowledge can be assumed as one of the tools for the elimination of potential internationalization barriers. There is either objective information, which is easy to find (e.g. market size), or information, which can be acquired first after the firm enters the market like foreign culture, deficiencies in offering, etc. Thus, to acquire essential knowledge about a foreign market it is necessary to invest not only in the market, but also in the relationships with international business partners. The social and business networks provide valuable information, which helps SMEs to overcome internal lack of resources and thereby to gain new opportunities for further business growth. Additionally, new entrants might also hire experienced labour in the foreign market with established relationships and overview about the market. With the extension of knowledge base, the level of commitment increases and, at the same time, the uncertainty decreases. In this way, the risk

bounded up to the expansion can be reduced to the acceptable level (Hutchinson et al. 2009).

Product differentiation

Besides the market knowledge, internationalization can be also facilitated by product differentiation, which makes firm superior to other local competitors and allows smaller firm to expand despite existing resource limitations (Hollenstein, 2005).

EU grants

Since lack of resources has been defined as one of the most relevant internationalization barriers, there is a possibility to apply for the governmental subsidies designed for SMEs. For example, for years 2014 – 2020 the EU has planned high investments to boost business competitiveness and SMEs. Research and innovation framework program “Horizon 2020” with budget of EUR 3 billion provides funding for highly innovative SMEs with potential for fast growth and internationalization. The aim of the program is to help SMEs to grow and expand their activities into other countries. Another program dealing with SME support calls the “Competitiveness and SMEs Programme (COSME)”. The target of this program is to provide financial instruments and support for SME`s internationalization (EU Commission, 2014b).

The Czech governmental subsidies

Concerning national programs for the support of SMEs in the Czech Republic, the current government takes steps rather against the small businesses, for example by imposing higher taxes on SMEs (AMSP, 2014). Market conditions in the country are difficult and there are only limited options how small enterprises can get support from the government.

One alternative could be investment and development agency called CzechInvest, which is operated by the Ministry of Industry and Trade. CzechInvest was established in 1992 for the purpose of developing local companies and attracting foreign investors. Among others, the agency acts as intermediary between Czech SMEs and the EU in implementing struc-

tural funds in the country. Czechinvest focuses on support of certain industrial sectors in regions with high unemployment rate (CzechInvest, 2014).

All in all, factors facilitating internationalization are either internal such as entrepreneurial personality and attitudes, informal personal relationships, and global vision, or external including support and assistance from the government and business contacts in foreign markets (Hutchinson et al., 2007).

2.10 Internationalization theories

2.10.1 The Uppsala model

In 1977, Swedish researches Johanson and Vahlne developed a model based on studies of Swedish firms with intention to internationalize, which is known as the Uppsala internationalization model. In the literature, this model is assumed the best for understanding of the internationalization process of the small firm.

The basis of the model consists of assumptions that the main obstacles for SMEs to internationalize are lack of knowledge about the foreign market and inability of firm to make commitment. According to the model, market knowledge and market commitment affect both performance of the current activities of the firms and decisions concerning commitment of resources to foreign market. When looking at the concept of market commitment, two factors should be mentioned: the number of resources committed in the new market and degree of commitment. The degree of commitment depends on the amount of investments in the certain market. If the firm invests more, the degree of commitment will increase. For example, sale representatives in the foreign market will contribute to degree of commitment and knowledge (Johanson/Vahlne, 1977).

Regarding the Uppsala model, the firm selects well-known markets, which enters in small steps. Once the firm starts its internationalization process, movement towards the next steps begins. Entering a new foreign market significantly influences the existing activities of the firm. Through internationalization firm gains market knowledge and resource commitment, whereby the internal assets increase (e.g. financial resources, skills of employees,

etc). Afterwards, the firm is ready to shift into the further stages (Andersen/Suat Kheam, 1998; Johanson/Vahlne, 1977).

The Uppsala internationalization model describes four stages comprising developments within the internationalization process. Firstly, the firm does not undertake any regular export activities. Instead, it collects information about the foreign market. When the firm gets sufficient knowledge, it starts to realize export through independent representatives (agents). This step enables the firm to get more information not only from the own market experience, but also from experienced employees and other firms. Such a learning process shifts the firm into the next level, when it is able to establish a sales subsidiary. Also this step helps the firm to get more knowledge and more resource commitment, which allow the firm to start its own production (see Figure 4) (Johanson/Vahlne, 1977).

Although the Uppsala internationalization model is a great contribution to understanding the internationalization process of SMEs, it has been criticized for several reasons. Generally, the stages models have been criticized for their controlled stages progress, which eliminates the strategic choices made by the entrepreneur. Wright et al.(2007) claim that the Uppsala model pays attention only to the firm and not to the entrepreneur who plays a key role in the internationalization process of the firm. In addition, the model completely ignores important factors of external environment such as competitive conditions and market potential. Finally, it also does not take into consideration important economic determinant, like market size. However, there have been made some attempts to introduce them into the model (Pedersen, 2000).

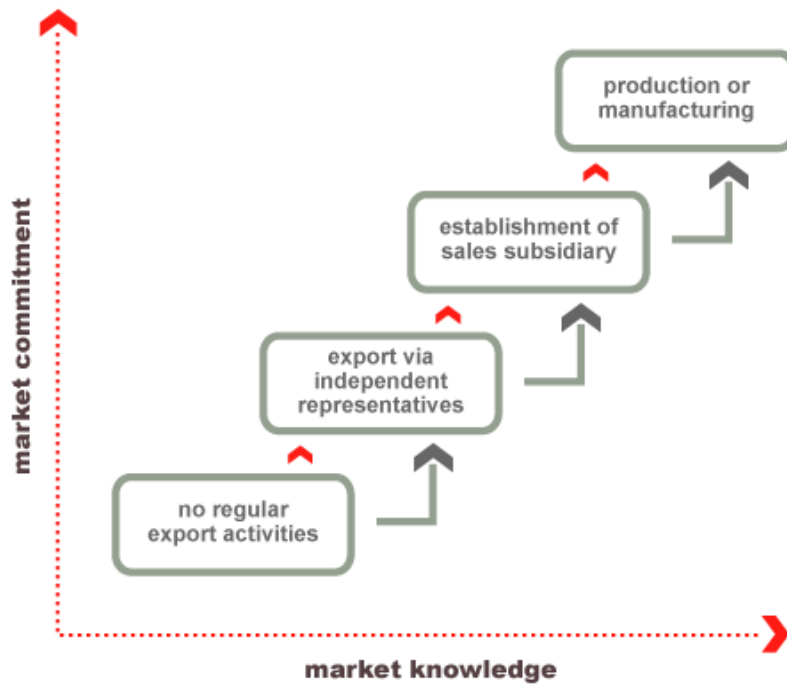


Figure 4: The Uppsala model

Source: Johanson and Vahlne (1977)

2.10.2 The Network model

The idea of the network theory is that all firms on the market are embedded in a system of relationships among several different players including competitors, customers, suppliers, and other market actors (Coviello/Munro 1995). Emerson (1981) explains that the network consists of at least two related business entities. Furthermore, Mitgwe (2006) sees networking as a source of information, which would be otherwise acquired in a long term, if relationship with the foreign business partner would not exist. Therefore, networks can be characterized as a bridging mechanism that facilitates internationalization process. Domestic and international relationships are helpful not only by expanding new markets, but also by establishment of new business partnerships (Coviello/Munro, 1995). These new relationships are either formal (i.e. business related) or informal (i.e. friends or family) and they are always based on a mutual confidence, knowledge and commitment.

Ties developed within the networks are difficult to imitate and their consequences can be divided into three dimensions: access to the information, timing, and referrals (Burt, 1997). Networks are closed entities, and so the information within the networks is available only

to the involved parties. Timing refers to the moment when the firm in the network gets informed, which is dependent on the intensity of relations. Finally, firms within the network have access to references to other firms at the right time.

Ties among firms might also be distinguished on the basis of their strength. According to Granovetter (1973), the strength of ties can be derived from time, reciprocal services, intimacy, and emotional intensity. When there is a low interaction, the relationships are distant and vice versa. Finally, ties are not static and therefore they can vary with time.

The model of Johanson and Mattson (1993) focuses on a stepwise development of market knowledge through interaction within the networks. According to the authors, during the internationalization process firms gain new relationships facilitating the further growth of the firm in the foreign market. Trust and commitment with international business partners allow small firms to penetrate in the host country. Afterwards, thanks to the networks, the firm can gain international integration and access to resources, which are controlled by firms involved in the network (Johanson/Mattsson, 1988).

According to Johanson and Mattsson (1993), within the network, position of the firm can be seen either from a micro or macro perspective. When analysing the micro level, the crucial elements of internationalization are both competitive and complementary relationships. This means that from the micro perspective firms cooperate and compete at the same time. On the other hand, from the macro perspective not only direct relationships among network partners are taken into account, but also the interactions between firms and partners who are not involved in the network.

The combination of both perspectives results in the four categories of firms (see Figure 7). Firms in the first category are so called the Early Starters and they are characterized by little knowledge and weak network in the foreign country. Such firms enter the market through agents, who enable these firms to obtain important market information. The second category, the Lonely International, refers to highly internationalized firms, but with a domestic focus. This means that these firms acquired their first experience in the foreign market and thus they have competences to support internationalization of the market.

The third category termed the Later Starters involves internationally active firms with indirect relationships within the network. Finally, in the category the International among Others are internationalized firms together with highly internationalized markets. In this case, firms enter the market through subsidiaries, since this entry mode is appropriate for the good control and coordination of international activities (Johanson/Mattsson, 1988).

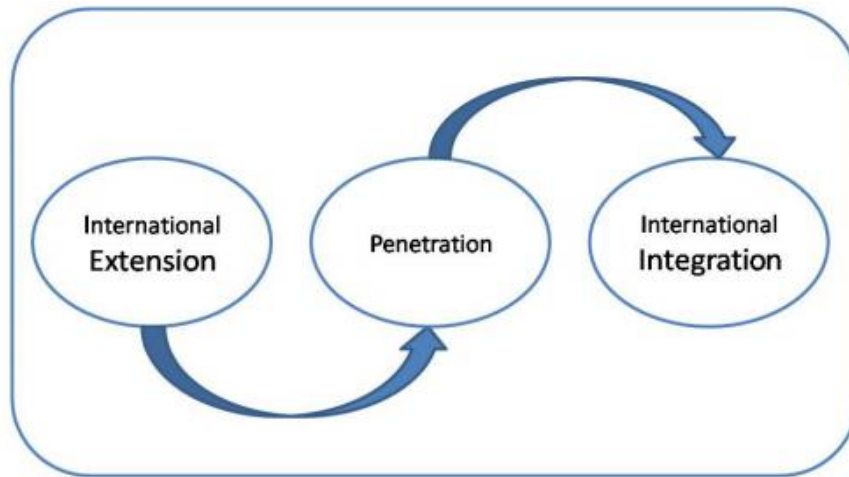


Figure 5: The Network model

Source: Johanson and Mattsson (1988)

		Degree of internationalization of the market	
		<i>Low</i>	<i>High</i>
Degree of internationalization of the firm	<i>Low</i>	The Early Starter	The Late Starter
	<i>High</i>	The Lonely International	The International among Others

Table 2: Four cases of firm's internationalization

Source: Johanson and Mattsson (1988)

2.10.3 International entrepreneurship

The entrepreneur can be characterized as an individual carrying out entrepreneurial actions (Ruzzier, 2006). Therefore, importance of the entrepreneur within the internationalization process cannot be neglected. The entrepreneur is the one who manages the firm with all strengths and weaknesses and uses his skills in order to be profitable. Entrepreneurial knowledge, experience, relationships, judgment, skills, and abilities can be seen as a valuable intangible asset of the firm, because it cannot be imitated by competitors (Alvarez/Busenitz, 2001). The individual-specific resources of the entrepreneur allow him/her to recognize new opportunities and they are necessary by assembling of resources for new ventures (Ruzzier, 2006).

The most accepted definition of international entrepreneurship has been proposed by McDougall and Oviatt (2000, p. 903) who say that international entrepreneurship is “a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organizations”. Globalization and increasing competition caused that the previous theories on international entrepreneurship had to be changed. For this reason, McDougall and Oviatt (2000) completed their definition by terms like discovery, evaluation, exploitation, and enactment of opportunities across national borders in order to meet future demand (McDougall and Oviatt, 2005).

2.10.4 Born Globals

Traditional internationalization theories have been challenged as changes in technology, economics, and social environment exert pressure on firms to internationalize soon after their establishment (Oviatt/McDougall, 1997). In several studies such firms have been termed as “global start-ups”, “instant internationals”, or “born globals”. All these terms refer to firms that from its establishment follow a vision of becoming global and are rapidly involved in exporting without any long-term internationalization period. In some cases, these firms even do not operate in their domestic market (Knight/Cavusgil, 1996), which contradicts the stages models describing gradual internationalization beginning with strong domestic market base. Born globals are usually technology-oriented SMEs having fewer than 500 employees and with the annual turnover of USD 100 million. They are

characterized by production of relatively unique products designed for a particular market niche (Knight/Cavusgil, 1996). Additionally, born globals tend to be managed by entrepreneurs who perceive the world as a single marketplace from the moment of the firm's establishment. Because they see in the international markets opportunities rather than risk and uncertainty, their main focus is on growth through international sales (Madsen/Servais, 1997).

Although the main characteristic of born globals is the rapid internationalization connected with uncertainty and risk taking, the born-global view emphasizes prior experience and knowledge of management (Knight/Cavusgil, 1996). Thus, both traditional and born global approach agree with the statement that prior experience and knowledge are essential for entry into new markets, since it minimizes uncertainty and reduces the psychic distance between specific countries. However, there is a difference in a suggestion that born globals acquire experience and knowledge in early stages of firm's existence. In the case of born globals, management is experienced and accustomed to operate in a global economy (Madsen/Servais, 1997). Oviatt and McDougall (1997) argue that founders of born globals are more able to accumulate new knowledge, whereby firm's speed of learning is increasing. Finally, important role by acquiring knowledge in the early stages of firm existence play communication technologies. They facilitate maintenance of relationships with stakeholders as well as development of firm's strategies (Madsen/Servais, 1997).

In numerous countries, the number of born-global firms is increasing (Hollensen, 2011). There are several trends that explain the reason why such companies emerge and successfully enter international markets. Growing demand for customized products can be one of the trends that make smaller firms competitive in the international markets. Another trend is related to modern machines, which permit the production of such specialized products at lower costs (Madsen/Servais, 1997). This results in increasing amount of goods that are manufactured to fit disparate preferences of diverse customers groups. Changing industry and market conditions, social change, and cultural homogeneity create the perfect context for born-globals to surface (Hollensen, 2011). As mentioned above, progress in technology, communication and transportation are also factors positively influencing success of born-global firms (Oviatt/McDougall, 1997).

Frynas and Mellahi (2011) found out that firms adopting a born-global strategy usually originate from small countries like Nordic countries rather than from large countries such as the United States. The reason might be that the small size of domestic market forces firms to export their product from the start in order to be competitive. Lindmark et al. (1994) in his research discovered that in Nordic countries nearly 50% of hi-tech start-ups began exporting within two years of their establishment.

2.11 Entry modes

Before going international management should take into consideration three basic entry decisions (Hill, 2007). Firstly, the firm must select the most attractive market where it wants to enter on the basis of the costs, benefits and risks connected with this market. Secondly, the firm must decide when to go abroad. And thirdly, the firm must make decision concerning the scale depending on involvement of commitment the firm is willing to have. If the firm decides to enter on a large scale like born globals it must count with significant involvement of resources and in this case, rapid entry is required. On the other side, the slow entry in accordance with the Uppsala model enables the firm to learn gradually from the chosen market without much exposure to the market itself.

After these three important decisions are made, the next step is to choose the most appropriate entry mode. Root (1994) characterizes entry mode as institutional agreement, which enables the firm to offer its products or services in a host country in the first three or five years. This time period refers to the time that firm usually needs to fully enter a foreign market. There are various ways how to go abroad and it depends on the firm's age, size, resources and commitment to market, which entry mode the firm chooses (McDougall et al., 2003). Moreover, it is necessary to adapt the strategy for each single market. Firms exporting in more foreign markets can use different entry modes depending on the requirements of the particular market. Other factors influencing the selection process are organizational structure, financial resources, risk taking behaviour, managerial attitudes, or external factors as barriers to entry and country characteristics (Hollensen, 1998).

Bradley (2002) divided market entry modes into three groups. Firstly, export entry modes focus on direct and indirect exporting, whereby the firm exports through foreign visitors in

the home country or sells to foreign agents, distributors, or subsidiaries. In contrary to two other entry modes, by the export entry mode the final product is not produced in the target market. Into the second group, called contractual entry modes, fall franchising, licensing, etc. (Bradley, 2002). The main feature of these entry modes is that they enable the firm to easily transfer information, skills, and knowledge to the target market. On the other side, the investment entry modes allow higher degree of control through the ownership of international company. As investment entry modes can be considered joint ventures, acquisitions, foreign direct investment, etc. (Root, 1994).

2.11.1 Export

Because exporting is regarded as the easiest option for entering international markets, many SMEs choose this entry mode at the initial stages of the internationalization. Export is considered to be relatively flexible and fast way to enter new geographic markets with low risk and minimal resource commitment (Bennett, 1998). Exporting firms are able to respond quickly on constantly changing business environment by reducing or expanding their activities (Lu/Beamish, 2002). However, firms that decide to export face some disadvantages too. Among the main downsides of exporting belong transportation costs, trade barriers in form of tariffs imposed by host country, lack of alignment between agents and firm, and lower cost of production in a foreign country (Lu and Beamish, 2002, Hill 2007).

Although exporting is favoured by number of SMEs at the initial stages of expansion, many small firms start with import. The survey from the EU Commission (2004) indicates that many small firms begin with exporting in reaction to the increasing demand of existing customers. Thus, the main stimulus to start exporting is rather reactive than proactive. According to ENSR (2002), the firms within the EU mostly export to the neighbouring countries. One of the reasons might be the fact that these firms often select the target market on the basis of previous contacts established through their import activities (Lloyd-Reason et al., 2004).

2.12 Entry mode selection

Entry mode selection is a crucial decision since it affects whether the firm will be in the future successful or not. Additionally, it has also strong effect on firm's survival. For example, if the entry mode is not well selected, it can limit firm's opportunities in the foreign market, which can lead to financial losses together with loss of control in the foreign market (Hollensen, 2011). Therefore, selection of the right entry mode requires a precise analysis of the overall goal and purposes of the company and all potential entry mode alternatives. It is also necessary to develop entry and business plans for each product and market. Young et al. (1989) described four approaches concerning entry mode choice.

Firstly, *the economic approach* points out the rational behaviour within the selection process. This approach emphasizes costs and benefits of different entry modes and evaluates, which alternative would maximize firm's profits from the long-run perspective. The basis of the economic approach is transaction cost analysis that helps management team to analyse return on investment and risk associated with the particular entry mode. According to the authors, risk as well as return on investment is dependent on the level of control. Entry modes characterized by low level of control reduce resource commitment, which results in lower risk. While in the case of high control entry modes the risk is high, but the return on investment as well (Young et al., 1989).

The second *stages-of-development approach* is based on the stages model of internationalization. This approach describes available entry mode options for each stage of the internationalization process. By this approach, decision regarding the choice of entry mode is influenced by expansion development. When the firm is previously successful and for example decides not only to export, but also be more involved in the market, in this stage some entry modes may become inadequate (Young et al., 1989).

Both previous approaches deal with rational decision making. The *business strategy approach* contrarily concentrates on the pragmatic approach concerning decision making, since the environment in international markets is uncertain and thereby many decisions have political nature. Due to the uncertainty small resource-poor firms often need to com-

bine their objectives for expanding abroad, which may also lead to the conflicts. Therefore, the rational-analytic approach is here difficult to adapt (Young et al., 1989).

Finally, the alternative *entry mode selection approach* focuses on the companies with multiple internationalization objectives, for example, short-term profitability and long-term penetration. In this case, the most appropriate entry mode would be the one, which combines these two objectives. In other words, the appropriate entry mode combines all objectives of the firm including profit as well as non-profit targets. To choose the right entry mode, a clear definition of the main expansion objectives is necessary. If these objectives are in conflicting relationship, the management has to rate particular objectives in terms of their importance. Other factors influencing the ranking are financial costs, degree of control, risk, manager's commitment, etc. The relative attractiveness of the entry mode depends on its ability to achieve all objectives of the firm.

Concerning the topic of entry mode selection, in the literature have been frequently discussed three entry mode selection rules defined by Root (1994):

Firstly, by the *naive rule* the decision-maker applies identical entry mode for each foreign market. It is very inflexible approach, which lead to the lower chance to catch opportunities of the foreign market.

Companies using *pragmatic rule* indicate a workable entry mode for each foreign market. In the early stages, the firm chooses low-risk entry mode, which is in the future changed only if it is not feasible. However, the workable entry mode may not be the best choice, because in this case not all possible alternatives are investigated. On the other side, there is only a low probability that the selected market entry will be wrong, because on the basis of this method the unworkable modes are excluded. Another advantage is the low cost of management and information, since not all alternatives are assessed (Hollensen, 2011).

Conversely, the *strategic rule* states that before any choice is made all potential entry modes are successively compared and evaluated. Considering the companies resources, non-profit objectives and risk control, the selected entry mode should be the one that maximizes the profit over the planning period. In comparison to other alternatives, it is

very complicated process due to the consideration of all company's objectives. There is no exact formula of the overall evaluation and thus the companies are forced to use their own judgment by the selection of the right entry mode (Albaum, Strandkov/Duerr, 1998).

According to Hollensen (2011), the majority of SMEs tend to use the pragmatic or naïve rule.

3 Methodology

Easterby-Smith (2002) classified scientific research into three groups: exploratory, explanatory and descriptive.

The main purpose of the exploratory research is to gather lot of information about a specific problem area, which provides researchers a broad view about a certain topic. This method is usually used in research about undiscovered topic, where not much research has been done. Therefore, it is important to be creative, since the purpose of explanatory research is to provide a guideline of further studies (Yin, 2003).

In order to make assumptions about correlation between different variables, the explanatory research can be considered as the most accurate research method. The research questions are answered on the basis of existing theories and previous knowledge. The purpose of the research is to prove if a hypothesis as to why something occurs is correct or not.

It is suitable to use descriptive research when certain characteristics should be described. This method does not answer questions why/when/how characteristics occurred, but rather what characteristics occurred. In this case, the problem has been well structured and the aim of the researcher is to find out what are the relevant aspects of the problem and to describe these aspects more methodically. The conclusion of the study creates exact description of the studied aspects or variables.

The research in this thesis is designed to conduct examination within internationally active family SME. In order to get valuable result, the following steps have to be done: definition of the method for information collection, implementation of the data collection process, analysis of the results and notification of the findings concluded by the implementation proposal. Since the information sources and research design are linked to the clear problem formulation, the purpose of the study must be determined before the selection of data collection method.

The purpose of this thesis is identification of the current business strategy of Lindcare and determination of the most suitable internationalization strategy for this firm by the analysis

of firm's characteristics and factors influencing firm's operations. I have executed this study as a descriptive research based on a qualitative method in order to get insights into the business and to understand the variables that play an important role by the strategy planning process.

3.1 Research approach and data collection

The way how the firm internationalizes is significantly manipulated by the individual decisions of the manager. In this thesis, the link between experience and theory will be discussed on the basis of the family owned firm Lindcare. On the one side, data about the firm's internationalization process were collected from the existing literature, statistic databases, newspapers, and publications in the Internet. On the other side, the internationalization process of the certain firm can be described only using the information from firm's internal sources. For this reason, the interview with the company owner has been conducted. This approach results in in-depth insight into the firm, which helps to clarify the internationalization process and its consequences.

3.2 Data analysis: case study

The goal of a case study is to examine a phenomenon within the "real life" context. The case study is the most suitable when the questions "how" and "why" have to be answered. This method is used when researchers intend to confirm theories, as well as experiences and knowledge. On the beginning of each case study the overall analysis of the existing theory should be done (Yin 2003). Miles and Hubermann (1994) describe three steps for the right data analysis. Firstly, the data have to be reduced. In the second step, these data are verified and finally the researcher should be able to recognize patterns, similarities, in order to draw conclusions. In this thesis, the data to the concrete topic are selected. Afterwards, the existing literature is compared with the data gathered from the company. In the last step, on the basis of the comparison are drawn conclusions.

Since the aim of this thesis is to describe the link between existing theories and internationalization process of the real SME, the case study was selected as a suitable tool for the data collection and their analysis.

3.3 Sample selection

The firm Lindcare has been chosen for the following reasons: Firstly, the firm fulfils the qualitative and quantitative criteria of a family SME. This is important point, since this thesis focuses only on the SMEs. Secondly, Lindcare was created in the Czech Republic. The reason choosing the Czech firm was a good knowledge of the social, economic and political conditions in the country. Thirdly, Lindcare is internationally active enterprise and has more than three years of experience. This condition is important, since it is assumed that older enterprises can provide enough data and material for the research. And the last reason is the good connection to the company owners. In order to get valuable internal information, social relationship with the company managers plays an important role.

There are many firms that meet the assigned requirements. The reason for choosing Lindcare is that it does not only fit the conditions, but the management is also willing to support me by providing information for my research.

3.4 Limitation

The limitation of this research arises from the empirical setting, since only one family owned SME in the Czech Republic has been analysed. Generalization of the results is therefore difficult. However, the aim of this thesis is not to find out, which of the internationalization theories family SMEs use, but to explore what theory the concrete firm applies and why. Finally, the most suitable strategy should be proposed. In this case, the generalization of the finding is not requested.

4 Empirical findings

4.1 Introduction

This chapter contains the information about Lindcare gathered from the firm's Websites, publications, but the most relevant findings were gained from the interview with the company owner. The interviewed person was asked questions concerning the management practices and experience in the international market. The important question was how the internationalization strategy was chosen, developed and what are the consequences.

4.2 Lindcare in brief

After 20 years of experience in the pharmaceutical business, Ivan Linder decided to supplement his income by supplying innovative medical products to Czech physicians, laboratories and patients. Mr. Linder founded Lindcare s.r.o in January 2010 in the Czech Republic and became its sole proprietor. To understand the needs of the potential customers, the most important step on the beginning was to visit them around the country. After two years, Lindcare expanded to Slovakia. Nowadays, the company imports around 1.000 high-quality products from Germany, Denmark, Switzerland, French, England, USA, Israel, Korea, China and India. The product portfolio includes mainly surgical products for ophthalmology, ENT, and general surgery and laboratory medical products such as stem cells, sera, protein fractions and custom laboratory products. Lindcare belongs to 92% SMEs in the EU with 2 occupied persons. In 2013 the annual turnover amounted to 1.800.000 CZK, which was by 30% more in comparison to 2012. From the foreign market come 20% of sales.

4.3 Lindcare and its characteristics

Lindcare with 2 occupied persons and turnover under EUR 2 Mio belongs to the category of microenterprises. Furthermore, Lindcare can be characterized as a family firm, since the owners are married couple. Considering the definition of family firm from Litz (1995),

Lindcare fulfils all criteria: the strong family involvement, large extent of family ownership and since they have three children also availability of the family successors.

In the management of Lindcare there is an intensive interrelationship between family and business. Therefore, the business is strongly influenced by family developments. Since Lindcare is managed by the married couple, it is often difficult to find boundary between private and working hours. In this case, regulation of the relationships is important in order to facilitate resolution of internal problems. Same as a majority of such small firms, neither Lindcare disposes of family governance providing internal rules for the organization of relationships within the firm. Nevertheless, the small management team of Lindcare and closeness between the partners enable quick decision making even through absence of the official rules.

As Simon and Hitt (2003) explain managers of family businesses often strive for the long-term sustainability of their firm. This is one of the main differences between family and non-family managers, who generally focus on the firm's sustainability only during the time period when they are part of it. In contrary, the family managers feel responsible for further development of their enterprise with the goal to pass the firm on the next generations. These characteristics can be also applied to Lindcare. Since the owner established the company on the basis of his interest in medical business, one of the main goals is to keep firm growing and developing in the upcoming years. As the owner says, this goal can be achieved only through close relationships with the stakeholders. High competition on the Czech and Slovak markets forces small firms to rely on good connections, which is not possible without honesty, respect and creditability. Since Lindcare deals with lack of financial as well as human resources, tight relationship become crucial for such firm. Long-term connections enhance the information flow among the business partners, which has positive effect on adaptability of the firm on the changes in external environment.

Almost each study dealing with SMEs mentions lack of resources as a negative factor influencing business of these firms. Unfortunately, Lindcare is not an exception. Human as well as financial resources of this firm are insufficient. The profits of the firm are still not high enough to cover salary costs of more than two employees. It results in the long work-

ing hours of the current stuff that often spend their free time working on the business issues.

Concerning financial resources, Lindcare meets the theory of Mayers (1984) who says, that the family firms prefer internal to external finance. The Lindcare managers perceive external finance as a costly way how to acquire additional resources, but sometimes the external finance became necessary. In this case, Lindcare prefers debt finance to equity finance. The owner considers equity financing as a restrictive factor of their independence, since the more involved outsiders in the company the greater influence they have on a decision making. Up to now, all profits of the company are reinvested with the intention of reaching higher returns on investments. On the whole, in the firm are mainly invested personal resources of the owner as well as his family members. For this reason, the behaviour of Lindcare's management can be characterized as risk-averse.

4.4 Business development of Lindcare

4.4.1 First stage of the business strategy

In 2010, when Lindcare was founded, the core business idea was to sell medical consumer products to large hospitals in the Czech market. After visiting all potential customers, the managers perceived predominantly the positive reaction to the offered products. The goal of this market research was also to find out what other products customers need and are willing to buy. On the basis of the research results, company started to search reliable suppliers, who were able to deliver high quality products for competitive prices. Despite positive feedback from the customers, the sales did not develop as expected. Due to high competition, efforts of managers did not generate sufficient profit. The problem restricting further business growth was the product group offered by the company. The product portfolio consisted of the supportive medical equipment with very low unit margins such as sterilizing products, gloves, bandages, etc. In order to generate sufficient profit by selling such products, it was necessary to work with large quantities. Due to the lack of financial resources, Lindcare was not able to operate with such amount of product. Moreover, as a young enterprise, Lindcare still did not have access to the social networks and thus the offered product prices were significantly higher in comparison to the competition. As a result, Lindcare did not have any chance to win tenders issued by the hospitals, since the healthcare sector

in the Czech Republic is underfinanced and thus bidders with the lowest price are preferred.

4.4.2 Second stage of the business strategy

On the basis of these leanings, Lindcare gave up on selling low margin products and decided to focus on a different segment. The new product portfolio involved surgery instruments characterized by high margins. The instruments have been imported mainly from the USA. Nevertheless, after the strategy change the sales still did not fulfil the planned quantities. There were more factors restricting continuous growth of the firm. First, once surgical instruments were sold, the customer did not order anymore. The firm offered high quality products so that they could be repetitively used for a long time. Secondly, it was very difficult to access the potential customers. Healthcare sector in the Czech Republic does not have enough financial resources, which lead to the limited number of doctors. Moreover, the Czech and Slovak republics are small countries with a high competition, which means that doctors are contacted and visited every day by numbers of sales representatives. Third problem were delayed payments from the hospitals for the products that the customers ordered. In many cases, the company had to wait up to 6 months until the invoice was paid, which put the company in a difficult situation, since it prevented the firm from the purchase of new deliveries. Finally, although the product margins were high, the effort of the managers to visit personally each customer was not covered by the generated profit.

4.4.3 The current stage of the business strategy

Considering all discussed obstacles, new business strategy had to be planned in order to sustain the business. On the basis of the knowledge from the previous strategy, the managers decided to focus on special products generating high margins. The important change in comparison to the former idea was to deliver consumer goods that have to be ordered regularly. The input came from the Lindcare owner who worked with such a product in his previous job.

The new specialized product

Since half a year the company has included the highly specialized laboratory products in its product portfolio, namely animal and human sera, protein fractions and other customized variants of these products. The most widely used animal serum is the fetal bovine serum. This type of serum originates from embryonic calves and it is used in laboratories as a component of standard culture media for various types of animal tissue cells. Fetal bovine serum, same as other types of sera, is source of proteins, which are necessary for promoting the growth of tissue cultures. Moreover, sera increase effectiveness of tissue cultures and build up essential element of vaccines (US National Library of Medicine, 2014).



Figure 6: Fetal Biovine Serum

Source: Kalen Biomedical (2014)

Cells grown in vitro are highly sensitive. Before the purchase, the customer has to order samples so that he/she can check the suitability for the particular cell type. Once the sera are suitable, the laboratory sticks to the supplier who produces this type of product. Lind-care perceives high switching costs as very advantageous, since they contribute to long-term cooperation with a customer.

On a global market, sera are very expensive components. Firstly, harvest and collection of sera is very complicated and costly process. Secondly, demand for the product incremen-

tally increases and in the last years it exceeds even supply. Finally, supply to the European Union is hindered by strict EU regulations.

Current market situation

One of the triggers to sell sera was the current market situation in the Central Europe. Half a year ago, it was found out that large distributor PAA who supplied the majority of the laboratories in this region, falsified the quality certificates. As the approved product quality is crucial for the laboratory research, since this scandal customers have not trusted the supplier anymore and started searching for new firms. The specificity of the product, its complicated production process and transportation together with strict regulations related to high administrative costs discouraged many firms from distribution of this product.

Experience gained from the previous job of the Lindcare's owner as a regional manager in a company selling laboratory products encouraged him to make use of newly emerged demand on the market. The first step was to visit all potential customers on the Czech market such as state-owned and private laboratories, private research centres, university laboratories, clinics and other similar institutions. During the market research Lindcare managers found out that in the country there is a high number of new modern research centres searching for premium quality laboratory products and equipment. The reason for this fast development might be high subsidies from the EU that the Czech Republic received as support for a biological research.

After the market potential was proved, Lindcare contacted producers in the USA, Australia, New Zealand and France. Concerning the logistic costs, the most favourable would be to import the product from the French producer. Nevertheless, this producer does not have all required certificates and therefore the company imports sera also from the distant countries. For example, the US producer arranged EU certificates for all types of sera and thus, despite higher logistics costs, laboratories prefer such producer due to the reduction of suitability tests that have to be made. There are also few customers ordering the product from Australia. In Australia, collection process of the sera is highly specialized and strictly regulated, which has strong impact on the price level. Nevertheless, in the laboratories and research centres financed through grants quality has been often preferred to price.

Advantages of the specialized product

To sum up, specialized laboratory products are for many reasons suitable for Lindcare. Firstly, due to the failure of large supplier and emergency of new laboratory centres there is a high market potential. Secondly, research projects are subsidised by the EU funds, which reduces the maturity period and enables the firm to reinvest earnings in the further firm's growth in a short time. Thirdly, the manipulation with the product is very easy. Lindcare arranges distribution only in the administrative form so that the product is shifted directly from the producer to the end customer. Fourthly, high switching costs caused by suitability tests force the customer to stick to one supplier for a long time period. Finally, one of the important advantages is also high margin that this product generates.

Market threats

Concerning the competition, there are also other firms that recognized the growing potential in this market segment. As the biggest threat to Lindcare can be considered large companies having the possibility to use economies of scale, which enables them to offer lower prices. Moreover, in this sector the suppliers' strategy is to make quantity discounts. Therefore, in many cases laboratories prefer one bigger supplier to higher number of smaller ones. The customer preference of quality over price as well as difficult access to the product can be perceived as two main factors making Lindcare competitive in this sector.

Additionally to the sera and other laboratory goods, Lindcare still supplies the surgical instruments for the ophthalmology, ENT and general surgery. Since these products generate high margins, they are good supplement of the laboratory medical product portfolio. On top of that, business activities in ophthalmology brought opportunity for the supply of hyaluronic acid used in eye surgery. The hyaluronic acid is a key component for all types of eye surgeries, which ensures regular orders. Unfortunately, competition in the ophthalmological sector is very high, which was one of the reasons, why Lindcare had to turn its focus to the laboratory segment.

4.5 The current stage of Lindcare within the firm's lifecycle

4.5.1 Introduction

Definition of the current stage of the company within the lifecycle can be very beneficial. Using lifecycle model can help management to determine its current situation and position on the market, which allows the firm to plan for the future and to adjust appropriately its business activities. Moreover, it has been used for the suggestion of priorities, knowledge, skills and attitudes. The clarification of the current stage might also support the management by the problem solutions and by the identification of positive and negative factors influencing the business operations. As mentioned in the chapter 2.5, in the literature can be found lot of variations of the lifecycle models. Nevertheless, these models often miss instructions how the life-cycle stage should be identified, which has been often criticized. Anyway, there are only small differences between the models and thus, all of them bring similar results.

4.5.2 Application of the life-cycle model to Lindcare

For the analysis of Lindcare, five stages model from Churchill and Levis (1983) have been chosen, since it was developed with focus on the SMEs. The model points out the importance of strategy and the necessity of changing management style along with different life-cycle stages. Nevertheless, after the examination of Lindcare's strategy, it was found out that development of firm's operations do not exactly respond to the single stages described in the model. Lindcare's current activities involve characteristics from existence, survival and success stage. The reason might be the ownership structure, since family enterprises often develop differently than non-family firms. For example, Lester and Parnell (2006) found out that by the family firms the survival stage takes much longer. Finally, Wang et al (2000) emphasize that by family firms the most important stage is the succession, which also differentiates them from the non-family firms.

Existence stage

Lindcare's characteristics, such as small size and low age are indications of the existence stage. The market research has been already done as well as the business plan. Nowadays, Lindcare uses focused strategy to stress the uniqueness of its products and services to the target group of customers. Hitt et al (2001) explain that during this stage firms aim to establish a dominant position within the market niche. The efforts of Lindcare management currently concentrate also on the establishment of mutually advantageous relationships with its suppliers in order to create a competitive advantage. Moreover, they attempt to make an early perception of unique high quality product. The managers of Lindcare also continuously try to learn about further needs of the customers. Since all these business activities are very costly, generated profits are low. The majority of the profit is reinvested in order to strengthen the firm's market position and to fund continued growth.

Survival and success stage

The group of Lindcare customers is growing as well as its revenues. Therefore, it can be considered that the firm is slowly entering the survival stage. The profits are low, but they are high enough to cover all costs. As soon as the company has the reliable customer base generating stable profit level, the risk of failure will be limited and the company can start planning further growth strategies. In this point, behaviour of the company does not respond to the survival stage anymore, but rather to the success stage.

In the success stage, the majority of firms decide to internationalize. With increased number of customers and sales, effectiveness of the management becomes crucial. Therefore, better management and accounting systems have to be set-up. Growth on the current market or entering the new market requires further investments and higher number of employees.

In the case of Lindcare, cooperation with an external business partner would be recommended in order to enhance the access to the additional resources. Due to the favourable location of Lindcare, firm has already received a number of propositions from the overseas companies searching for the partner who would represent them in Europe. Since implementation of such cooperation takes lot of efforts, the market research is important step

before contract conclusion. In these days, Lindcare deals with an US producer of sera who plans to establish a production plant in the Central Europe. If the cooperation would take place, it would be another important step of Lindcare within its lifecycle.

5 Data analysis

5.1 Within-case analysis – Lindcare goes international

Up to now, Lindcare as the majority of family firms is mainly committed to the domestic market. Besides the Czech market, Lindcare operates also in Slovakia. Similar culture as well as the social network in this country are the main reasons why the company has chosen Slovakia for its foreign sales. Considering the current business activities of Lindcare, import significantly exceeds export. Holmund et al. (2007) found out that majority of firms start their internationalization process with import. Moreover, he claims that by importing the company creates new opportunities for international activities. Thanks to import, the company can offer differentiated, higher quality products more tailored to the customer needs and set a competitive price. Thus, a greater access to the foreign markets increases the competitiveness of domestic firms. As a consequence, firm's capacity to penetrate and succeed on foreign markets will be enhanced. Additionally, importing activities extend the network of SME, which might be highly valuable for the exploitation of future outward opportunities. Considering all positives effects of import, Lindcare is on a good way to extend its foreign activities.

5.1.1 Family ownership influencing internationalization process of Lindcare

In case of Lindcare, as a positive factor of family ownership can be seen the small management team. The firm is managed only by two managers who can make fast decisions, which enables them quick reaction on the changing market environment. The informal communication instead of complex procedures improves the efficiency. Lindcare gives weight to long-term commitment based on high level of trust, which is very important for long distance communication. Up to now, Lindcare closely cooperates with approximately ten producers.

But thigh relationships can be created only in the long-term time period. Therefore, Lindcare as a young enterprise is currently in the process of searching for the reliable partners. There are two things that positively influence this searching process. Firstly, both managers of the firm worked around 20 years in pharmaceutical business on the management

positions, which enables good orientation on the market. The second positive factor can be seen the location of the firm. In the central Europe, short distances between countries make firm attractive for the potential business partners. Therefore, it can be expected that the list of current partners will be extended in the following years.

Fernandez and Nieto (2006) found out that there are two main characteristic of family enterprises that negatively influence internationalization process. These are conservatism and independence.

According to the Lindcare owner, since the company is new, it is willing to innovate. Both managers are looking for new ideas and they are learning new management practices on a daily basis. In the case of Lindcare this innovative attitude is necessary; otherwise the company could not grow. Therefore, it can be said that Lindcare is not conservative and rather open for new challenges.

On the other side, the independency is for the owner very important. The firm is willing to cooperate with bigger company, but only under the condition that the external partner does not intervene in the internal decision making process. Lindcare same as the majority of family SMEs also refuses external equity financing. As mentioned in the chapter 4.3., the business is financed by reinvestment of profits, which might be seen as a restrictive factor of the internationalization. Entering foreign markets is a costly process and without the financial support from outside such a decision can become unrealizable. Moreover, internationalization is very risky step and because the owner invests all his resources in the firm, failure on the foreign market could destroy whole business. Under these circumstances, the management of the firm is rather risk-averse, which has a negative impact on the internationalization decision.

5.1.2 Opportunities of Lindcare on the international markets

Innovations in information technology facilitate access to new suppliers and customers, and intensify interaction with the old business partners. Thanks to these technologies, SMEs have access to new products offered only in the foreign countries without high expenditures.

Also Lindcare has been looking for the new business partners using modern communication technologies. The internet enables Lindcare to contact its partners directly without travelling. Moreover, on the specific websites firm can find actual information about the events such as congresses, where new business partners can be personally contacted. Nevertheless, this opportunity does not always turn into a competitive advantage, because new communication technology is accessible to all competitors. For this reason size related disadvantage remains.

Lindcare concentrates upon niche strategy by selling specialized laboratory products imported from the foreign countries that are difficult to buy on the Czech market. This means that importing created an opportunity for Lindcare to be competitive in the domestic market and in Slovakia as well. Moreover, disadvantage of limited resources has been overcome through firm's flexibility and ability to react early on a change in the market environment caused by exit of big supplier PAA.

In order to sustain the business also in the future, the high amount of investment will be needed for extension of the Lindcare activities into the international markets. For this reason, cooperation with external business partners can be considered as necessary solution for a small family firm. Globalization of large firms creates new opportunities for SMEs to be a part of their value chain. As the owner confirms, large companies are interested in cooperation with local firms in order to represent them on their domestic market, since it limits risks linked to the internationalization.

In these days, Lindcare deals with the US firm that currently exports sera to the Czech Republic. Until now, Lindcare is their sole distributor in EU. After successful cooperation, the American firm intends to establish specialized filtration plant for sera in the Czech Republic. The planned cooperation with the US partner would be in the form of greenfield investment. According to the plan, marketing and distribution of the end product will be outsourced to Lindcare having good knowledge of the domestic market. Since Lindcare already distributes their product in the Czech Republic and Slovakia, it can better recognize potential customers and communicate with them. Such cooperation would be very advantageous for Lindcare, because it would enhance access to resources. For example, in

the Czech Republic these types of projects are subsidized by state or EU, since they attract new foreign investors. Thanks to the collaboration with the US firm, Lindcare would become more competitive and strong enough to enter new markets, which is also planned for the future.

5.1.3 Motives of Lindcare to internationalize

Through the operations on foreign markets, Lindcare gains substantial capabilities and knowledge. Internationalization extend firm's social network, which enables better access to resources for better prices. Moreover, cooperation with reliable international business partners spreads risks. All these factors have positive impact on the profit, which can be seen as a main motivation of the management to internationalize.

Lindcare's motives to internationalize are not only proactive, but also reactive. From the external business environment there is a considerable pressure pushing the firm into foreign markets. The Czech Republic and Slovakia are small markets, with high competition. When firm wants to survive it is almost a must to cooperate with partners from the foreign countries. Otherwise, in the market full of large firms a SME like Lindcare could not be competitive. Due to the limited number of research centres and clinics in both countries, in the future the firm will be compelled to distribute its products to other foreign countries in order to sustain the business growth.

As Suárez-Ortega and Alamo-Vera (2005) say, business activities are still more influenced by firm's resources and management capabilities then by external environment. Therefore, Lindcare has to focus on projects improving these two factors.

5.1.4 Barriers

Despite numerous opportunities resulting from the internationalization, many firms decide to stay in domestic market. As mentioned above, entering foreign market requires high amount of resources, information, skills and courage. Concerning Lindcare, in the management are experienced people with good social network, but mainly on the local market.

Thus, as a barrier can be considered missing know-how about foreign markets that could result in the imperfect internationalization strategy. The local focus of Lindcare inhibits the firm to be a part of the social networks in the international markets. Without the cooperation with these networks it is difficult to overcome external barriers arising from the insufficient market knowledge.

Moreover, due to the small size, Lindcare still does not have enough resources to cover all costs related to the further developments on the international markets. The company is not able to absorb high initial costs of internationalization, which would result in unprofitable transactions. Lindcare needs fast return on investment, which is another factor inhibiting international operations.

5.1.5 How Lindcare can overcome internationalization barriers

Import as a support instrument for further internationalization steps

As mentioned in the chapter 4.2., Lindcare closely cooperates with the business partners from various foreign countries, since all distributed products are imported. Welch and Luostarinen (1988) imply that international operations do not refer only to export, but also to inward activities and both are equally important. They also highlight that import significantly increases involvement in international operations. Through cooperation with the external business partners Lindcare enters their social networks and gets better access to the market information. External partners help firm to overcome internal lack of resources as they enable the firm to get products and services for better prices. The communication with the partners is also facilitated by good knowledge of foreign languages of the Lindcare managers.

EU support

Since Lindcare operates in EU, barriers in form of administrative and legal difficulties in the member countries are minimized due to the common EU regulations. Moreover, the EU organizes various support programs for SMEs that help small innovative firms to get missing resources for the foreign expansion. Lindcare is aware of this opportunity and cur-

rently works on the application for these programs. The owner is convinced that Lindcare is the right candidate. Concerning the innovativeness, planned filtration plant for sera can be considered innovative, since such facility exists neither in the Czech Republic nor in the neighbouring countries. The closest plant for the production of sera is located in France, which is also one of the Lindcare's suppliers. In the Czech Republic, number of laboratories, diagnostic centres and hospitals working with sera rapidly increases and thus there is a high potential. The filtration plant would allow the consumers to buy the product for lower prices, on the one side. On the other side, such facility would create new jobs for the local people. If Lindcare would receive the EU funding, the internationalization would become much easier, because the highest barrier – lack of resources – would not be relevant any more.

Support from the Czech government

Despite EU grants, Lindcare can apply for the subsidies provided by the Czech government. At this time, Lindcare deals with investment and development agency called CzechInvest (see chapter 2.9.1.). The main objective of the CzechInvest is to support entrepreneurs and investors in certain industrial sectors mainly in the locations with high unemployment rate. The filtration plant planned by Lindcare and its US partner should be located in the north Moravia where the unemployment rate is the third highest in the country (CZSO, 2014). Additionally, among the sectors that CzechInvest supports belong also healthcare industry as well as research and development. Thus, Lindcare has chance to receive their help. According to the ongoing negotiations, CzechInvest already proposed some alternatives of their support. Further steps will be taken after the final decision of the US producer.

Internal factors

In the past, both Lindcare entrepreneurs worked in managerial posts in international companies. They were responsible for sales in the Czech Republic and Slovakia, which was connected to frequent business trips. Thanks to this experience, both entrepreneurs are internationally minded with a drive towards innovative business activities. These entrepre-

neur's attitudes are essential, since the internationalization by SMEs is usually based on a single decision maker.

5.1.6 Internationalization strategy of Lindcare

Small firms differ from larger companies in their ownership structure, independence, managerial style, and scale of operations (Coviallo and Martin, 1999). SMEs have different organizational structures, reactions on the changing environment and ways how they compete with other firms (Man et al., 2002). There are two common features of SMEs distinguishing their strategic behaviour from that of larger firms: limited resources and resource commitments due to the environmental uncertainty. Firstly, on the beginning of internationalization process, ability of the small firm to reach further stages of internationalization is significantly limited by the insufficient resources. To overcome this difficult period, a small firm has to utilize its specific advantages and focus on niche markets, which may create an opportunity to compensate for its disadvantages. Secondly, the internationalization strategy of SMEs is substantially influenced by the uncertainty of external environment that forces these firms to proceed cautiously and minimize their resource commitment. Especially when SMEs have limited resources, high investments have a strong impact on the firm's operations, which prompts the firm to make careful decisions.

Since Lindcare is a small family enterprise all mentioned characteristic and constrains can be applied to this firm as well. Up to now, Lindcare performs inward as well as outward activities, while the inward activities noticeably dominate. As described in the chapter 5.1.5, importing is crucial step before entering new markets. Cooperation with foreign business partners extends firm's social network opening new possibilities for faster acquiring of information. As a consequence, the competitiveness of small firm on a domestic market is enhanced, which helps the firm to acquire sufficient resources for the engagement in the international activities.

5.1.7 Application of the theoretical models on Lindcare

In the Chapter 2.10., four internationalization theories have been described: the Uppsala mode, the Social network theory, the International entrepreneurship, and Born globals. The aim of this chapter is to examine, if there is a link between the theoretical models and Lindcare's operations.

Nowadays, Lindcare is present on one foreign market - Slovakia. The firm decided to enter this market after two years of the operation in the Czech Republic. The main reason why Lindcare has chosen Slovakia for its international business is the geographical and cultural proximity. Moreover, thanks to the previous work experience the managers have already established social network there.

The Uppsala model

Concerning business development of Lindcare discussed in the chapter 4.4., there is an evident link between Lindcare's strategy and the Uppsala model. Firstly, the firm started with the information collection through the inward activities. Afterwards, Lindcare entered the best-known market. Same as defined in the Uppsala model, Lindcare started with low commitment entry mode – export. As mentioned in the chapter 2.11.1., it is suitable entry mode for the initial stages of the internationalization, since it is relative flexible and fast way how to enter new geographic markets with low risk. Nowadays, Lindcare sells its products directly to the end customers, because it does not require high investments. Operation on the Slovakian market increases the customer base, firm gains more market knowledge, skills and financial resources. Higher amount of the internal assets allows the firm to move towards further stages. In the case of Lindcare, in the next step it can be expected that external sales representatives will be hired. New employees extend firm's social network, information flow and reduce workload of the current managers, which enable them to focus on the further growth strategies.

The Network model

The internationalization process is significantly influenced by relationships with the stakeholders. As Coviello and Munro (1995) explain, networks can be seen as a bridging mechanism facilitating internationalization. The stronger the ties among the partners, the better information flow. Johanson and Mattson (1993) explain that trust and commitment with international partners has been established gradually. Considering their network model described in the chapter 1.1.1., Lindcare belongs somewhere between the first stage called “early starter” and the second stage “lonely international”. Lindcare does not belong only to the first category, which is characterized by the weak network in the foreign country and very little knowledge, because the firm already collaborates with number of reliable international partners for a longer time period. Thanks to these relationships company has already an access to their networks. However, it is still not enough to be in the group “lonely international” since by the exporting to one single country, Lindcare cannot be considered highly internationalized.

As described in the chapter 5.1.2, on the basis of good relationships with suppliers, Lindcare received an offer to act as an external partner managing their subsidiary in the Czech Republic. In the case, that all conditions are agreed, Lindcare would be also responsible for the marketing and sales in all neighboring countries under the support of the large company. To sum up, good connections with large international firms bring Lindcare new opportunities to rise and therefore, also the network model can be applied to the real firm.

International entrepreneurship

The theory of international entrepreneurship highlights the role of entrepreneur within the firm. Especially by SMEs with small management teams, all internal business processes are results of entrepreneur’s decisions. His knowledge, experience, relationships, skills and abilities are crucial for the firm’s operations. McDougall and Oviatt (2000) described international entrepreneur as a person who is innovative, proactive and risk-seeking within the international markets and having intention to create value in organizations. Anyway, it can be claimed that without these characteristics it is almost impossible to be internationally successful. In my opinion, this theory depicts characteristics of internationally active

managers and can be applied to all of them. Otherwise, there would be very low probability that such a firm would overcome high threats on international markets.

Concerning Lindcare, both managers are educated doctors, but since the graduation they have worked in large pharmaceutical companies on positions country, sales, and product manager. Therefore, it can be suggested that they have acquired sufficient experience and skills to manage their own firm and to recognize new market opportunities. As described in the previous chapters, managers proactively seek new business partners and discover new innovative products by visiting specialized congresses, websites, laboratories, and doctors. Their intention is to establish long-term relationships with suppliers and customers. They focus rather on intensity than quantity. To reach regular orders is one of their main goals, since reliable customers can ensure the income necessary for further company's growth. One restricting factor is the resource scarcity, which naturally results in the risk-averse behaviour of the Lindcare's entrepreneurs negatively influencing further development of the firm towards international markets.

Born Globals

Change in technology, economics and social environment push companies to internationalize soon after their establishment (Oviatt and McDougall, 1997). Born globals are firms that from the beginning follow the vision to become global and engage rapidly in the international activities by entering more foreign markets at the one moment. Madsen and Servais (1997) found out that management of these firms consists of people, who have already gained prior international experience and are members of broad business networks.

Regarding the theoretical findings, it is obvious that Lindcare does not belong into this group of firms. Lindcare does not adopt the born global strategy for many reasons. The main barrier is the lack of human and financial resources. Since Lindcare is operated only by two managers, it is not feasible for them to undertake such a demanding movement. Moreover, this strategy requires high investments in marketing and administration. Finally, firm's managers with their domestic focus eliminate an access to the international business networks. Without these connections, born global strategy is very difficult to apply (Madsen and Servais, 1997).

5.2 Future prospects and suggestions

The prospects, how Lindcare proceeds in the next years, can be derived from its characteristics, current activities and plans. The project with the most significant impact on the firm's future development is the involvement of Lindcare into the supply chain of large US producer of sera. If the ongoing negotiations about establishment of the filtration plant in the Czech Republic lead to the successful cooperation, Lindcare gets access to high quality products, which are due to the strict regulations and complicated production process difficult to obtain in the Central Europe. There are numerous advantages related to the project. Firstly, due to the low logistic costs, the filtration plant would allow selling the end product at a favourable price. Secondly, new jobs for the local people would be created. Thirdly, engagement of employees in the running filtration facility would increase the chance to receive subsidies from the EU and the Czech Ministry. Such a financial support would eliminate the problem of resource scarcity and Lindcare's managers could fully concentrate on further stages of the internationalization.

An important step before establishment of the filtration plant is to conduct a market research in all target countries in order to eliminate potential risks. Through this market analysis financed by the US producer, Lindcare would gain know-how useful also for sales of other laboratory products from its portfolio. On the basis of the results gained from the research, the suitable internationalization strategy could be created.

5.2.1 Market selection

After the finding that Lindcare internationalizes gradually, it can be assumed, that it will continue the internationalization process by extension of its business activities towards neighbouring countries. When the current business operations are taken into consideration, Lindcare might firstly enter Poland and Germany. In Poland, Lindcare occasionally supplies universities and research centres with the cell tissues. In Germany is located one of Lindcare's close suppliers, who could provide market information about the potential customers. In this case, cultural and geographical proximity play an important role, since it decreases administration and logistic costs. Regarding the Austrian market, Lindcare cooperates with a small distribution company there, which supplies sera as well. Nevertheless,

ties between Lindcare and stakeholders in the neighbouring countries are still very weak. When the company gains sufficient resources for the entering these markets, a detailed market research will be necessary.

5.2.2 Entry mode selection

Concerning market entry mode, currently direct export is the most suitable form for Lindcare's internationalization. It is probable that Lindcare will choose it also by entering other countries. Nevertheless, entry mode selection will be adapted on current firm's situation. In case of high profits in the future, Lindcare gains sufficient resources and new market can be entered by employment of experienced sales representatives with local market knowledge.

Nowadays, in the Slovakian market, Lindcare contacts existing and potential customers directly. Due to the product specificity, there is only a limited number of facilities using this type of product and therefore direct communication is possible and the most effective way.

With regard to the market entry selection rule defined by Roots (1994), in the future Lindcare might prefer naive rule to pragmatic and strategic rule as it is defined by identical entry mode for all countries. Since it is very inflexible approach eliminating the chance to catch new opportunities, it would be recommended to follow pragmatic rule instead. Firms selecting entry modes according to the pragmatic rule choose workable entry mode for each country and later it is changed only if it is not feasible. In this case not all alternatives are evaluated, which reduces the costs.

5.2.3 Internationalization without support of the large business partner

If negotiations with the US producer fail, Lindcare will adapt the internationalization strategy to its current situation. Without support of the large business partner, the time period before entering further foreign markets will prolong. During this period, it would be recommended to concentrate on extension of the target customer group through direct com-

munication in order to establish long-term relationships. Through its flexibility, innovativeness and customer orientation Lindcare is able to create a stable customer base. Regular orders would increase firm's internal resources and the firm could grow. Moreover, Lindcare has an advantage of low operation costs due to the small management team, which allows the firm to offer more competitive prices. Additionally, there are still EU support programs that the firm can utilize. Reaching the sufficient level of resources, it would be recommended to extend the international involvement gradually. The stepwise proceeding enables the firm to gain resources and market information reducing risks. This is very important, because the failure for such a small enterprise would have a strong impact on firm's existence. Since Lindcare management is rather risk-averse, gradual internationalization process can be expected in the future.

6 Conclusion

Generally, family small and medium enterprises have specific features that differentiate them from non-family firms. They show a particular behaviour as for the establishment, development, growth, protection, transfer of knowledge, management and so on.

This thesis focuses on the investigation of family owned SME Lindcare in order to gain better understanding of its internationalization process. Firstly, firm's characteristics were analysed, since they determine all business operations of the firm. Internal evolution of family firms is a complex phenomenon resulting from emotional, personal factors and succession, which always lead to different results. The processes within the family firms vary and thus, only those dimensions can be identified that are relevant for explanation of proceedings during the expansion of their business into foreign markets.

By looking at the characteristics of Lindcare, it is evident that the firm possesses unique assets and capabilities that can be effectively used by the internationalization (e.g. a high level of trust, quick decision making, and a long-term view). On the other hand, the enterprise, same as majority of other small firms, faces specific barriers to international expansion in form of limited resources and networks, domestic perspective, or unstructured management processes. One of the ways in which these barriers can be overcome is a good knowledge about internationalization strategies and cultures. To enhance the current situation of Lindcare, it is recommended to intensify the direct communication with current customers, apply for support programs for SMEs, regularly monitor the international environment, and actively attend international occasions (e.g. conferences) offering the chance to establish new networks with potential foreign partners.

The results obtained from the investigation of Lindcare's internationalization strategy did prove the applicability of the entrepreneurship paradigm. Several resource limitations in various instances force the owner to develop creative approaches in order to get over difficulties related to the internationalization. Knowledge, experience, relationships, skills and abilities of the firm's owner help the firm to reach differential advantages over its competitors.

It was also found out that networks play an important role for Lindcare. Through cooperation with external business partners firm achieved better access to resources. Links with network partners enable the firm to supply specific products at favourable prices, which significantly enhances firm's market competitiveness.

To sum up, internationalization process of Lindcare started by using network approach and after that it develops in accordance to the stage model, in particular the Uppsala model. Since Lindcare is small company with limited resources, this proceeding would be recommended also for the future. By gradual internationalization, resources and knowledge will gradually increase and minimize risks emanating from new markets.

For the future, internationalization of family firms provides an extensive frontier of possibilities for further research. For example, one of the topics could be the examination of differences between family and non-family businesses from the perspective of governance and culture with focus on microenterprises in the Central Europe. Moreover, since the existing theoretical internationalization models still deviate from the reality, the further research could also provide the modification with regard to family firms in order to facilitate their engagement in foreign markets.

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8 Appendix

A. Interview Guide

General information about the company:

- Year of establishment and motivation?
- Number of employees?
- Main products?
- Annual sales?
- Ratio of export to total annual sales?
- Market environment in the Czech Republic and Slovakia (competition, demand, etc.)?
- Main stakeholders?
- Skills and experience of the managers?
- Company development?

Research question one: What are the characteristics of Lindcare?

- How many hours do you work per week?
- Do you have family governance providing internal rules?
- How do you finance your business activities?
- How long on average do you cooperate with your business partners?
- How do you perceive involvement of the external partner into your firm? What kind of cooperation would you prefer?
- Are the current profits sufficient for the further growth?
- What is the goal of your company?
- What are your business plans for the future?

Research question two: How these characteristics influence firm's internationalization process?

- What would you change in order to enhance the internationalization process?
- Are there any possibilities to facilitate the internationalization?

Research question three: What are the motives of the firm to internationalize?

- In which foreign market Lindcare currently operates?
- For how long Lindcare operates on international market?
- What was the main motivation to enter the foreign market?
- Do you plan to enter further foreign markets? Why?

Research question four: Which internationalization theory the firm follows and why?

- Why did you enter Slovakian market?
- What entry mode does Lindcare use?
- How did Lindcare select the entry mode?
- What factors influenced the entry mode selection?
- Did relationships with your business partners play any role by choosing the market?
- What criteria have to be fulfilled so that you decide to enter new foreign market?
- How would faulty internationalization influence Lindcare operations?
- Do you plan any further internationalization in the next years? Why/ why not?

Research question five: By which problems is the company confronted?

- Were there any barriers by internationalization that Lindcare had to deal with?
- If yes, what were the main obstacles?

Research question six: How to solve these problems?

- How did you overcome these barriers?
- How could be avoided such obstacles? Do you have any suggestions?

Research question seven: What internationalization strategy would be suitable for this SME in the future?

- How would you proceed by entering new foreign market?

B. Abstract (English)

Internationalization is perceived by small and medium enterprises (SMEs) as a strategy for growth and in some cases even for survival. Therefore, not only theoretical understanding of this topic is relevant, but also the practical managerial implication play important role. This master thesis presents an analysis of the internationalization strategies of family-owned SMEs based on the review of theoretical framework and operations of the real firm.

On the one side, the thesis focuses on the application of internationalization theories to the Czech small family owned firm Lindcare operating in health care and medical laboratory industry. The most discussed theoretical models such as Uppsala model, International network model, International entrepreneurship and Born globals have been described and compared with the processes of the real firm in order to get better understanding of the internationalization process.

On the other side, on the basis of literature using complex research techniques firm's characteristics have been defined in order to describe factors influencing the current internationalization strategy of Lindcare. The result of this analysis brings an overview over the opportunities and constrains related to the internationalization, which helps the management to create a suitable strategic plans for the future.

Clear idea how to internationalize facilitates the internationalization process and enables the firm to overcome existing barriers much easier. Especially for SMEs disadvantaged by their small size, lack of resources and knowledge, such analysis might be very helpful. In this regard, identification of the current firm's strategy discussed in this thesis results in the background improving the practice of managerial team of firm interested in further foreign expansion.

C. Abstract (German)

Internationalisierung ist einer der großen Trends unserer Zeit und als Hoffnungsträger in aller Munde. Besonders für kleine und mittlere Betriebe wird es aufgrund des zurückgehenden und eingeschränkten Heimatsmarktes immer wichtiger die Geschäftsbeziehungen auszubauen und zu expandieren. Im Rahmen dieser Diplomarbeit wird der Internationalisierungsprozess von einem kleinen tschechischen Unternehmen, Lindcare, analysiert und eine Empfehlung über weiteres Vorgehen gegeben.

Auslandsaktivitäten bieten eine Reihe von Chancen für ein kleines, noch hauptsächlich national tätiges Unternehmen wie Lindcare. Beispielsweise Wachstum, den Ausbau des Kundenstammes und Kostenvorteile durch das vergleichen von Preisen auf einem größerem, internationalen Markt, um nur einige zu nennen. Chancen die jedoch auch mit Risiken und Herausforderungen verbunden sind. Unter anderem Engpässe in der Finanzierung, im Management, der Mangel an Erfahrung und fehlende Kontakte im Ausland verlangen nach einer passenden Strategie um international erfolgreich zu sein und den gewünschten Wettbewerbsvorteil zu erlangen.

Um als Abschluss dieser wissenschaftlichen Arbeit eine Strategie, ein Internationalisierungsmodell, empfehlen zu können, wurden Risiken und Erfolgchancen eines Internationalisierungsprozesses mithilfe von existierenden Studien dargestellt.

Ein Vergleich der bestehenden Strategie von Lindcare mit den, in der Literatur definierten, Internationalisierungsmodellen wie Uppsala model, International Entrepreneurship, Network model und Born Globals soll neue theoretische Möglichkeiten aufzeigen und zu einem besseren Verständnis dieses Prozesses für Lindcare führen.

Ziel dieser Arbeit ist nicht nur die Empfehlung eines Internationalisierungsmodelles und das Erlangen von theoretischem Verständnis, sondern auch eine praktische Umsetzbarkeit der erworbenen Kenntnisse darzustellen. Denn nur wenn dieser komplizierte Prozess verstanden wird und die Auswahl einer passende Strategie stattfindet, wird die Lindcare von der Internationalisierung nachhaltig profitieren.

D. Curriculum vitae

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EDUCATION

02/2012 – to date	International Business Administration, master University Vienna
10/2007 – 02/2012	International Business Administration, bachelor University Vienna
09/2003 – 06/2007	Gymnasium Sternberk

INTERNSHIPS

01/2014 – 09/2014	Business Development Department, OMV Refining&Marketing AG
07/2013 – 09/2013	Infrastructure Financing Department, Erste Bank Immorent AG
07/2012 – 09/2012	Infrastructure Financing Department, Erste Bank Immorent AG

LANGUAGES

Slovak	mother tongue
English	fluent
German	fluent
French	intermediate
Spanish	basic
Russian	basic