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Abstract

The globalization of the international business forces the European Small and Medium enterprises to develop expansion strategies in order to keep their competitiveness on the market. It is important to explore the EU SMEs since they represent 99 percent of all companies in the Union. Therefore, they are described as the backbone of the European Union economy. In order to understand them in details, it is important to analyze their market entry decisions, what kind of barriers they are facing to and the possible ways for overcoming them.

The main aim of the thesis is to conduct an overview of the contemporary research literature and to present important recommendations about the internationalization issues of the European SMEs. Thus, the thesis provides also a case study about successful internationalized European SME, overcoming the financial and economic crisis, thanks to its internationalization policy. The case study also tests qualitatively the hypotheses, established in the theoretical part.

The thesis provides recommendations for future researches, managerial practices and public supporting policies as conclusion.

Zusammenfassung

Mit der zunehmenden Globalisierung der Weltwirtschaft entwickeln immer mehr Kleine und Mittlere Unternehmen (KMU) Expansionsstrategien, um auf dem Markt konkurrenzfähig zu bleiben. Es ist von bedeutsamer Wichtigkeit KMU zu untersuchen, da diese 99% aller Unternehmen in der EU repräsentieren. Aus diesem Grund werden sie auch als tragende Säule der europäischen Wirtschaft definiert. Um KMU in der Tiefe zu verstehen ist es wichtig, ihre Internationalisierungsentscheidungen zu analysieren und zu untersuchen, mit welchen Arten von Hindernissen sie sich konfrontiert sehen bzw. wie sie diese überwinden.

Die Hauptziele der Masterarbeit sind daher das Führen einer umfangreichen Durchsicht der Forschungsliteratur zu diesem Thema sowie die Präsentation wichtiger Empfehlungen zu Internationalisierungsproblemen der europäischen KMU. Zusätzlich beinhaltet die Masterarbeit auch eine Fallstudie über ein erfolgreich internationalisiertes europäisches KMU, welches dank seiner Internationalisierung die Finanz- und Wirtschaftskrise erfolgreich überwinden konnte. Die Hypothesen aus dem theoretischen Kapitel wurden dabei in der Fallstudie qualitativ getestet.

Die Studie bietet Empfehlungen für zukünftige Forschungen, Managementpraktiken und öffentliche Unterstützungsmaßnahmen.

Author´s Declaration

Unless explicitly stated in the text or references, I certify that this thesis is entirely the result of my own intellectual work. I take full responsibility should any of the included facts or my own reasoning arguments be incorrect or flawed. This thesis has not been previously submitted elsewhere - neither parts of it, nor in its entirety. I declare that the printed thesis is identical to the submitted electronic one.

Date: Signature:

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Acknowledgement

I would like to express my gratitude to my supervisor Univ.-Prof. Mag. Dr. Josef Windsperger for his engagement and fruitful advice during the process of elabotrating the current thesis. His trust and support provided me with the freedom of expression I needed.

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List of abbreviations

CEE - Central and Eastern European Countries

CEO – Chief Executive Officer

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

GRP – Glass Reinforced Plastic

IMF – International Monetary Fund

ISO – International Organization for Standardization

JV – Joint Venture

Ltd – Private Limited Company

MNC – Multinational Company

OECD – Organization for Economic Co-operation and Development

R&D – Research and Development

SME – Small and Medium Enterprise

VAT – Value Added Tax

WOS – Wholly owned subsidiary

3D – Three dimension

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Introduction

The process of carrying out the economic activity of small and medium enterprises (SMEs) outside the state borders is defined as internationalization of their activities. Internationalization of SMEs plays an important role in the enterprises'survival and growth especially in countries with a small internal market (Glas, et al., 1999).

There are various academic materials on the market entry decisions of small and medium enterprises. A large number of arguments are set in favour of studying the internationalization of European SMEs, e.g. ranging from from their significant role in the European economy, their extreme ability for quick and flexible response to numerous environmental conditions related to challenges during the internationalization process. It is of great importance to provide analysis on the conditions related to SMEs new abilities and skills in order to succeed outside their countries. This study shall be based on a combination of already known studies and methodologies.

The increased interest in SMEs topics and issues has shown constant trend over the years as SMEs are thought as the European economy backbone. According to Mr. Günter Verheugen (European Commissioner for Enterprise and Industry from 2004 to 2010), SMEs are an important player in the European economy due to several factors, including their role in the creation of jobs, in delivering innovations and encouraging new entrepreneurs' initiatives. At a first glance, there is an apparent dominance of, multinational, multi-billion companies in the European market. According to the European Commission, however, 99% of all companies in the European Union can be categorized as small and medium-sized enterprises. Indeed Moreover, SMEs establish a significant part of the employment not only on the European continent, but also worldwide. They bring to the market the majority of innovations due to increase of their market share. In addition, in comparison with big companies that invest large amounts of money in R&D, SMEs' innovations are constant, cheaper for implementation and with greater degree of return. The reason for this is not only the speed of the decision making process, but also the agility of all other enterprise processes.

The above described phenomenon facts, has a positive and a negative effect. On one hand, SMEs' flexibility allows them to make the most suitable and innovative decisions in order to withstand the vicissitudes of the environment. As Jason Jennings[1] and Laurence Haughton said: “It's Not the Big That Eat the Small ... It's the Fast That Eat the Slow”, which describes the basis of the modern market relations. This view, however, does not explain another vital feature of the market – the scale effects. SMEs are more vulnerable to market fluctuations. In a common case they do not have enough funding (regardless of whether they own or borrow capital) for long periods of time unlike big companies. That is why SMEs’ flexibility is both a gift and a curse.

In addition to the above challenge that SMEs face, the current master thesis takes into consideration the impact of the Global Financial Crisis on SMEs decisions, policies and solutions. This study” instead the changes in SMEs strategies that may be appliedused to respond to unstable conditions in the world economy. While the current economic environment becomes more and more complex, qualitative and quantitative aspects of growth as well as continuous integration of concepts such as social and environmental sustainability present a fuller picture of the amount of work essential to be done. This situation requires that internal and external decisions are taking to prevent this issue. Internal decisions cover reorganizations, innovations, flexible price policy, internal trainings for client relationship improvement, etc. External decisions concern the entry in new markets or in new niches of existing markets, as well as different forms of joint ventures, external partnership and external experts’ assistance. Both internal and external decisions are equally vital for the continuous existance of the enterprise. The main purpose of this paper will be the consideration on the SMEs external decisions.

Small and medium enterprises enter international markets for a variety of reasons. The objective of this thesis is to examine different SME modes for entering international market in order to advance the knowledge on internationally active SMEs and their internationalization processes by conducting a deep overview of the contemporary research literature and presenting important recommendations for European companies. The paper will review different modes for entering international markets in order to examine the challenges SMEs may face and to suggest ways of how they could be overcome. Connecting theory and practice by analysing the case study of Walltopia, the paper will, then, present an example of a successfully internationalized European SME. The case study summarizes an interview with high-level representative of Walltopia: Ms. Violina Petrova, Executive Assistant to the Walltopia CEO.

[1] Bestselling Author on Business and Leadership – author of “It's Not The Big That Eat The Small - It's The Fast That Eat The Slow”; “Think BIG-Act Small”; “Hit The Ground Running”; “The Reinventors” etc.

The Walltopia experience will be compared with the hypotheses from the theory part in order to describe overlapping and differences. Finally, the thesis will draw conclusions about effective internationalization strategies and will provide practical recommendations.

1. Small and medium enterprises in the European Union

European SMEs are defined as business entities that have a staff number of less than 250 people combined with an annual turnover of less than EUR 50 million, or a balance sheet total of less than EUR 43 million. They are divided into three categories of enterprises: micro, small, and medium – sized enterprises. The size-class definition used throughout the current master thesis is based on the EU Commission Recommendation C(2003) 1422 (EU Commission, 2003) (see table 1). Furthermore, according to the Annex of Recommendation, a micro enterprise has up to 10 employees and an annual revenue or annual total balance sheet value of up to EUR 2 million, in comparison withsmall firms that have up to 50 workers and annual total balance sheet or turnover of up to EUR 10 million.

Company Category	Employees	Turnover	or	Balance sheet total
Micro	< 10	< €2 million		< €2 million
Small	< 50	< €10 million		< €10 million
Medium-sized	< 250	< €50 million		< €43 million

Table 1 EU Definition of SMEs [source: (EU Commission, 2013, p. 9)]

More than 22 million SMEs, or 99.8% of all companies in the EU non-financial business sector[2], were active in the EU28 (all Member states in the European Union) in 2014. In accordance with this fact it is not surprising that European SMEs have a primary function in the EU economy. The vast majority of European SMEs are micro-enterprises. In 2014 EU SMEs generated more than EUR 3.7 trillion of value added (58% of the sector's total value added), and engaged almost 90 million people (67% of the sector's total employment) (Muller, et al., 2015, p. 7).

[2] The non-financial business sector consists of all sectors of the economies of the EU28 Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing.

In addition, in order to better describe the structure of EU SMEs, Muller et al (2015), provide the following imporatant figures:

- Micro SMEs accounted for 29.2% of total employment, and small and medium-sized SMEs for 20.4% and 17.3% respectively.
- Micro SMEs accounted for 21.1% of total valued added, and small and medium-sized SMEs for 18.2% and 18.5% respectively.

In order to become an enterprise every business initiative should have a staff headcount (in accordance with labor laws), a balance sheet (in compliance with accountancy rules) and an annual turnover (according to commercial laws). As article 4 stipulates, annual turnover and balance sheet total are a quantitative representationof the annual sales and other incomes of the enterprise, excluding rebates and value added tax (VAT) or other indirect taxes (described in Article 28 of Council Directive 78/660/EEC of 25 July 1978 based on article 54 (3) (g) of the Treaty).They present all expenses of the company and its main assets value (EU Commission, 2013). The number of employees in the definition includes full-time, part-time and seasonal workers as well as owner-managers, partners (if they are engaged in regular activities), staff and other members of the company working under any form of national legislation. Trainees are not included in the staff number, according to Article 5 of the Recommendation.

There are several types of SMEs in compliance with the legal definition. Depending on their level of independence, companiesare autonomous, partner and linked. Owners of autonomous enterprises neither own assets in other companies (hold less than 25 % of capital or voting rights), nor participate in their business activities (hold less than 25 % of capital or voting rights). Owners of partner firms have either capital or voting rights in another company equal to or greater than 25%. Similarly, the other company/ies has a equal to or greater than 25% in their enterprises, both in accordance with Article 3.2 EU Commission Recommendation C(2003) 1422. As Article 3.3 stipulates, linked enterprises describe two or more companies that form a group under four types of relationships – majority of capital or voting rights, have rights to name or release management or supervisory body,have rights that are provided by contracts, execute sole control over a shareholders' majority. A wholly-owned subsidiary (WOS) is the most common form of a linked enterprise (EU Commission, 2003).

In addition, in order to better describe the main characteristics of EU SMEs, it is important to mention some of the biggest SME difficulties and their consequences – "limited annual turnover". It leads to issues such as harder access to bank credits and loans, because most SMEs are in the early (or start-up) phase of their life-cycle. As a result of the low cash available, SMEs face lack of human resource and production capacity, which may limit their ability to implement innovations, including the improvement of business processes and the introduction of new technologies (European Commission, Directorate-General for Enterprise and Industry, 2005). All these issues are discussed in the following chapters.

1.1. Why do European SMEs become international?

Many authors have explored the factors that have influenced an enterprise's decision to internationalize some or all its activities. Despite some differences in their hypothesis, all authors tend to divide the causes for the enterprise's internationalization process into two main groups – internal factors and external factors. At the same time, it would be quite more interesting going through the already known classification of motives. For the purposes of the current thesis several reasons for any enterprise making worldwide decisions shall be presented. They all derive from the work of various researchers such as Kocker and Buhl, Rundh, Lopez, etc. and are all related to the development of the enterprise. It is generally considered that there are four main groups of motives – **Growth Motives, Knowledge-related Motives, Network/Social Ties and Supply Chain Links** and **Domestic/Regional Market Drivers**.

Each enterprise has fundamental business aims in each enterprise such as growth, higher profits, market size and position, independence, therefore all businesses search for opportunities for achieving them. Unlike domestic markets, international markets ensure rich habitat for all market players in it. Until recently, it was considered that its capabilities were unlimited. It's a stable basis to believe that Growth Motives of the European SMEs are the among most common reasons for every enterprise to become international.

On the other side knowledge-related motives can either "push" or "pull" small-and-medium enterprises into the internationalization processes. Sometimes they even do both actions. The competition for obtaining a know-how advantage could pull an enterprise into international markets. According to the contribution of Kocker and Buhl's (Kocker & Buhl, 2007), the lack of knowledge in technologies may force an SME to seek for leading progress. On the other hand, vital elements of contemporary business, such as innovations, R&D investments, resources, including more qualified workers, product and service uniqueness can "push" European SMEs on the international market.

Network ties and supply chain links have been highlighted in a number of surveys as essential. In adition, in various studies they were seen as the first step towards the internationalization process. According to the research of Kocker and Buhl in 10 OECD countries, for example, European countries (e.g. Belgium, Holland, Germany, Greece, Ireland, Italy, Poland, Portugal, Spain and the United Kingdom) as well as few others among which including Australia and the USA, Network/Social Ties and Supply Chain Links as initial pace, are important motivator for internationalizing of SMEs (Kocker & Buhl, 2007).

Finally researchers like Rundh (Rundh, 2007) and Lopez (Lopez, 2007), explore Domestic/ Regional Market Drivers that lead SMEs towards internationalization. There are important differences among regions, not only in a given country, but also worldwide. Part of these differences is the willingness to take the initiative to "go abroad". Evidence suggests that restrictions of the domestic market lead to higher interest in exorting goods, including products and services (OECD, 2008).

The copetitiveness of the European economy depends on factors such as productivity enhancements, innovation and new skills implementation that have impoirtant influence on its development The entities themselves can also be considered as a driving force of economy, especially SMEs, which have relatively small size and close contact with stakeholders. These factors support them in responsing promptly to any changes in the external environment toward which they are the most vulnerable. The SMEs' motivation to survive in the marketplace is is at the base of all their strategies. The strategies build based on SMEs' business partners, customers, suppliers and employees, as well as on SME´s ability to innovate and to promptly address the changes in the business environment. Increasing SMEs' capability for development (e.g. increased sales) the number of loyal customers can be achieved by product innovation. Lack of changes as well as inability for strategic adaptability can be among the most hazardous internal conditions for SMEs.

1.2. Partner countries of European SMEs

When discussing SMEs Internationalization it is important to mention which are the main markets for the European SME products and survices. According to the survey "Internationalization of Small and Medium-sized Enterprises" requested by European Commission, in 2015 81% of the European SMEs exports for 2014 were delivered to another EU Member state. As is evident from the table below, second position is held by the Middle East and North Africa with 15%, followed by Eastern Europe, Caucasus and Balkans with 14% while the US market ranks only 4th in the survey (TNS Political & Social at the request of the European Commission, 2015).

The fact that European SMEs' main export destinations are other EU countries could be explained by several factors:

- Most of the cases the neighbour country is in the EU – this corresponds to the theory that companies generally start to export in markets, which are geographically and social-culturally closest (Calof, 1993).
- There are no drastic cultural differences between the two trading countries as most of the laws and regulations are similar
- There are no import taxes which translate into fewer costs for the companies and cheaper products for the consumer. This in turn leads to highly competitative environment.

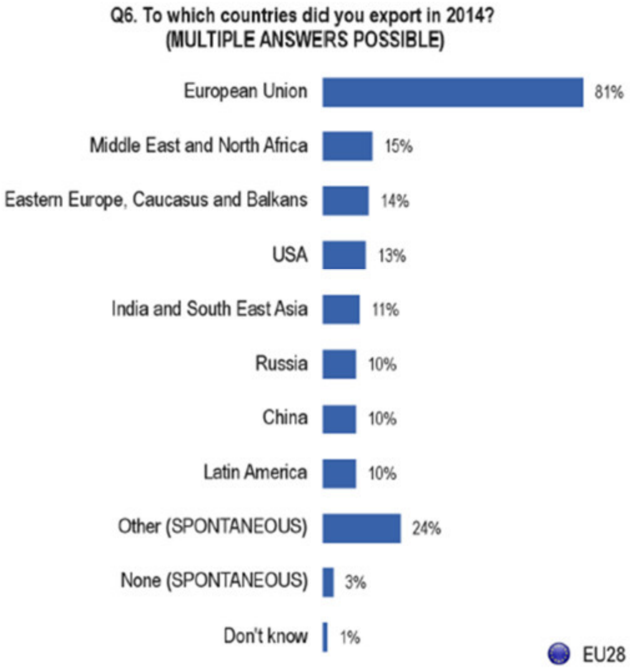

Figure 1 European SMEs exports in 2014 [source: (TNS Political & Social at the request of the European Commission, 2015, p. 9)]

Unfortunately in the survey, no detailed information or analysis of the results by country is provided mainly due to the limited statistically insignificant number of answers for this question in several countries. Partial results, however, are derived from 16 Member states. For example, in Austria and Czech Republic 96% of the SME respondents mention that EU is their main destination for export. In contrast, in Portugal and in Spain exports to the EU present 65% and respectively 76% of all exports (TNS Political & Social at the request of the European Commission, 2015).

An earlier survey on European SME Internationalization was also requested by the European Commission in 2009. The research tested 9,480 European SMEs. The following table from the study desegregates the export into different sectors.

Export regions	*Manu-fact-uring*	*Con-struc-tion*	*Whole-sale trade*	*Retail trade*	*Trans-port & comm.*	*Busi-ness services*	*Per-sonal services*	*Total*
Cross border regions	52%	48%	48%	39%	55%	47%	44%	47%
Other European Union	81%	62%	72%	66%	85%	82%	77%	76%
Russia	12%	6%	6%	7%	31%	9%	3%	10%
Other European countries	35%	34%	30%	22%	44%	17%	19%	27%
Middle East	14%	9%	13%	5%	30%	12%	29%	14%
North Africa	17%	8%	14%	10%	28%	11%	11%	14%
Other Africa	10%	21%	7%	13%	27%	7%	7%	11%
Japan	7%	9%	2%	1%	25%	5%	13%	7%
China	12%	13%	9%	2%	30%	5%	6%	9%
India	11%	1%	1%	1%	27%	5%	6%	7%
Other Asia	9%	5%	4%	3%	28%	7%	4%	8%
North America	23%	9%	6%	9%	38%	21%	16%	17%
Brazil	6%	2%	7%	2%	29%	7%	3%	7%
Other South and Central America	10%	1%	3%	12%	33%	6%	4%	10%
Australia/New Zealand	12%	2%	4%	3%	26%	5%	4%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Total N, unweighted	1484	148	363	459	157	651	271	3533

Figure 2 SMEs major regions for exporting by sectors (as more answers could be given) [source: (European Commission Enterprise and Industry, 2010, p. 34)]

As is obvious from the table above, the export activity of European SMEs from different sectors is primarily orientated to their internationalization on the European market. Main export markets for Manufacturing, Construction, Wholesale Trade and Retail Trade are cross border regions, other EU countries and other European countries. The percentage of SMEs export from transport and communication sectors is significantly greater for most regions compared to that for other sectors. By the last two sectors next to the known cross border regions and other EU apears also Middle East as a destination market. Unfortunately there is no updated information in the study from 2015 about the SMEs sector exports (European Commission Enterprise and Industry, 2010). Taking into account that there are no significant changes by the SMEs target markets between

2009 and 2015 it could be concluded under convention that any significant changes among the different sectors coundn’t be expected.

1.3. Clusters overview

The cluster overview chapter presents a classification of the 28 EU into three clusters based on three studies requested by the EU Commission in 2010, 2012 and 2015. These three groups are - **Consistent cluster** (mostly old EU members, which are characterized with stable micro and macro-economic growth), **Moderate cluster** (EU member countries, which are not newcomers to the EU, but are characterized with much higher macro and micro economic risks) and **Catching-up cluster** (these are the newest EU Member states from 2004 until present). The summary aims to present the three clusters based on the SMEs internationalization performance in different countries and comment on the characteristics of the internationalization process. Some successful SME internationalization examples will be discussed (see also chapter 4 Case study – an SME example from Catching-up cluster). The goal is to provide a review of the SME environment in the EU and its relation to the internationalization process.

The countries, part of the Consistent cluster**,** are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Spain, Sweden and United Kingdom. The member States in the Moderate cluster are Cyprus, Greece, Italy, Malta and Portugal. The group of Catching-up cluster includes Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Slovenia (see figure 3).

Figure 3 EU country clusters [Source: (EU Commission, 2013, p. 74)]

The Consistent performers' class has 11.2 million SMEs, employing 54.8 million people. Their outcome is approximately 78.2% of the SME EU value added, which equalled to €2.7 trillion in 2012 (EU Commission, 2013). This is the largest SME cluster with the highest productivity and financial performance. Being the strongest group financialy, SME companies in this cluster are expected to be at more advanced stage of the internationalization process compared to other clusters.

On the other side is the Moderate cluster with 4.8 million SMEs,15.6 million people employeed and 14.8% (€502 billion) of the SME EU value added. The value added and employee number provided by the SMEs from these countries are year by year constantlydeclining. In the last 8 years this cluster has passed through many economic and financial difficulties. The GDP has decreased between 7-8% in Portugal, Italy and Cyprus for the period 2008-2013. For the same period Greece's GDP decreased dramaticaly with 26% (EU Commission, 2015). As it can be observed in table 3, all countries in this cluster did not succeed in recovering from the 2009 financial and economic crisis (EU Commission, 2015). Greece is a uniqueexample, describing the distinguished bad characteristics of the cluster, such as unreformed bureaucratic administration, high level of corruption, political instability and engagement in economic and financial risks. In this sense, the possibility that SMEs from this cluster are going to internationalize is much lower compared to the Consistent cluster. Greek SMEs are especially at risk, according to the General Confederation of Professionals, Craftsmen and Merchants report: “majority of SMEs fear they may shut down in next six months”. In addition, the President of the Greek retail association ESEE, Vassilis Korkidis informed that a lot of firms close their domestic offices and are relocating their business outside the country, most often in countries from the catching-up group.

The catching-up group represents 4.3 million SMEs, 16.3 employees and it produces 6.7% of the SME European value added (€229 billion) (EU Commission, 2013). This group includes all new EU Member states. It is difficult to summarize all these countries, because of their different economic development and political environment. Nevertheless, their common characteristics are that all of the countries have achieved a GDP growth in 2015 (Eurostat, 2016). The EU newcomers have stabilized their economies after the economic crisis, although most of the pre-crisis values have not recovered. According to table 3, Lithuania succeed in more than recovering its SME value added and SMEs quantity, but at the same time it still has difficulties to recovering the employee values. Bulgarian SMEs also have achieved the pre-crisis value added level and have improved number of their enterprises. The country, however, has difficulties at employee level improvement. The SMEs from Slovenia, Latvia and the Czech Republic have not succeeded in recovering the value added and the SME employee level, although they have achived the pre-crisis SME entity number. Finally, the recovery in Romania, Poland and Hungary is under question. These three countries are still under the values from 2008. As SMEs from the catching-up cluster are from quicklydeveloping countries and have a greater percentage increase in GDP compared to the other two groups, it is reasonable to expect that these SMEs are searching for new opportunities by internationalizing their products and services.

Following the clusters review, a description of the SME Internationalization modes by country will be reviewed. According to a survey made in 2015 among 13,111 SMEs in Europe, the SMEs most likely to export are in Latvia (69%), Austria (62%) and Lithuania (61%) (see figure 4). Often mentioned in statistical reports is that Germany is the European country with the highest exports. This, however, is true only in absolute numbers, because as evident from this study, Germany’s SMEs are not so willing to export their products and services as other EU Member states. Before German SMEs are ranked their colleagues from the Czech Republic, Denmark and Slovakia. The least able to export in the last three years were SMEs from Bulgaria (9%), Italy (12%) and France (15%) (TNS Political & Social at the request of the European Commission, 2015).

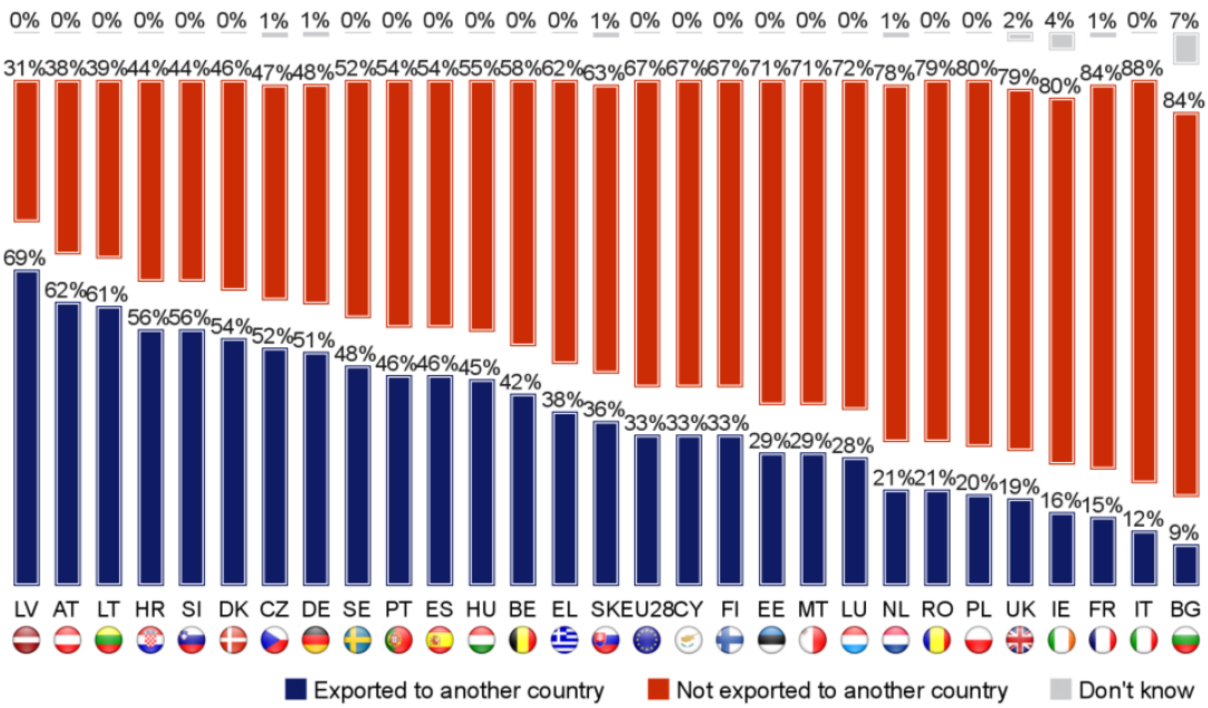

Figure 4 European SMEs export by country [source: (TNS Political & Social at the request of the European Commission, 2015, p. 18)]

As mentioned above, the main export destination for European SMEs' products and services are other EU countries. It is not surprising that most of the SMEs trade within the European Single Market. In addition, there is also another interesting fact, after the joining of the new EU members a lot of companies, SMEs as well outsourced their production in neighboring country in order to reduce their production costs, such as labor cost, taxes or even to win new markets. On the otherhand, this must concern with barriers, such as higher economic risks, bureaucratic and unreformed administration, higher corruption level and, in some cases, unreformed legal system. A discussion of the barriers that European SMEs face is provided in the next chapter.

1.4. Barriers for the European SME Internationalization

Sometimes the internationalization of European SMEs does not take place due to the challenges associated with the overcoming barriers associated with it. It is essential to gain insight into the type of barriers that SMEs may face either before or during internationalization. This chapter analyses the barriers before European SMEs in their international business initiatives, regardless of whether they are already internationalized or plan to expand abroad. Furthermore, in this chapter a distinction is made between internal barriers related to the capabilities of the firm and external barriers related to the business environment. Internal barriers are linked to the characteristics of the firm itself, e.g. lack of management knowledge, lack of international managerial experience, lack of qualified personnel, language and cultural differences, etc. External barriers are, for example, the lack of capital and the lack of adequate public support score even higher with reference to EU markets. This might be a reason for the fact that somewhat larger and more experienced European SMEs are active in third markets (European Commission Enterprise and Industry, 2010, p. 60). Other external barriers, which are mentioned in the case study in chapter 4, are laws and regulations in domestic and foreign countries, taxes and fees as, for example, export/import taxes, licences and other regulatory allowances. In addition, the study shows that cultural differences are an especially high barrier for internationalization in Asia, where these differences are considerable. Not only because of the language, but also because of religious differences, domestic traditions and social perception. Here can be mentioned that in Asia business practices does not have the same sense as in Europe, since Asian people are more socially orientated and focus on relationships and privat sphere. For example, they are interested in in knowing your family, your personality, hobbies and interests, sometimes even more than in the business they want to do with you. Moreover, in the interview in the case study part (chapter 4) other external significant barriers are also mentioned and classified as important issues such as political risk, exchange rate risk, economic uncertainty such as inflation rate risk and currency fluctuation.

According to the research done at the request of the EU Commission in 2010, the most important internal barrier for the SMEs is the price of the products or services provided. Of course it correlates to the general price level in the domestic market and the level of the firm’s efficiency.

The company efficiency especially could be improved by combining internationalization and innovation policy (new technology and/or new market entry) or by stimulating efficient sourcing of inputs, perhaps by direct imports of products or resources. The second most important barrier is the high cost of internationalization. Internationalization costs mainly include all expenses about the research of the new market, the market's growth potential, market competitors, foreign legislation, etc. This barrier is also linked to management competence, knowledge and experience in the international environment. The next barrier is the lack of qualified personnel. The research shows that the smaller the enterprise (e.g. Micro company), the more fundamental this barrier is ('lack of sufficiently qualified personnel'). This barrier is linked to the fact that smaller enterprises have limited cash and they cannot afford extra budget for training new employees. Other barriers described in the survey include: quality of firm's products, specifications of firm's products and last, but not least language and cultural differences (European Commission Enterprise and Industry, 2010, p. 58). The study confirmed the results made by Knight in 2000 about SMEs barriers, who notes that the lack of financial and human capital resources are one of the biggest issues for SME internationalization because they increase the internationalization costs as well as the product price in the domestic country (Knight, 2000).

According to the research done by the EU Commission in 2010, the most important external barriers for the SMEs are the lack of capital and the lack of adequate public support. This is not surprising, because SMEs are characterized as low capital level entities. Some other external barriers researched by Knight (2000) are:

- "Lack of adequate information"
- "Costs or difficult administrative work for transport"
- "Other laws and regulations in foreign countries"
- "Tariffs or other trade barriers in foreign market"
- "Cultural differences (incl. business culture)"

On the basis of different international studies, the OECD Centre for Entrepreneurship summarizes their suggestions for top ranked barriers to the internationalization of SMEs. Some of them are listed below:

- **The deficit of working capital for finance exports,** which is determined as a leading barrier. For example, countries such as Finland, Ireland, Spain and Sweden, are reported to suffer from lack of capital requirements and related enterprise resources as well as narrow conection to major infrastructure.
- **Limited information on locating and analysing markets** is also considered as a major barrier, that refers to those SMEs, that find the information gaps as a crucial threat even in in times when the information availability is presented.
- **Lack of managerial skills, knowledge and time** is another difficulty. Several surveys demonstrate the lack of knowledge as the main reason for not participate in international trade. (Monitor, 2007). Variations in the international knowledge in explaining the internationalization process of SMEs is also observed.

Administrative and technical issues, foreign market competition, documentation and payment complications and exchange rate are other barriers, highlighted in a number of surveys. They are depending on the managerial knowledge. This means that the development of further experiental knowledge in international market will lead to decrease in these barriers. This concept is compatible with the dominant theories for explaining SME internationalization behaviour (OECD & Centre for Entrepreneurship, 2009).

Most studies divide the barriers in groups. It is important to notice, that they can be also more specific. Companies face numerous industy-based difficulties in some sectors. For example, the industy-specific barriers faced by about software exports, are the variety of customer needs of software products and the intensive information flow (OECD & Centre for Entrepreneurship, 2009).

<u>Motivations for overcoming the barriers in the internationalization process of SMEs</u>

SMEs need drivers to overcome the barriers for internationalization. Some of these drivers have been observed and are examined by the OECD member economies (OECD & Centre for Entrepreneurship, 2009). Some of the main motivating factors for SME interantionalization are listed below:

Knowledge-related Motives. As mentioned above, knowledge is one of the main barriers for the internationalization process. Knowledge could pull and push SMEs into international markets. The pull-motive can help firms to gain missing know-how when talking about leading in technological development. Contrarily, the "push" expresses the international experience, which firms already have had as well as the management capacity factors, which are related to this experience.

Domestic Market Drivers. Orser found that some of the push-effects of enterprises' home market on internationalization process are based on his previous studies of Swedish firms (Orser, et al., 2008). SMEs from different regions tend to have significant diffenrence in their export. They search for optimal export conditions – places where the domestic once are less favourable. Another factor is the good infrastructure. They also look for regions where there is a lack of specific products as, for example agricultural products.

Growth Motives. Other key driver of firm internationalization is the growth opportunity normally linked to international markets. In his report (Orser, et al., 2008), Orser underlined the impact of the size of a firm as well as the firm sector. He reported that the firm growth is one of the essential motives for the internationalization of SMEs, because the firms that express growth are more likely to export when comparing them to those which did not show growth ambitions. The firms venturing is also seen as a motive for business growth, increase in the market size, way of reducing dependence on smaller number of markets, better market position or profits.

Social Ties and Supply Chain Links. Social ties, also known as network ties, and supply chain links have been highlighted form number of surveys as very important. They were seen as a first step for the internationalization process. A research among a Portuguese business reported the effect on export assets, which include network and social capital. Sometimes they are linked to managers' immigrant background or other social circumstances. There is a study among fish exporters form an autonomous Portuguese archipelago, about 900 miles from the European mainland. This small fish exporter offers useful information about important drivers of internationalization for firms on small islands. It highlighted the role of social ties as critical in supporting SMEs on small islands. These islands are in most cases far away from core economies. They tend to show low international involvement because of the high transportation costs. These factors often lead to emigration. As reported, there is a social ties between the emigrants and those who remain on the islands (Câmara & Simões, 2008).

1.5. The Global Crisis and European Small and Medium Sized Enterprises

"Financial crisis" and "recession" are primary news headlines during the current decade. The world economy was hard hit in 2008 and 2009 by strong financial crisis after the bankrupt of many US investment banks. The recession changed the behaviour of economic players (producer, seller and customer) and has affected the economic environment all over the world. As result many companies are fighting to avoid bankruptcy. European SMEs have been hard hit by the global financial and economic crisis. Declining sales and profits were SMEs threats and forced them to search for new approaches towards their business activities. Considering the global economic crisis as a granted, the Member States elaborated their strategies for economic recovery based on changing and development of many SME-relevant policies for significant transformations, including the SMEs environment for operations (EU Commission, 2013). Being more vunarable to external negative influences by reason of SMEs size and limited resources, they needed to take various measures against the economic shock and survive.

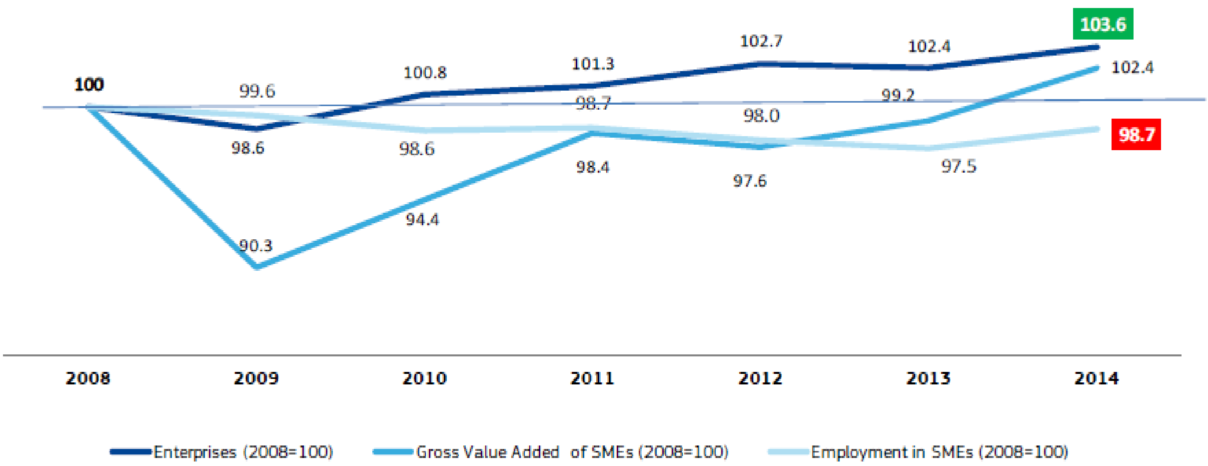

Figure 5 Number of SMEs in the non-financial business sector, value added generated by these SMEs and number of persons employed by these SMEs - EU28, 2008 to 2014 (2008=100) [source: Eurostat, National Statistical Offices, DIW econ, (EU Commission, 2015, p. 24)]

Figure 5 shows the changes in SMEs gross value added, SMEs number and Employment level of the European SMEs during the crisis and post crisis period. The financial crisis from 2009 damaged deep the European SMEs. Only for a year the gross value added has declined by 10%. In 2010 the decline in the number of SMEs and gross value added was successful stopped, but SMEs employment levelcontinued to decline. A second decline in value added was experienced by SMEs in 2012 which was followed by a return to growth in 2013 and 2014. The pre-crisis level of value added was surpassed for the first time since 2008, by almost 2.5% in 2014. EU28 SMEs finally achieved a full recovery in 2014 from the 2008/09 economic and financial crisis, with value added 2.4% higher than in 2008. Yet, EU28 SME employment in 2014 is 1.3% below its 2008 level.

Broadly speaking, the European economy has an insufficient GDP growth because of the increasing unemployment, limiting consumption and low investment activities. The crisis did not affect all sectors equally. SMEs in construction, and to a lesser extent, in manufacturing sector, were hard affected by the economic and financial crisis and had not still fully recovered. In contrast, the EU28 'accommodation and food services' and the 'business services' sectors performed strongly over the period 2008-2014, posting double digit growth in value added and employment. This is also presented in the case study about Walltopia ltd in Chapter 4. According to the EU Commission and Eurostat, in 2014 the EU28 'wholesale and retail trade' sector was just recovering from the 2008/2009 financial and economic crisis (EU Commission, 2015).

The recovery of the SME sector from the 2008/09 financial and economic crisis was not only uneven across sectors and SME size classes, but also the extent of the recovery varied greatly across EU Member States. Only the SMEs in Austria, Belgium, Germany, Luxembourg, Malta, Sweden and United Kingdom achieved greater recovery in terms of enterprises number, employment level, and value added. At the other side of the spectrum are 9 Member States which are still catching up in all three dimensions. These are Croatia, Greece, Hungary, Ireland, Italy, Poland, Portugal, Romania, and Spain. SMEs in all other Member States are still undergoing an uneven recovery (see table 3). Slovakia is not in the list because there was a break in the data series.

	More than full recovery			Just recovered			Less than full recovery		
	Employment	Value added	Number of enterprises	Employment	Value added	Number of enterprises	Employment	Value added	Number of enterprises
AT	+	+	+						
BE	+	+	+						
BG			+		=		-		
CY							-	-	-
CZ			+				-	-	
DE	+	+	+						
DK					=	=	-		
EE		+	+				-		
EL							-	-	-
ES							-	-	-
FI		+					-		-
FR	+		+		=				
HR							-	-	-
HU							-	-	-
IE							-	-	-
IT							-	-	-
LT		+	+				-		
LU	+	+	+						
LV			+				-	-	
MT	+	+	+						
NL		+	+				-		
PL						=	-	-	
PT							-	-	-
RO							-	-	-
SE	+	+	+						
SI			+				-	-	
UK	+	+	+						

Table 2 SME Extent of recovery by EU Member States from 2008 to 2014 [source: Eurostat, National Statistical Offices, DIW econ, (EU Commission, 2015, p. 101)]

The recovery from the financial crisis is an important basis for an SME to be able to think for internationalization.

1.6. Support for European SME Internationalization

This chapter focuses on the solutions which might help European SMEs in getting access to foreign markets. This topic also takes part in the reports requested by the European Commission from 2010 and 2015. These surveys examine the internationalization of the EU SMEs. The study from 2015 observes 13,111 European SMEs asked the enterpreneurs which measures would be most helpful to engage in business abroad. The answers are shown in the following figure 6.

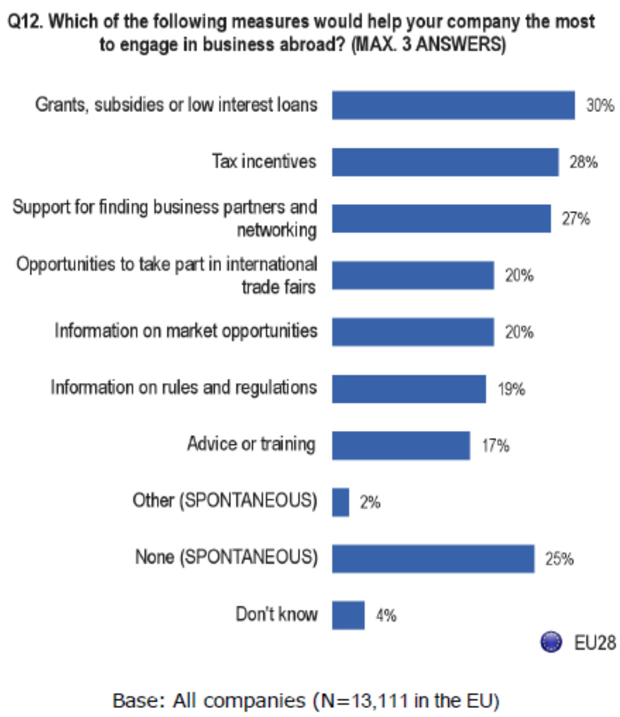

Figure 6 Servey results about supporting of EU SMEs Base (N=13,111 in the EU) [source: (TNS Political & Social at the request of the European Commission, 2015, p. 19)]

As Figure 6 presents, subsidies or low interest loans would help enterpreneurs mostly in order to penetrate on the foreign market. According to the survey this answer is more relevant for the SMEs from Croatia (65%), Cyprus (60%), Greece (59%) and Poland (48%) – see Appendix 2. It is also showed that SMEs from Moderate and Catch-up clusters are more willing to internationalize if they have public support or financial certainty. On the contrary, SMEs from Sweden (13%) and Denmark (15%) are least willing to internationalize because of these factors. The tax incentives or support for finding business partners and networking were also mentioned by nearly a third of the respondents (28% and 27%). SMEs from seven Member States mention tax incentives as crutial suport. On the top is Belgium with 47% following by Greece (45%) and Portugal (44%), SMEs mainly from Consistent and Moderate clusters. At the other end of the scale are enterprises from Sweden (13%) and Czech Republic (17%). Regarding the support for finding business partners and networking SMEs in France (41%), Portugal (40%) and Lithuania (37%) would be supported that way. This support is at least recognized from the companies in Italy (12%) and the UK (18%).

A fifth of SMEs (20%) mentions opportunities to take part in international trade fairs, or information on market opportunities (both 20%) as an important support. Trade fairs are recognized as high support in Malta (41%) and Portugal (37%), unlike in Netherlands, Bulgaria and the UK, where it is not so important. The opinion that information on market opportunities would help SMEs by their internationalization is strong represented in Spain (32%), Belgium (27%), Hungary (26%), Portugal and Finland (both 25%).

SMEs in Belgium (31%) followed by those in France (28%) and the Netherlands (25%) are willing to be supported by more information on rules and regulations. At the other end of the scale 7% of companies in Cyprus and 9% in Greece mention this support.

Finally, advice or training is mentioned support method in countries such as Spain (27%), Belgium (24%) and Bulgaria (23%). On the other side are countries such as Greece (6%) and Cyprus (7%) which are least likely to be supported that way (TNS Political & Social at the request of the European Commission, 2015).

As conclusion in the two surveyes are mentioned following main points:

- There should be an increase by the public support activities, but they should target market segments where there are difficulties, failure and no undue competition to private service and product suppliers.
- Public bodies should increase their SMEs supports for investing in innovations and in their first internationalization steps.
- It is important that in all supporting methods should be effectively implemented quantitative objectives and targets as guarantee to avoid waste of public resources.

- The awareness of the European SMEs about the internationalization benefits should be increased. They should be better informed about the positive relation between being internationally active and higher revenue growth and respectively higher employment growth, also about the strong correlation between internationalization and innovation level (European Commission Enterprise and Industry, 2010)
- In order to improve the access of the European SMEs to the international markets EU governments should provide more information about the existing public financial support mechanisms and to develop new support programs and funds.

2. Theoretical part

Authors[3], such as Igor Kalinic and Cipriano Forza, agree that the reason for entering global market is the speed-up of international competition. Both globalization processes and global competitors on the local markets encounter SMEs with global challenges. These challenges are also opportunities for faster development. Chances for further development are international sales, company strategic marketing, global sourcing of finance (including Foreign Direct Investments), partnerships with foreign companies, including joint ventures, contract cooperation. Furthermore, Kalinic proposed classification of the companies due to the origin of their globalization. There are two types of enterprises – born global companies and traditional SMEs.

Born (or re-born) global companies emerge on the base of new technology, innovations and technical superiority. Authors, such as Bell, McNaughton, Young, & Crick (2003) and Oviatt & McDougall (1994) define these companies as knowledge-based or knowledge-intensive. It allows them to expand faster internationally that slow internationalization of the traditional firms. Other authors, including Oviatt & McDougall (2005) and Rialp, Rialp, & Knight (the same year) explained that those kinds of companies can either follow gradualist models or have a strong international network. Such companies are likely to achieve international success, although they are small-size firms in the most cases, which have limited human, financial or other resources.

[3] Kalinic I., Forza C., 'Rapid internationalization of traditional SMEs: Between gradualist models and born globals', International Business Review 21 (2012) 694–707

They are also known as “global start-ups” and “international new ventures”. The thing that distinguishes these firms from others is that their origins are international. In comparison to the international SMEs, which operate in the domestic market for a long period of time and develop into international trade, born globals evolve their strategies at or near the firm’s founding. G.Knight, T.Madsen and P. Servais mention six key points, which describe born-globals:

- The internationalization process occurs early.
- It is not necessary for initial foreign sellings to pass through incremental phases. They can be targeter to different markets simultaneously.
- The initial target markets can be in a distance from the home country.
- There are different types for the initial foreign marker entry mode: licensing, foreign direct investment, exporting or joint ventures.
- Firms can easily access their customers worldwide, because of the developing communication technologies such as Internet, which they can use also as a source of key information needed.
- A lof of the firms are highly entrepreneurial, especialy in their international activities.

When G.Knight, T.Madsen and P. Servais compare the born globals to the traditional once, they point out the advantage the the born global SMEs don’t have an administrative heritage, which leads to different strategic choises. The successful formula of the born globals is the combination of flexibility and agility, which are important when talking about foreign markets.

The authors give an example for Danish born globals – the majority, about 79 percent are specialize in industrial goods and not in consumer goods. 71 percent of their turnover is from abroad. Europe is their major foreign market - 89 percent. The investigation shows, that one of the most important factors for born globals is the foreign market, because the internationalization leads to rapid growth. The growth rate for Danish born globals in exports is at 40 percent and the annual “total sales”-growth rate is at 34 percent.

The first step for internationalization is the choice of foreign market. (Ayal & Zif, 1979). There are two types of approaches the SMEs can select- systematic approaches and non-systematic approaches.

- Systematic approaches include the formal decision process and the statistical methods that the SME use to analyse their potential on the international target market. With the help of the variety of product-related activities or different methods as visiting foreign coutries or the use of published statistical sources, they can find the optimal positioning strategies (Papadopoulos, et al., 2002). The main disadvantage of the systematic approaches is that they are normative.
- The non-systematic approaches illustrate how often SMEs behave when they decide for a foreign market. *Ad hoc* approaches can be followed due to their information capacity, which is limited. (Piercy, 1982). SMEs choose markets abroad based on a distance. This approach include little information search before SMEs enter new foreign markets.

On the contrary, companies without unique processes or products, or so-called traditional SMEs (Bell, et al., 2003). Some of them achieve quick growth through internationalization of their activities global market, entering into new and unknown niches. They were following the global processes of world change in the early 1990s and entering markets of Eastern Europe, North Africa, South America, and the Far East. As mentioned above transformation of local or national oriented enterprises into vivid punter at global market is based on the internationalization process. Kalinic and Forza provided quantitative research that proves a mix of SMEs' features, including special approaches in strategic planning for metamorphosing local economic players into global players via catalyzing their internationalization processes since early 1970's. According to Cavusgil (1980) and Johanson & Vahlne (1977), the model is geographically completed by the Nordic countries to creation of gradualist models. The Uppsala model or U-model is the main output of the gradualist models as Johanson & Vahlne (1977, 1990, 2003) stated. Gankema, Snuiff, & Zwart (Gankema, et al., 2000, p. 16) defined the model through its description of the internationalization process in small and medium-sized enterprises: 'a gradual acquisition, integration and use of knowledge about foreign markets and operations and a successively increasing commitment to foreign markets'. According to the U-model, the process of internationalization starts in different ways depending on the knowledge level of the domestic market.

After a paper, written by T. Madsen, G. Knight and P. Servias, the Uppsala model describes the innovation process as a process over a long period of time. If this process slow up, it can bring a hesitation in the risk taking decisions of the management as well as in the topical market knowledge efficiency. The model is based on the internationalization process of several Swedish firms (Johanson & Vahlne, 2009). Johanson and Vahlne point out that SMEs enter new markets, which are similar to their domestic one with not high level of commitment.They also notice that this model is about the internationalization process and not about entry modes. The model follows the decisions the the management takes, based on the risk and the opportunities for the SME to expand to foreign markets.

The Uppsala Model is made up of four stages, which are connected, because the result from the first will provide input for the next step and so till the last one (see figure 7).

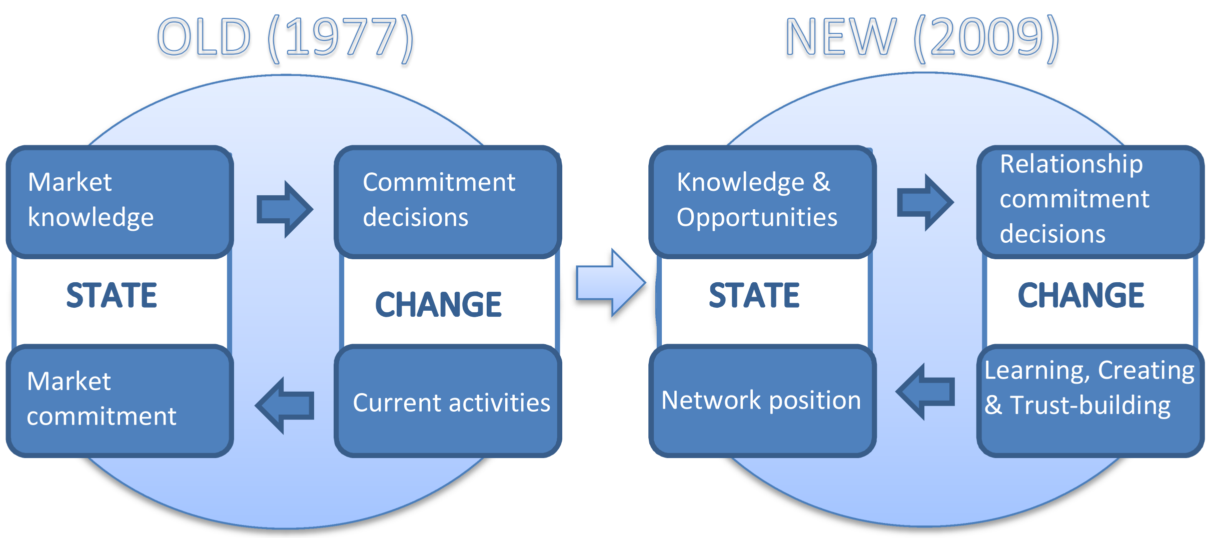

Figure 7 Uppsala Model [source: (Johanson & Vahlne, 1977, pp. 23-32)]

- **State-side** – this side considers the current position of the firm. The *network position* is an important factor since the firm's network takes place in the internationalization process. In the past this factor considered only market commitment. In the new version it is discussed, that market commitment is too simple. This is the reason why the second version includes the firm's current situation. In this position the firm develop knowledge and opportunities on the market. This is the connection to the second aspect on the state side- *knowledge and opportunities*. Knowledge refers to the amount of knowledge that the firm has currently about the foreign market. This knowledge is critical when talking about recognizing opportunities. Outside of its boundaries, the firm can recognize opportunities. (Johanson & Vahlne, 2009).

- **Change-side –** In the previous model, this aspect included *commitment decisions* and *current activities*. In order to make it more clear that it is going about the firm's relationships within a specific country, the word *relationship* has been added. In the new model the "*current activities"* are replaced by "*learning, creating and trust-building"*. Current are still important, but now the focus is put on the outcome of them. Experiential learning remains the central type of learning. Since the network plays a role in the current situation of the enterprise, the trust-building has been added. (Johanson & Vahlne, 2009).

The Uppsala Model shows the cycle of events and actions and their understanding by the authors about how the internationalization process functions. All these aspects are linked to each other in this process. The firm gathers its knowledge with the help of the enterprise current network position. The firm's opportunities are based on the total amount of knowledge.Relationship commintment decisions are taken upon these opportunities. The decision itself leads to learning, creating and trust-building. This forms a new position of the firm. (Johanson & Vahlne, 2009).

2.1. Spillover Effects of Foreign Direct Investment on SMEs

The current chapter of the Master Thesis is assigned to presents the spillover effect and most importantly to analyse the effect influence on the different European Member States SMEs. By definition FDI is considered to be any type of cross-border investment made by a resident entity in the economy of a given state for obtaining a lasting interest[4] (Tülüce & Doğan, 2014). Broadly, FDI includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". Precisely speaking, the FDI can be associate only with the creation of new facilities. It also can be considered as the main force for every economy growth. FDI provides directly fresh capital, technology and know-how. Positive spillovers to companies in the host state can be generated by FDI as modern economic theory states. In the

[4] Ownership by investor of a significant degree of influence on the management of the enterprise, at least 10% of the voting power

discussed case, economic growth means productivity, human capital enlargement, R&D activities, technological and productivity spillover.

The economic theory observes that MNCs are important transfer source of capital, technology (Tülüce & Doğan, 2014). Domestic SMEs are forced to developed their products and services, in order to respond to the higher competitive environment. Very often SMEs are determined to become a local supplier of the MNC because of the surtainty cash flow, low insolvent risk and more regulated trade conditions. It should be also mention the fact that it is not rare the case when SMEs imitate MNC's products (Aldaba & Aldaba, 2010) in order to gain more customers useing the good MNC reputation. This ownership problem is more relevant for MNCs outside the EU and other developed countries, because the legal protection of intellectual property is worse legislate.

As the growth theories state, capital (with FDI included) may have long-lasting effect on the growth by increased investment in firstly technology and know-how, and secondly knowledge and technology in the economy. Thus, there can be defined two types of - direct and indirect spillover effects connected to FDI affecting the economic growth are distinguished in two types.

Direct spillover effect has trivial explenation- it brings new foreign capital, technology and know-how to host country and leads to immediately short run economic growth. To be reached long-term economic growth it should permanent invests in new level of technology and the FDI flows should be higher (Tülüce & Doğan, 2014)

There are two types of indirect spillover effects from FDI - productivity spillovers and market access spillovers on the host market, as stated Blomström and Kokko (1998). Productivity spillover occures when a multinational company step in the host market leading to increasing of the productivity or efficiency benefits in the local producers. While market access spillovers describe MNC entry leading to improvement of the the local companies access to export in foreign markets.

Blomström and Kokko (1996 and 1998) observed and discussed the productivity externalities with several other indirect spillover effects, such as increased governement tax revenue, higher technical and production efficency, terms of trade and balance of payments. The two authors agreed that MNC have positive effect over all abovementioned economic parametres as well as countraction toward monopolism and encouraging market competition. (Blomström & Kokko, 1998).

As previously mentioned, market access spillover occurs when there is an improvement of local SME's export access as a result of MNC entering (Tülüce & Doğan, 2014). These could happen as a result of the higher competitive environment on the domestic market. Local firms should invest in new technologies and training of employees in order to stay competitive on the market. As a result, better quality and upgraded products improve their positions also on the international market. According to this fact they are able to go international and export their product and services all over the world.

There are a lot FDI researches and literature about FDI spillover effect. This topic is observed from 1960s. Most of the literature about this topic is spezialized in the examination of the technology FDI spillovers. However the litriture didn't specialize in deep on the effects on the domestic SMEs. The answer of the question "Does the FDI spillover generates positive productivity externalities on the SMEs?" isn't research a lot. That's why this note is also pointed in my recommendations in the Conclusion part.

2.2. Entry Mode Strategies

When a company has determined suitable place for its actitivites in a given country, an appropriate market entry strategy need to be chosen. Different kinds of foreign market entry strategies: exporting, contractual and investment entry modes are presented in Table 4 (Bradley, 2002, pp. 244-245).

Export Entry Modes	Contractual Entry Modes	Investment Entry Modes
• Indirect • Direct	• Licensing • Franchising • Service contract • Management contracts • Co-production agreements	• New establishment • Acquisition • Joint venture

Table 3 Market entry modes [source: (Bradley, 2002, pp. 244-245)]

2.2.1.Exporting mode

The Exporting mode is considered to be the most frequently used Entry mode strategies by SMEs in European Union. It is also proven by Bradley in his study (Bradley, 2002). Exporting is considered as one of the entry modes with low resource commitment. Yet, current entry mode could be transformed into one with high resource commitment, almost as foreign investments, during the process of its implementation. There are several classifications of exporting modes.

Popular classification uses the separation of direct and indirect export mainly based on manufacturing goods. When the company sells to export agent, e.g. intermediates, there is indirect export. Direct sales can be associated with direct export. The presented example in chapter 4 of the current Master thesis, the explored SMEs applies both methods.

Another classification presents the separation of direct export and systems export on a basis of the experience of the companies providing services. More frequently, services direct export is realized on the industrial market of equipment by companies or consultants when they move to the client abroad and providing immediately the service. The Systems export unifies efforts of two or more companies in providing service abroad. Provided goods abroad need service delivery as engineering services, distribution, cleaning, advertising, etc. which makes Systems export more often service export. Another vital reason is relatively lower degree of risk in comparison with direct export.

Export mode choice depends significantly on benefits and costs (Sharma & Erramilli, 2004) and resources that are required (Blomstermo, et al., 2006). When European SMEs decide to export, they face two possibilities: to export directly to customers abroad or to export indirectly. In the second case they need the help of an intermediary (Peng & York, 2001). The most common way to SME internationalization is direct exporting. Direct export is the traditional well-known way of export. More interesting is the indirect one. Indirect ways to internationalization are "whereby small firms involved in exporting, sourcing or distribution agreements with intermediary companies who manage, on their behalf, the transaction, sale or service with overseas companies" (Fletcher, 2004). According to Peng and York, intermediaries link buyers and sellers, that cannot meet in other way, due to, for example, geographical reasons (Peng & York, 2001). The chance for successful transactions rises (Trabold, 2002). Intermediaries normally are distributors or sales agents, located at the exporting company and at the importing market (Peng & York, 2001).

Export intermediaries help their customers with the identifying of clients, distribution and financing infrastructure providers (Balabanis, 2000). They are also important for their clients, because they help them to reduce knowledge gaps and all kind of risks linked to operating in foreign markets. An example is their role in negotiations: commercial risk recuction of not paying by the buyer and communication with customers abroad. Good reason for SMEs to hire export intermediaries could be their performance of certain functions associated with exporting at a lower cost than the SME could do without their help, because of the lack of specific knowledge of the SME (Li, 2004). Firms can hire intermediaries also in order to reduce high export-related negotiation and search costs in other markets (Peng & York, 2001). Intermediaries, however, add to the exporting cost rent extraction and transaction costs (Acs & Terjesen, 2005). Sometimes SMEs lose a control when they use intermediary (Blomstermo, et al., 2006). When comparing indirect to direct exporting, the indirect one has lower level of company control, obligations linked to resources as well as lower risk (Johanson & Wiedersheim-Paul, 1975). As a conclusion, using intermediary can be considered as useful partners concidering the risk reduction, costs and uncertainty, but also risky because of the lack of control. They are, however, particularly helpful for European SMEs, because they accelerate the process of internationalization (Peng & York, 2001). Competitive advantage is also a factor when SMEs choose how to export. Firms with clear competitive advantages are less likely to need intermediaries and they will stay with direct exporting.

Firms export research is concerned most with direct exporting. Research is also concerned with specific variables such as R&D activity (Lefebvre & Lefebvre, 2002), product uniqueness (Cavusgil & Nevin, 1981) and founder age (Westhead, et al., 2004). When the body of research is limited, this can lead to external factors such as government support (Wilkinson, 2006), environmental turbulence (Westhead, et al., 2004), varieties of capitalism (Hessels & Terjesen, 2008) and characteristics of foreign markets (Thirkell & Dau, 1998) and domestic ones (Axinn, 1988).

2.2.1.1. Resource dependency and institutional theory

There is a relationship between different actors in the environment and an organization. Both teories- resource dependency and institutional theory are concerned with this relationship. They understand organizational choice as a result of multiple external pressures, provided by external stakeholders (Sherer & Lee, 2002). The resource dependency theory describes the concentrates linked to acquiring resources from another market player The theory also describes resource shortage and achieving new innovations by using resources alternatives. (Pfeffer & Salancik, 1978). On the other hand, institutional theory describes the process of adoption of practices by organization within its field (Scott, 1995).

	Resource dependency theory	Institutional theory
Basic tenets	Firms need to access resources in their environments. Resource scarcities force organizations to pursue new innovations that use alternative resources	Organizations adopt practices that are considered acceptable and legitimate in their organizational field
Seminal contributors	Pfeffer, Salancik	DiMaggio, Powell, Scott, Selznick
Definition	Resource: "tangible and intangible assets firms use to conceive of and implement their strategies" (Barney and Arikan 2001, p 138)	Institution: "social structures that have attained a high degree of resilience" that are "composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life" (Scott 1995, p 33)
Assumptions	Organizations make active choices to achieve objectives. Organizations respond to demands made by other actors in the environment. Organizations try to minimize their dependence on resources on which they are heavily dependent	Organizations operate within a social framework of norms, values, and assumptions about what constitutes appropriate behavior
Our interpretation	Perceived favorability of resource access in the home market impacts firm strategy, including internationalization	Socially constructed beliefs and role systems exert strong influence over organizations' structure and conduct, including internationalization.
Key findings regarding firm internationalization	In the presence of cost differences, resource availability, and utilization explain entry mode choice (Chang 1995; Tesfom et al. 2004)	Strategic business units that export, joint venture or license have high levels of external isomorphism to host country and internal institutional environments (Davis et al. 2000)
Common assumptions	Organizational choice is constrained by multiple external pressures. Organizations face competitive pressures and may depend on/be impacted by other actors in the environment. Organizations are concerned with building legitimacy and acceptance vis-à-vis external stakeholders	

Figure 8 Resource dependency & institutional theory [source: (Hessels & Terjesen, 2008, pp. 203-220)]

As described in figure 8, these theories are relevant when explaining SME export behaviour. SMEs are dependent on other actors due to their size constrains. They are also susceptible to knowledge from them (Acs & Terjesen, 2005).

In their article "Resource dependency and institutional theory perspectives on direct and indirect export choices", Jolanda Hessels and Siri Terjesen describe their investigation through 1665 Dutch SMEs, which participated in an Internet survey. They decided for this country, because the business sector there and is greatly dependent on international trade (Hessels & Terjesen, 2008). The aim is to describe the results and the conclusion of this investigation in order to explain in which cases firms decide for indirect instead of direct export. The results show that firms that are more likely to access investors and banks at home use more often indirect export, whereas when they are more likely to access knowledge and technology, the use of indirect export decrease. On the other hand, firms decide for direct export when their home market conditions are favorable.

2.2.1.2. *Exporting vs Foreign direct Investment Modes*

As already mentioned, export is the most common entry mode to European SMEs It is also the entry mode choice of the SME in the case study in chapter 4. This is the reason why it is important to differentiate this method from the others. The decision in choosing the best entry mode of SME is critical, because it leads to the firm's further international business performance (Anderson & Getigon, 1986).

Exporting and foreign direct investment are believed to be most taken into consideration. The first choice – exporting, is connected with establishment of the firm in a foreign market. The main aim of the SME is to gain experience and knowledge in the host country. After this gaining, they will have the opportunity to expand their operations in the particular country through distribution facilities or ownership of production (Johanson & Vahlne, 2009). This entry mode allows a SME to go international without major investment in another market. It is, however, linked to low profit return and, furthermore, the SME has little control (Agarwal & Ramaswami, 1992). On the other hand, some SMEs decide to enter foreign market through direct investment. The control factor in this mode is reversed to thisone when a firm use exporting mode. Through this mode SMEs have higher profit return, higher control on international operations, greater complexity of the management and at the same time greater risk.

In their study "An investigation of market entry strategy selection: exporting vs foreign direct investment modes – a home-host country scenario", Chung and Enderwick examined different factors that influence the choice of exporting or foreign direct investment mode (Chung & Enderwick, 2001). Four location-specific factors are examined:

- immigrant effect
- market size
- business experience
- service requirements

Something new in this kind of investigation, never examined before, is that the examined SMEs do not have past experience with the host country. Another fact that distinguishes this study from past ones is that the SMEs are from different industries such as consumer, industrial and service sector.

Observed	Exporting entry modes	Foreign direct investment entry modes	Total	Percentage correction rates (%)
Exporting entry modes	99	5	104	95.2
Foreign direct investment entry modes	7	9	16	56.3
Total	106	14	120	90.0

Table 4 Export and FDI classification according to Chung [source: (Chung & Enderwick, 2001, pp. 443-460)]

Table 5 shows the results of the investigation. Predictions express the reality. The percentage correction rate is at 90.0%, which is fairly good. This one for exporting is 95.2%, whereas for direct investment is at about 56%. This rate seems to be low. The results are result of logistic regression analysis, which show that three variables are relevant: the immigrant effect, product type and firm's experience. The most significant variable for the direct investment entry mode choice is product type. This is not surprising due to characteristics such as intangibility, variability, inseparability ans perishability (Buckley, et al., 1992), which require suppliers to market their goods or different products more directly to the end customers.

In contrast to the service providers, the results suggest that providers for industrial or consumer products tend to use esporting as an entry mode. This is probably a result of the nature of the products that may be sold through exporting methods. This leads to the conclusion that SMEs use high resource commitment entry mode only if necessary. Traditional internationalization approach tends to be followed by non-service operators when entering a foreign market. Firms do this to avoid a high operational risk.

Another concept of the study is that immigrant effect also influences the entry mode choice. The results suggest that the more established or controlled by immigrants, the more likely to decide for direct investment. Present studies also suggest that there is a link between the firm's choice of entry mode and the immigration effect (Lever-Tracy, et al., 1991). This is because of the immigrant's familiarity with the host market or their knowledge. This is big advantage for firms and they use it to commit themselves highly in case they enter their country of origin (Chung & Enderwick, 2001).

2.2.2. Contractual Entry Modes

Another form of Entry Modes is Contractual entry modes. They provide long lasting cooperation between different countries entities growing for exchange of technology and skills. This kind of Entry Modes is based on contracts such as licensing and franchising. Applying Contractual Entry Mode Strategies is suitable for avoiding new operations abroad. They are consicered as the most riskless strategies for companies providing services. Unlike Exporting modes, contractual entry modes transfers products based on previous knowledge and skills (Bradley, 2002, pp. 276-299).

2.2.2.1. Licensing

Licensing is considered as low risky Entry Modes based on existing company in the foreign country responsible for the product and/or market development. There are two main actors in the current Mode: licensee and licenser. Licensing Entry Modes provide opportunities for product manufacturing, exchange of patents, trademarks, while the licenser owes a fee or royalty to the licensee. Among the main advantages of the Entry Mode are cutting transport costs (see figure 9), low political risk, as well as overcome the import barriers. Among disadvantage of licensing are is the lack of the licensor's control, limited amount of income as well as the risk of developing a new competitor.

Through licensing activities SMEs earn high revenues worldwide (Fosfuri, 2006). Furthermore, they anticipate further growth (Economist, 2005). In the past decade, the researches of inter-firm licensing grow to an important study area. Licensing exclusivity is connected with critical decisions, which have long-run meaning for SMEs' market entry strategies. This exclusivity leads to licensee monopoly within a time period and territory. When the licensing is non-exclusive, different licensees may exist in the same territory. The ability to establish standards is one of the biggest advantages of licensing desipersion. Strategic ans economic considerations can lead SMEs know-how to be dispersed in case of multiple licensees. This is, however, very often related to various transaction costs. Normally, when a licensor provides exclusive license it denies the usage of the current product for particular market entry. In this situation SME decide for another entry mode such as WOS or JVs. Another problem of licensing exclusivity could be the adverse selection, because the licenson has alternative possibilities in case of non-performing by the exclusive licensee (Preet, et al., 2010).

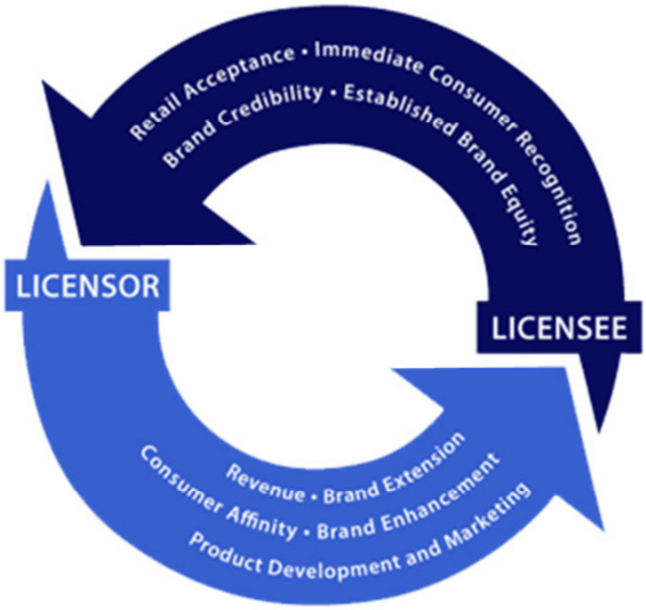

Figure 9 Interrelationship between Licensor and Licensee [source: (Kapen, 2016)]

In much of the international literature, licensing is studied as a “low-return entry mode” in the internationalization process. SMEs use this mode to advance knowledge about foreign markets. This information is significant to them in the stage before being preparted to add more resources to the markets abroad (Johanson & Vahlne, 2009). Firms also use licensing as a strategy for standardating and for global competitive advantage and not only to make profits.

Every licensing agreement is uniqe. The structure of the licensing contract, however, is similar for all different situations. The contract includes information as the duration of the licensing agreement, provisions on basis of rights, which are granted to the licensee and the compensation structure (Preet, et al., 2010).

Licensing in a market for technology

Recently, licensing is considered as a vital advantage for generating profit by SMEs, especially on the markets for technology and firms that own intellectual property. SMEs nowadays tend to have more open licensing policy for their internal technology and earn high revenues worldwide (Economist, 2005). Despite the increase in the licensing importance, only one third of the cases start negotiations, when a potential licensee has been identified, and less than 50 percent of negotiations talks have been finished (Razgaitis, 2004). An important reason for the incomplete contracts, are the internal conflicts among stakeholders.

Using licensing in the internationalization process, firms should organize their licensing activities. They are complex and involve a few divisions or business units. SMEs face important decision: if licensing should be centralized at the firm level, or there units will be left to handle licensing on their own. This decision is also relied on the differences in information and the differences in incentives.

In their study of licensing, Arora, Fosfuri and Roende create a model with three aspects:

- They endogenize production-based incentives, which are adjusted downward in the situation when most licensing deals are delegated to the business unit.
- They consider the case of multiple business units, according to negative spillovers from licensing across business units, which can result in the finding, which is very often unexpected, that spillovers can make decentralization more appealing.
- They allow for correlation between rend dissipation form licensing and revenues – this aspect does not lead to more centralization. The greater the correlation, the more centralization (Arora, et al., 2012).

New strategic possibilities for firms were created by markets for technology. With the help of the aspects as well as the whole licensing-investigation, made by Arora, Fosfuri and Roende, they explain the key choices, which firms face organizational issuies related to the technology market. An important point is the location of the decision-making power. When a business unit is closer to the market, potential licensees can be identified more easily. However, managers have obligations to keep the company profit and they rarely transfer technology license to other competitiors. This is true also in case when there is a trade profit. Firms that want to be part of the market for technology have to provide these managers with incentives that are suitable or they have also another option – to hand the decision of licensing to a specialized unit, which has no vested interest in product market profits (Arora, et al., 2012).

The authors proposed a model that is linked to this organizational choice. Several findings were generated. Sometimes firms fail to use licensing deals even in situation when both sides can benefit. Their model explains that when business units that have the relevant information needed are included and the decisions are given to them, it is not the best way to provide them with incentives to license. This is, however, more common to incentives for production, compared to incentives to license. Centralizing of licensing decisions, make the prosses inefficient in terms of the inability to determine the rent dissipation optimum of a deal. In this situation, the central unit can face two errors: refuse potentially valuable deals or enter into unprofitable deals. In addition, centralized licensing units are linked to greater costs in searching for potential licensees (Arora, et al., 2012).

The model predicts two things. First, firms will establish specialized licensing units, if markets for technology become more efficient. This will increase their tendency to license out intellectual property. Second, in incidence of technology markets expansion, firms with better incentives that are production-based will be more likely to centralize licensing authority (Arora, et al., 2012).

2.2.2.2. Franchising

Franchising is a form of Entry Modes in which person or company get the right of using other entity name, trademark or/and technology. Permenant assistance in overall organisations, general management, and marketing is provided under franchising agreement. Among the advantages of the current Entry Mode are quick market expansion, limited investment and low political risk, standardized marketing and high staff motivation. Both disadvantages of franchising and disadvantages of the licensing more or less remains the same. Either franchising or licensing can be applied when provided services cannot be exported. (Lawrence, et al., 2007, pp. 237-240).

Fanchisors that want to expand their business abroadnhave the opportunity to choose between four entry modes. Each of these models entails different levels of control and ownership (Baena, 2013):

- Direct franchising – there is an agreement with franchisee (local agent). This model also involves the right to use particular trademark in return for a fee. The benefits for the franchisee come from the business or technical knowledge of the franchisor. On the other hand, the franchisor has the opportunity to enter a foreign market with little risk. The disadvantages of the model are the protection of the chain's intellectual property, the understanding of local regulations and it is also hard to control quality standards.

- Master franchising – it involves developing an agreement between the franchisor and an owned subfranchisor, who is independent. The result is the development of particular number of franchises for owning the right to use the business format for a specific period of time ans in a specific geographical region. (Alon, 2010).
- Joint venture – this model involves sharing of ownership and control and the country risk is minimized.
- Direct investment – it entails establishing own stores or subsidiaries in foreign markets. The establishment may be set up from greenfields or with the help of the acquisition of a local firm. For this model as well as for joint venture there will be more information in the text below.

When European SMEs decide for entry mode via franchising, they decide for short-term strategy. Main reasons for this decision are to have access to more contacts, to access market knowledge or to avoid legal restrictions, because there are some countries, where 100% foreign investment is not allowed. In countries, where are allowed, there are other restrictions created to protect domestic markets.

Insights from the Spanish market

Most of the investigators in this area use US/UK franchise industries and the analyses focus on one sector as hospitality or retailing, for example. Beane and Cervino, however, wanted to analyze all sevice chains. They examine the Spanish market, because the Spanish franchise system is the fifth in the world when comparing it with all other systems in terms of the number of franchised outlets and the number of chains. In 2009 there were 1019 franchising chains that operate in Spain and 65.026 operative outlets (Baena & Cervino, 2012).

210 Spanish chains do business overseas in 108 countries, with 10135 outlets during 2009. 125 of them are service business-oriented. They operate in 44 foreing markets with 2944 outlets. This data is also shown in table 6:

Sector of activity	Number of franchisors	Number of outlets	Number of countries
Hospitality and restaurant	40	1,157	44
Dry cleaners	6	453	29
Transportation	5	356	27
Beauty and esthetics	17	222	25
Software and computers services	11	217	19
Photography services	3	171	16
Travel agencies	4	64	15
Health centres	2	58	12
Automobile services	6	43	11
Education and training	5	41	8
Financial services	7	35	8
Estate agents	4	35	8
Miscellaneous services	5	33	7
Optics	1	19	4
Leisure centres	5	18	2
Consulting services	2	16	1
Sports	2	6	1
Total	125	2944	44

Table 5 International diffusion of Spanish service franchise chains in December 2009 [source: (Baena & Cervino, 2012, pp. 1121-1136)]

More than 97% of Spanish service outlets that operate overseas are frnachises. Most of them through master franchising or direct franchising. The results of the study also show that there is a negative correlation between the international expansion of service franchise chains and a franchisor's management experience. Another conclusion is that Spanish service franchises follow the path of born-globals. In addition, these firms with large international presence have fewer franchised outlets.

The results lead to the conclusion that a franchisor's size have an impact on the intensity of international expansion, but not on the process of internationalization. This means that the results are relevant to Spanish SMEs, but in another intensity for all of them dependant on the exact size of the firm (Baena & Cervino, 2012).

Motives for franchising internationally

In the internationalization process of European SMEs, franchising is tesed entry mode formula. Data, collected from different international sources, describes key motives for franchising in international markets:

- Fortuitous franchisee contract/interest from third parties

- Branding the entity as international companyExploit potential markets
- Environmental opportunities for internationalization Motivation for growth
- Opportunities for more sales and higher margens Firm size
- Enlarging the market positionOperating experience, tolerance to risk, top management's international experience, external change agent influence, competitive advantage
- Domestic market saturation (Doherty, 2007)

The SMEs' choice to use franchising as an entry mode, part or the internationalization of the firm is in the most situations combination of factors. Welch mentions in his study that the analysis of the international entry franchising process is not easy, because of this combination, which is not the same for all European SMEs (Welch, 1992).

Other conditions for different types of contracts can occur when an entity contracted another foreign company to produce their production, or hiring / transferring managers abroad to assist a specific company for a while. The advantages and disadvantages seem like in licensing and franchising. Contractual entry modes are considered not to affect seriously the host economy.

2.2.3.Investment Entry Modes

Finally, the investment entry modes include international company ownership of manufacturing plants or other production units in the foreign country in the form of new establishments - Greenfield sites, acquisitions, joint ventures, or mergers. These modes have a considerable capability of impacting on the host economy (Root, 1994, p. 144).

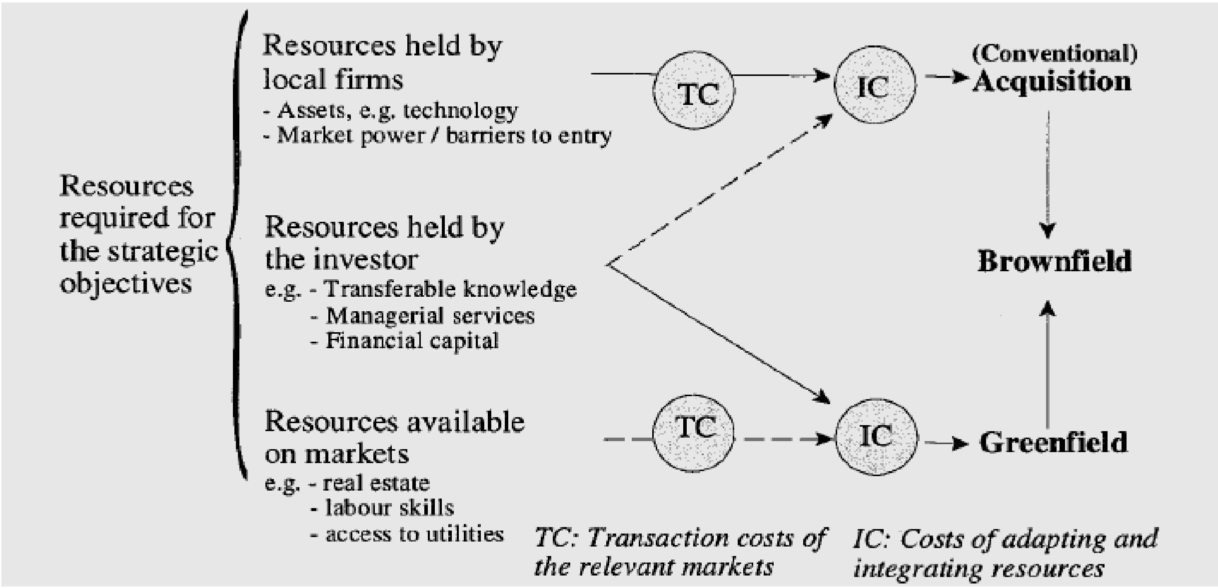

Figure 10 A Model of Entry Mode Choice [source: (Meyer & Estrin, 2001, p. 578)]

Figure 10 shows the options for entry mode. Which option a European SME will choose depends on some factors. First, it is important to define what kind of resources will be required for the project. Other factors are the resources that are available in local firm as well as in the investing one. Firm's decision also depends on resources the local markets. In the decision process the SME evaluate the transaction costs on different markets. When closely examine entry modes from a strategic perspective, it can be considered that brownfield projects may substitute for every conventional form. If the strategies of Greenfield or conventional acquisition are too costly or not feasible, brownfield offer an alternative (Meyer & Estrin, 2001).

2.2.3.1. Greenfield

Greenfield is the Entry Mode when an existing entity begins to provide new product/service or operation in foreign country where it did not operate before. It is also known as new establishments. Greenfield can be applied under several conditions as too high acquisition price for local entity and incompatible technology. Among the advantages of the current Entry Mode are: provision of full activities control, provision of full operational control, lack of joint venture and mergers challenges, and quicker decision-making process. Among the disadvantages of the new establishments are their price, higher risk, low level of flexibility, slow answer to external environmental changes, for example, political changes.

On one hand, political changes are considered as one of the most important factor in emerging markets. On the other hand, new establishment is considered as relatively slow strategy regarding the time period for putting into operations the equipment facilities, making some market opportunities unable to be taken. (Albaum, et al., 2002, pp. 325-327).

2.2.3.2. Brownfield

Another type of acquision is Brownfield. It occurs when the entity buyer reinstalls the equipment and production lines and replaces the staff when the previous company facilities are not capable to be used in future due to amortization, new technology or new international standards requirements. Among the adrvantages of the current Entry Mode are faster market entry and shared market knowledge. On the contrary, high integration costs are considered as one of the main disadvantages.

According to Figure 11, obsticles such as particular assets limitation, high transaction costs can be overcome by applying the strategy. Both can be overcome by considering a vaster choice of potential target firms. Brownfields, however, are in principle connected with high integration costs. This is a result of the deeply restructuring by the investor (Meyer & Estrin, 2001).

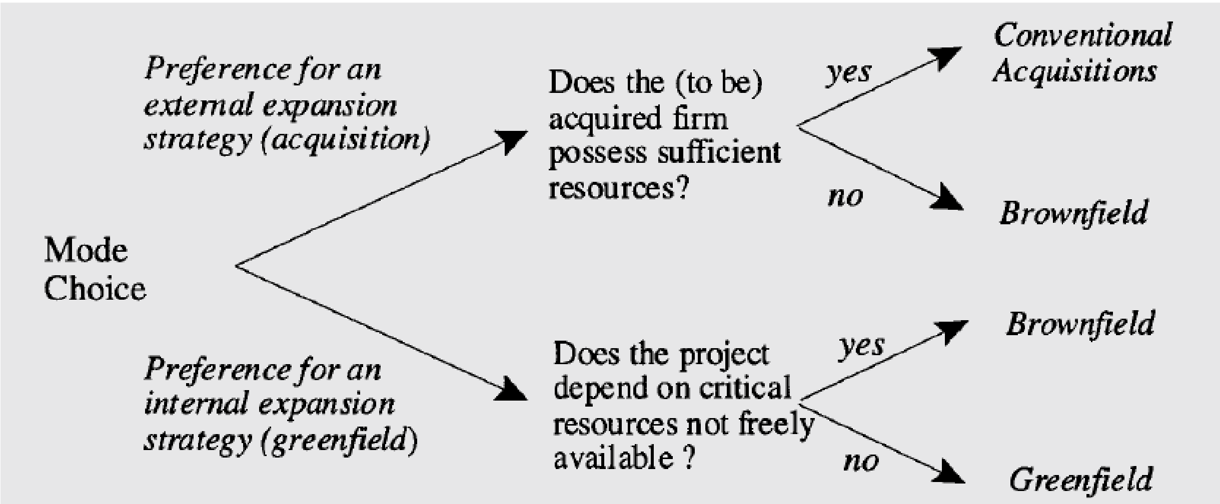

Figure 11 A Model of Entry Mode Choice [source: (Meyer & Estrin, 2001, p. 581)]

In Figure 11 the model is extended to a two-stage decision tree. The result is that brownfield may be chosen in two situations instead of the other mode choices. First, by high transaction costs in markets for corporate control or by weak assets of local firms, an external expansion strategy can be inhibited. If concerns like this are overcome by other agruments, new facilities are neseccery to be added to an acquired SME. Second, brownfield can be added to an internal expansion strategy in situation where Greenfield projects are inhibited. This can be a result of the fact that assets in possession of local firms are limited. Such critical resources are shown by Estrin (Estrin, et al., 1997). Some examples are local distribution channels, legal permission and patents and brand names.

2.2.3.3. Acquisition

An acquisition leads to obtain foreign assets, distribution channels by purchasing given entity abroad. The selection of purchased company is of great importance in order to define the thin line between advantages and disadvantages of the Acquisition Entry Mode (Bradley, 2002, pp. 310-314).

Among the advantages are:

- a faster start in exploiting the target market;
- shorter payback period;
- immediate income for the investor;
- resource provision.

Above mentioned advantages can easily become disadvantages regarding the environment, lack of information or hidden data on acquisition entities. The potential issues, including economic and financial troubles can be avoided by keeping the most important staff of the entity as well as collection of information in details for avoiding the lack of transparency.

Joint vetures

Joint ventures are concedered as one of the most common foreign market entry strategies. Among their advantages are:

- rapid market entry ;
- fast return of the initial investment;

- limitation of human and financial resources for entering foreign market
- low risk.

Among the disadvantages are (Bradley, 2002, pp. 287-297):

- less control of the operations including the choice of strategy
- development of a possible future competitor.
- the cost for maintaining the control
- loss of flexibility and confidentiality

Joint venture leads several issues. Firstly, low level of control on the operations and strategic decisions by the international entity leading to uncertainty and risk increasing. Secondly, the increased cost of control. Thirdly, possible loss of flexibility and confidenciality that are more frequently based on bad communication in the process of formation.

2.2.3.4. Merger

A **merger** is an investment entry mode that unifies two or more entities into one, already existing entity. That kind of investment entry mode is suitable for rapid expanding into new market. It is a quick way for put plan into progress, spreading risk in different activities and achieving additional prestige, access to brands contracts and networks. Last but not least, merging mode can be used successfully in the economic sectors with high level of competions as it is decreasing it.

In the corporate world, mergers and acquisitions tend to be the most dramatic demonstration of strategy and vision. It depends on only one single move to change the course of the SME, the create value for shareholders or the careers of the managers (Puranam, et al., 2000). Margers and acquisitions tend to have significant impact on political and social processes. Only about one-third of all investigated merges and acquisitions have positive effect on shareholder value for the buying firm (Schenk, 2000). It is also mentioned that merge SMEs does not earn more profit than the industry average (Valuation of Takeovers, 1998).

2.3. Transaction cost theory

Usually transaction cost theory study entry mode choices for large firms. In their paper (Nakos & Brouthers, 2004), Keith D. Brouthers and George Nakos stated that transaction cost mode decisions may have higher performance than other SMEs mode decisions. The result of their investigations is that transaction cost theory explains very good SME mode selection. Furthermore, they mention that SMEs that use this theory performed better than SMEs using other modes.

Regarding the firm's choice for a mode, it is not appropriate to devide the companies in small, medium and large. The size of the firm is important, but not directly about the choice. The main decision-factor is how a firm decide to interact with their environment due to their size (Shuman & Seeger, 1986). Thus, different international strategic choises are based on limited resources (Zacharakis, 1997).

Studies describing the international activities of SMEs are mainly concentrated on the internationalization process (Wolff & Pett, 2000) and the characteristics of this process such as decisions for export abroad, how motivated are the firms and in which direction for international expansion, what kind of differences there are between non-international and international firms, which countries have SMEs entered and what kind of modes they have used. It is interesting, that these studies don't examine the reasons for choosing a particular mode (Coviello & McAuley, 1999).

2.3.1. Transaction cost and mode choice

Transaction cost theory explains that two main costs – market transaction costs and control cost are created by "asset specificity, behavioral uncertainties and environmental uncertainties" (Williamson, 1985). Williamson also determines "frequency of interaction" as a main factor for transaction costs. However, in other studies the measurement of frequency is considered countinious.

A firm needs not only to minimize its transaction costs and protect its proprietary know-how, but also to be balanced in adding the integration cost for the hierarchial structure control (Erramilli & D'Souza, 1993). For a firm it will be efficient to organize itself as a hierarchy when the sum of costs for internal organizational costs is smaller than the sum of costs for its market transaction (Hennart, 1989). This is the reason why transaction cost theory suggests that firms choose such kind of entry modes in the internationalization process that have balance between the cost control and the advantages of integration.

Asset specificity

When a firm enter a new foreign market, the asset specificity of the investment, which is required, is a part of transaction costs. This includes human and physical resources, which doesn't have the same values when are used in another war. The firm employs these resources to finish a particular task. When a firm dispose of specific and unique know-how and technology, they should be protected from the competitors. According to transaction cost theory, firms will incur costs for protection if its differentiated assets are low (Klein, 1989). Available knowledge is used when asset specificity is low. The access to this knowledge is available for all competitors on the market. Than the control-related transaction costs are also lower. Other costs, which are lower in this situation, are switching costs. They include all processes needed when a firm changes modes of entry in a foreign market. Examples for switching costs are costs of negotiation with a new agent, cost of finding a new agent or opportunity cost as a result from lost sales (Erramilli & D'Souza, 1993).

In the other side, hierarchical equity modes of entry are preferred, when firms make asset-specific investments. Higher the asset specificity, higher costs for protecting technology or knowledge from competitors (McNaughton & Bell, 2001). Firm-specific competitive advantage is formed when firm's assets are specific. The dissemination of the competitive advantage will affect the performance of the investing organization.

The higher the specificity, the costlier is the loss of a foreign intermediary. Extensive training and investment will be also required when assets are specific. This requirements will be lost if a firm switch foreign agents. According to McNaughton, SMEs count on innovative services and products. Burgel and Murray (2000) give an example for U.K. SMEs in technology industries, which have a positive relationship between the use of equity modes of entry and R&D intensity. Other example for SMEs, whose asset specificity plays an important role in the entry mode choice, is given by Osborne (1996). He examines SMEs that develop highly differentiated products. These SMEs use equity entry modes instead of non-equity entry modes. These decisions influence their international mode choice, which is the main concept of asset specifity.

Behavioral uncertainties

For a firm is hard to predict the behaviour of individuals in another country. This inability for making a prediction forms behavioral uncertainties (Rindfleisch & Heide, 1997). Different forms of dishonest behavior form behavioral uncertainty. Some of them are distortion of information, cheating and shirking of responsibility. The SMEs aim to minize opportunistic behaviour. For this reason, they develop different control mechanisms. An example for such mechanism is internal control. It can be achieved with the help of legal rights that can regulate the actions of foreign-based employees – hierarchical ownership. Once the SME has the right, needs also special skills. In the most cases they require time to begin to control foreign operations (Anderson & Getigon, 1986). Experience like wholly owned subsidiaries, license agreements or other ways of managing foreign operations, is another possibility of a firm to develop skills at controlling international operations (Johanson & Vahlne, 2009). The resource-based view, which will be deeply discussed later, describes also a relation between the development of firm-specific processes that can be exploited and experienced international.

In the contrary side, when a firm doesn't have internal control mechanisms, can reduce opportunistic behavior through shift control to a foreign agent. In other words, shift responsibility to another organization, which is in a foreign market, will reduce the control-related problems.

SMEs tend to have less well-developed management teams. In this case, behavioral uncertainties are very important factor for them. In comparison to a large company, which have the ability to use its control structures also in a foreign country, SMEs are not so able to send their people to a foreign market. Their managing systems are not well-developed and have less international experience. This may be the reason why in most case they are discouraged to organize foreign operations in a hierarchical form. Therefore, a lot of studies about the internationalization process of SMEs have observed that they tent to count on exporting as a main international mode of entry (Oviatt & McDougall, 1997).

Environmental uncertainties

Environmental uncertainty also influences transaction costs. It refers to different kind of risks such as the ability of a firm to enforce contracts and control legal risks. The SMEs need additional resources if they want to increase control. This increase leads to external environmental risks (Erramilli & Rao, 1993). In countries where the environmental uncertainty is high firms tend to choose non-equity, low-investment entry modes. This strategy "not only avoids resource commitment but frees entrants to change partners or renegotiate contract terms and working arrangements relatively easily as circumstance develop and change" (Anderson & Getigon, 1986, p. 15).

Previous research discussed the relationship between the choice of entry mode and environmental uncertainties. Anderson and Gatignon marked that manufacturing companies, for example, tended to use equity entry modes when they entered markets with low environmental uncertainty. But the entry mode choice as a result of environmental uncertainty is still less clear.

2.3.2.Mode choice and Performance

According to the study of Lu and Beamish (Lu & Beamish, 2001), there is a strong connection between performance and the type of entry mode. They marked the influence of the internationalization process directly on firms' profits- the heigher the level of internationalization, the more negative impact on profits. SMEs with low level of foreign direct investment have decrease in performance. When this level increases, internationalization shows a positive impact on performance.

Scholars like Brouthers et al. (1999) and Brouthers (2002) have suggested, that it is important not only to examine the differences in the performance while applying some of the entry mode types, but also pay attention to the different performance between contingency transaction cost-based and non-contingency modes. This additional step shouldn't be ignored, because firms don't use only one specific mode, which is like a model for all firms. They search for this mode, which will give them the best performing choice (Brouthers, 2002).

Keith Brouthers and George Nakos examined small and medium-sized Dutch and Greek companies. These companies are involved in Central and Eastern Europe. In their study "SME Entry Mode Choice and Performance: A transaction Cost Perspective" they explain the results of 837 companies in 20 different industries: whole-sale trade, metals, office furniture, international haulage, food industry, consultanca, electronics, agricultural product and chemicals. Firms invested in 14 markets in Central and Eastern Europe. Tha largest amount of investments were in Bulgaria, Ablabina, Russia, Poland, Romania, Czech Republic and Ukraine.

Entry mode choice

Two different regression models were used to determine firm's entry mode choice. These models provided strong support to hypotheses that shown that:

When SMEs use equity entry modes as a result of prediction of transaction cost theory, they performe better than SMEs which use non-equity modes.

When SMEs use non-equity entry modes as a result of prediction of transaction cost theory, they performe better than SMEs which use equity modes (Nakos & Brouthers, 2004).

2.4. Ressource-based view

According to Fajita (Fujita, 1995), "SMEs are more likely to be resource-constrained in terms of financial and human resources" than larger firms. It is belived that SMEs possibilities are limited when there is resource scarcilies. Furthermore, the internationalization process requires planning need as well as costly information. There two aspects make "SMEs more susceptible to the potential effects of internationalization" that can be negative (Alvarez, 2004). Different investigations have shown that even resource-constrained firms can have success in international markets (Knight, 2000). There is, however, difference between SMEs in managed economy and those in entrepreneurial economy. And it is very important this difference to be made. It should be also underlined that in the past the situation was also different. SMEs used to be engines of growth in the entrepreneurial economy, whereas in the manadeg economy they are followers, because in this economy large-scaled production industries are dominant. Nowadays internationalization helps firms to overcome constraints, because previous barriers have been reduced. Information flows between countries, for example, is enhanced. Current resources are now more mobile between countries and also they are more easily transferable.

There are a few internationalization theories that determine the drivers for the internationalization. Such theories are the theorie of monopolistic advantage (Caves, 1971) and the stage theorie of internationalization (Johanson & Vahlne, 2009). Both define competitive advantage as a main driver for internationalization. This advantage comes from firm's particular advantages and resources. It is also discussed that firm's acquisitions are result of the resources of the firm (Barney, 1991). Barringer and Harrison find also a positive correlation between the resource-based view and internationalization (Barringer & Harrison, 2000). The internationalization process can provide building up of internal resources. Other investigators, however, recognize, that this fact does not mean that this correlation is true when a firm has lack of resources and this lack does not lead to resource-seeking internationalization (Hessels, 2008).

Scott develops the resource dependency theory (Scott, 1987). He explains that resources are often limited or hard to be built internally. Sometimes SMEs need to gain them from external sources. Therefore, they are dependent on other organizations which can give them access to their resources (Scott, 1987). This theory explain how the need of particular resource can make an SME dependent on another one or how the lack of resources can motivate an SME to build up resources. Very often this leads to internationalization in order to find better opportunities to access or build up resources (Barringer & Harrison, 2000).

Audretsch and Thurk explain that there is also a connection between globalization and resource-based view of a firm. In times, when globalization plays main role in economy chainging, it can be considered as a leading factor for all decisions and processes in the firm. They give examples for how customer's needs and preferences have changed as a result of the globalization in

Europe. Customers increasingly search for specific products, instead of being interested in mass-produced goods. This fact gives an opportunity for SMEs to target free niche markets. They only need to find best resources and this leads, as already mentioned, to internationalization (Audretsch & Thurik, 2004).

Hessels focuses in her study on three different types of resource constrains. These are: lack of access to finance, lack of skilled labor and lack of new technology. Three possibilities for SMEs are considered. The first one is that SMEs do not internationalize. The second is that SME go international in order to access precific resource such as know how, labor or finance. And the last one is that SME internationalize for another reason (Hessels, 2008). This had lead to following hypotheses:

"Hypothesis 1A: Perceived lack of skilled labor increases the likelihood of an SME to internationalize with the motive to access labor."

"Hypothesis 1B: Perceived lack of skilled labor increases the likelihood of an internationally active SME to aim to access labor through its international activity."

"Hypothesis 2A: Perceived lack of access to finance increases the likelihood of an SME to internationalize with the motive to access finance."

"Hypothesis 2B: Perceived lack of access to finance increases the likelihood of an internationally active SME to aim to access finance through its international activity."

"Hypothesis 3A: Perceived lack of new technology increases the likelihood of an SME to internationalize with the motive to access knowledge and technology."

"Hypothesis 3B: Perceived lack of new technology increases the likelihood of an internationally active SME to aim to access knowledge and technology through its international activity. (Hessels, 2008)*."*

Access to labor: Hypotheses 1 A and B are supported because the results show that if the SME has lack of labor, this leads to increase in the odds for a firm to be active internationally with the main motive to access labor.

Access to finance: Hypotheses 2 A and B are also supported. The results show that there is a positive correlation between lack of finance and firm's motive to access finance international.

Access to knowledge and technology: The results show that lack of new technology leads to internationalization with the motive to access technology and knowledge. It is, however, very interesting that there is no significant relationship between lack of technology and internationalization when the reference category is "no internationalization": This means that only Hypothesis 3B is supported. Hypothesis 3A is not upholded by the results.

The cardinal purpose of the investigation, made by Hessels, is to explain the significance of the resources for internationalization. The results of this investigation indicate that both – lack of skilled employees and lack of finance increase the likelihood of SMEs of internationalizing. Lack of new technology, however, is not a reason for SMEs to go international with the motive to access new technology and know-how compared to not internationalizing. It is very interesting that such detailed investigation have a lot of policy implications. One of them is that managers of SMEs are awared of the possibility to overcome resource constraints by internationalizing, which is also underlined by Autio in his report (Autio, 2005). Another one is that regarding to overcoming resource deficiencies, policy makers should be an important part of the decision what kind of international activities can be used by SMEs.

2.5. Knowledge-based view

Knowledge-based view focuses on intangible resources and not on physical assets. In compliance with the current view, the resource of great importance is the knowledge. Knowledge can differentiate a firm from its competitors. A few aspects are critical for strategic management of internationalization. Those that are in a relationship with knowledge are the development, integration and transfer of knowledge (Johanson & Vahlne, 2009). In the learning process SMEs develop knowledge, which is experimental. It can be used across foreign markets. International new ventures accumulate this knowledge and transfer it across foreign markets faster than other firms (Knudsen, et al., 2002).

In their investigation into knowledge based view, Gassmann and Kuepp selected the biotechnology sector, bacouse the knowledge skills of the SMEs in this sector are very different. Moreover, this sector is regulated by safety regulations that often are very costly. In addition, the final product has to be governmental approved in the most cases. The authors underlined that in such specific industry, validity of findings may be restricted (Gassmann & Kuepp, 2007).

For the authors it was interesting to observe development of the firms and their products in the internationalization process. They mentioned that in biotechnology it can take up to 10 years for a SME to develop a product.

The choice of the firms is also important for the investigation. They divide them into two groups:

- First, SMEs, which are part of the biotechnology sector. They selected new ventures SMEs in Switzerland.
- Second, one non-Swiss SME that also met all criteria to this sample (see table 9).

Detailed description of sample

Case	Staff	Founded	Location	Competitive advantage and commercial basis	Resources 'on demand'	Scope of IPR protection	International activities in...
A	9	2005	Switzerland	Earns royalties from unique patented antibodies and organisms	Distribution channels, laboratory capacity	Patent sharing agreements with large firms	Germany, Czech Republic
B	100	1997	Switzerland	Sells unique patented substances and test kits sold by licence	Test series, laboratory capacity	<10 patents, employment of patent lawyers	Germany, Italy, US, Argentina
C	114	1995	Switzerland	Takes on risks of clinical development in MNCs' value chain	Distribution channels	5 existing and 220 filed patents	Integrated in various international value chains
D	190	2000	Switzerland	Takes on risks of clinical development in MNCs' value chain	Physical and human resources in China for development activities	Patents (details were not disclosed to us)	China (development activities), integrated in various international value chains
E	73	1997	Germany	Oligopolist in a specialised biomedical market	Laboratory capacity, distribution channels	<10 patents, registered trademarks	The Netherlands, Italy, Switzerland

Table 6 Description of Gassmann and Kuepp's sample [source: (Gassmann & Kuepp, 2007, pp. 350-366)]

The investigators analysed their finding in two stages, following the sample of Weerawardena and Mort (Weerawardena & Mort, 2006). First, they grouped the results into seven themes, because they had related data for all of the companies and they wanted to put it together. Second, they grouped the themes among two consturcts to describe the internationalization of the firm (Gassmann & Kuepp, 2007).

1. Content analysis and propositions

1.1. Uniqueness of specialisation in international value chains

The swiss-firms (case A-D) do not produce a product. They have a function of service providers in chains with international value. They are likey to take risks and the risks in this industry are huge, because they do not know if the substance will be approved by health authorities. The results of different analysis show that firms do not follow the traditional biotechnology business model, which is to develop, protect and sell a substance. They spicialise in process knowledge, which support the knowledge-based view. Another result that supports this view is that it is not relevant to SMEs that they are presumed to suffer from (Aldrich & Auster, 1986). The SMEs have advantage in knowledge in innovativeness, biochemical processes and a risk-taking attitude. Finally, Jones' proposition is here also confermed – internationalization for SMEs is not only result of developing and retailling own products, but also is connected to international value chains (Jones, 1999).

1.2.Homogeneity of product or service

Authors suggest the homogeneity of a product is important factor for the competitive advantage of all firms, because this homogeneity allows firms to penetrate foreign markets easily, especially in the biothechonoly industry, where biochemical processes are similar all over the world. The investigated firms show that their competitive advantage is a result of a combination of the homogeneity of their products and their knowledge.

1.3.Uniqueness of innovation

Firm A reported:"One product is an antibiotic. This antibiotic by its fermentation process intoxicates the very organism that produces the antibiotic. Thus, a limit for production is imposed. However, we have found a trick how to circumvent this intoxication. Thus, you can easily tenfold production output" (Gassmann & Kuepp, 2007). Other firms had similar states, so Grasmann and Kuepp marked that for the firms' competitive advantage is important not only specialised knowledge, but also uniqueness of products and that they both are linked, because one follows to the other.

1.4.Scope and extent of intellectual property rights protection

This result was connected mostly to cases C and E. Firms C produce products, which differentiate them from other firms producing similar products. They believe that their products are very hard to copy and this follows to factual protection. On the other side, firm C protect their products not by owning only patents, but also several registred trademarks. All cases provide information that they have examples of specialisation in an area where just few can be competitors. This leads to "very strong international competitive advantage". The firms protect this advantage "formally" or "factually" to achieve flexibility (Gassmann & Kuepp, 2007).

1.5. Embeddedness in global communities and networks

The embeddedness in global communities allows SMEs to stad updated, when talking about their main resource- specialised knowledge, at low cost level. For case A, for example, researchers and firms are not so many. This is the reason why they know each other personally. The embeddedness has also a resource implication. According to their integration in social networks, SMEs have low costs by obtaining information. This finding is linked also to the central tenets of social capital theory, mostly to the networking view of internationalization (Prashantham, 1980). It also accord to the finding that the most significant of the tree benefits 'influence', 'information' and 'solidarity', is information, which support the knowledge-based view.

1.6. Importance of geographical location

The authors mentioned that according to this point, the findings are mixed. As already mentioned, processes in the biochemical sector are similar around the world, therefore, the place, where the SME is located, become irrelevant. The CEO of firm B, for example, reported that they chose their location only for historical reasons. However, DeCarolis and Deeds (DeCarolis & Deeds, 1999) describes in their study the importance of geographical location, because this geographic selection is a significant prognosticator of firm's performance. This was partly confirmed by this case study, but the main thesis of the authors is that the internationalization of the firm is negatively associeated the firm's presence and the importance of this presence at a "specific geographical location".

1.7. Resources 'on demand'

In the case A, the SME reported that they use capabilities and resources of specialised brokers. These are technology traders that trade with biochemical production processes and enzymes. Interesting is that are paid only in one situation – if they can close a deal between an investor and the firm. This is how the firm saves money. Another act of reducing the costs is buying production capacity on an hourly basis. Furthermore, they buy this capacity from a German firm near to the Swiss border. So, the large number of tests could be conducted by the firm at one time. This model leads to great cost savings (Gassmann & Kuepp, 2007).

2. Proposition for an integrative model

The seven propositions of the authors refer to the ability of a SME to internationalize. However, they grouped all 7 in two constructs. Each of them describes a condition for internationalization (see figure 12).

First condition is the **rent-generating potential** (Propositions 1-4). It focuses on firm’s specialised knowledge that can be the potentional reason for the internationalization. Grassmann and Kuepp mentioned that this knowledge in combination with the knowledge-protection is the basis of firm’s competitive advantage.

Second condition is the **rent-realising potential** (Propositions 4-7). The investigators suggest that the in the process of transformation of the potential of firm’s specialised knowledge into realised performance, the SME has to use social networks, channels and strategies. This will help with the overcoming of firm’s lack of tangible resources.

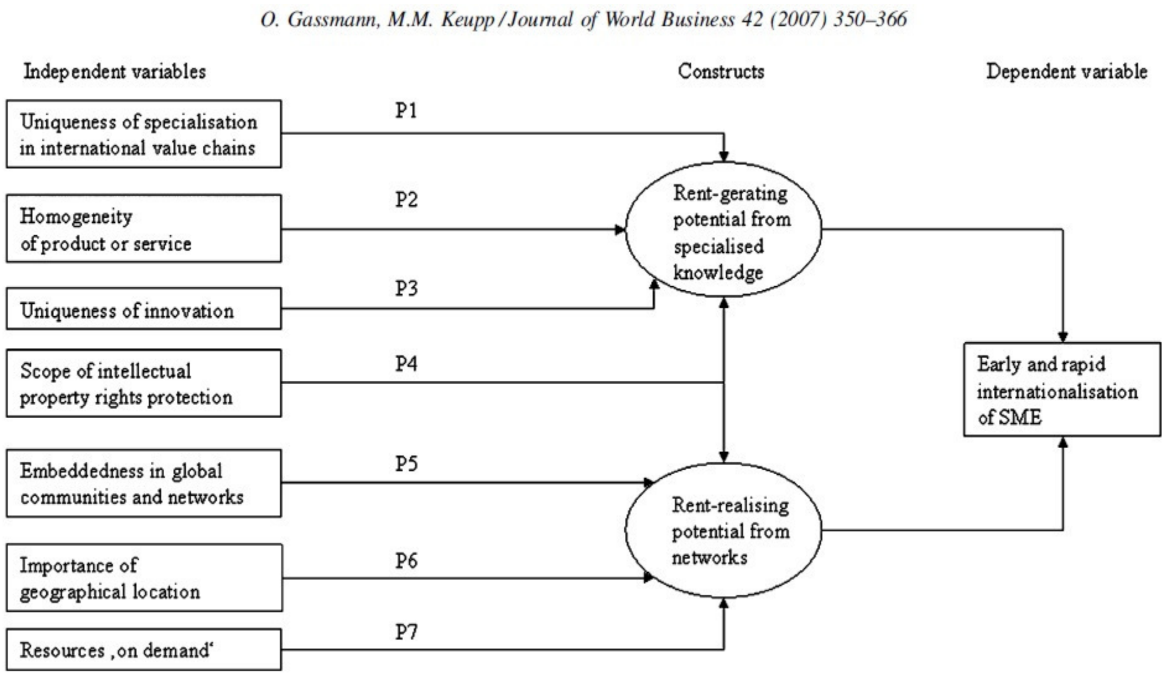

Figure 12 Overview of the Gassmann & Kuepp research [source: (Gassmann & Kuepp, 2007, pp. 350-366)]

The investigation and the findings of Grassmann and Kuepp, helped managers of SMEs to go deeper in the specifity of the knowledge-based view in the internationalisation process of a firm. This view gives suggestions how a firm can realise business performance, using their specialised knowledge.

3. Conclusion and Hypotheses

As mentioned above the European SMEs becomes international due to different motives. Still, the main one is to survive while the globalized highly competitive market environment forces them to internationalize. In most of the cases their internationalization begins with cross-border regional exporting and/or in other EU Member States.

All EU countries differ. This is the reason why they were grouped into three clusters – Consistent cluster (mostly old EU members, which are characterized with stable micro and macro-economic growth), Moderate cluster (EU member countries, which are not newcomers to EU, but are characterized with much higher macro and micro economic risks) and Catching-up cluster (these are the newest EU Member states from 2004 untilpresent). This diviation makes the European SME Overview simple. According to the already mentioned studies and researches, most of the EU SMEs from the first cluster succeed in recovering from the financial crisis and achieving better results by value added number of SMEs and employee level from the pre-crisis time. The results of the Catching-up cluster are contradictory – some countries such as Lithuania succeed in recovering their SME value added and SMEs number much more than SMEs from Romania, Poland and Hungary which still have difficulties reaching the pre-crisis values. The third cluster is still not recovered from the crisis yet.

Hypothesis 1: “SMEs from slow recovered countries are less able to internationalize in the post crisis time”

Hypothesis 2: “SMEs from Catching-up countries are less able to internationalize.”

Obstacles hindering the European SMEs internationalization are very often different barriers, which slow or eliminate the internationalization motives. The barriers, which could affect the SMEs could be divided into internal (e.g. lack of management knowledge, lack of international managerial experience, lack of qualified personnel, language and cultural differences, etc.) and external, (such as lack of capital, lack of adequate public support score, especially important for the EU SMEs and last but not least laws and regulations).

The theoretical framework review included the different SME market entry modes and their advantages and disadvantages. As SMEs do not have sufficient financial resources as MNC, it is more appropriate to use exporting entry mode with and without intermediaries.

For the purpose of the thesis the third hypothesis based on chapter 2.4 Resource Base view and especially from the study of Hessels:

Hypothesis 3: "Perceived lack of access to finance increases the likelihood of an SME to internationalize with the motive to access finance."

All three hypotheses are going to be tested in the following chapter. The next chapter describes the successful story of Walltopia ltd. - a European SME from the Catching-up cluster. Included is an interview conducted with the company management, followed by an overview of the answers to a short questionnaire.

4. Walltopia Case Study – a story about a successfully internationalized European SME

This chapter contains the case study of the master thesis. It is the success story of Walltopia OOD (ltd.). The reason for choosing it is because the company is a very good example of a successfully internationalized European SME as itshistory goes through all SME's transformation steps – from micro to small and from small to medium enterprise. Walltopia fully satisfies the definition of a traditional SME.

The structure of the case study is as follows:

- Company overview with description of the entity's organization and structure, products and product development. This part also presents the historical background of the company.
- Company's first international experience; describing the company's first market entry steps, which entry mode it used, why and what factors and risks the company considers at that moment. This part reviews the company's past and present international market entry plans and realization. It aims to answer the question: "How were the foreign countries being choosen and which EU cluster has been seen as a high growth potential?" In addition it gives the answer of the question "In which other/new markets does Walltopia management recognize potential for growth and expansion?"
- Next the barriers, which the company has been facing, are reviewed and management decisions to overcome them are discussed.
- The Walltopia know-how products and production facilities, which provide the firm with its competitive advantage, are presented separately.
- The influence of the Financial and economic crisis from 2009 will be additionally resumed in the case study. Special attention is paied to the answer of the question "How did the company succeed in stabilizing its positions and overcoming the economic issues?"
- At the end of the case study there is a summary of the main conclusions within the research and the interview.

4.1. Company Overview

Walltopia Ltd. was officially founded in 1998 by two young climbers - Ivaylo Penchev and Metin Musov and is now headquartered in Sofia, Bulgaria. Walltopia Ltd. designs and manufactures artificial climbing structures for outdoor and indoor use in private, public, and non-profit sectors. It offers mobile solutions, harmonized walls, DIY (do-it-yourself) solutions, and fun walls for use in climbing gyms, schools and universities, competition walls, shopping centers, hotels, military walls, and sport and recreational facilities (Walltopia ltd, 2016). The company also provides accessories, including floorings, safety devices, and holds and volumes (Walltopia ltd, 2016). In addition, its services include business consulting and project management in terms of climbing wall design, architecture, engineering, construction and installation, maintenance and inspection. The company exports its products to many countries around the world. It has sales offices in the United States, Canada, Germany, Austria, the Russian Federation, and Asia Pacific (Walltopia ltd, 2016).

Walltopia obtained ISO 9001/2008 DE, EN, FR and ISO 14001/2008 certificates, which cover the whole spectrum from design construction, production, assembling, sales and post-sales support of man-made climbing walls. Other certificates which the company possesses are the US and Canadian ASTM 84 “Certificate of surface burning characteristics of fiberglass panels-resin and plywood panels-resin coating“ (Walltopia ltd, 2016).

The period during which Walltopia was established was very turbulent. The difficult macroeconomic situation in the 90s, the slow government structural reforms, inefficient regulation and bad lending practices have led to the Bulgarian banking crisis of 1996. The banking sector inevitably collapsed and many financial institutions went bankrupt (Kovatchevska, 2000). A consequence of the weak bank system was a strong currency crisis. On an annual basis, inflation reached nearly 500% in January 1997 and surpassed 2,000% in March. This caused the devaluation of the national currency (the Bulgarian lev) (Gulde, 1999)which led to a domino effect and strong liquidity problems in the whole system. Most of the citizens lost their savings and expressed ther discontent in massive protests in 1997. After a long negotiation processes between IMF, the Bulgarian National Bank and the Bulgarian government on 1st July, 1997 the International Monetary Fund introduced a currency board. The Bulgarian lev was fixed at the rate of 1000 lev for 1 German Mark. The banks had to follow strict rules in terms of required reserves and risk mitigation practices.

Short after the turbolent period from 1997 was the company established. The two friends were searching for new job opportunities during and after the crisis. Being professional climbers, they decided to do what they can do best– climbing. The whole production process was organized in the small garage of Ivaylo Penchev. These were hard times, during which they did not know whether they would succeed. After realizing the first sales, they optimized the process and continued working hard for better and bigger orders. In 2002 the first big deal was completed with the US company Momentum Indoor Climbing. This was the beginning of a long partnership which continuous today.

The organizational structure of Walltopia Ltd. is hierarchical. At the top of the company are the two owners, Mr. Ivaylo Penchev as Chief Executive Officer and Mr. Metin Musov as Chief Production Officer. This is the reason why the organization of Walltopia is divided into two main streams - office and production. The structure of the company is also divided into 16 divisions. Each of them has its own division manager. Special characteristic of the Walltopia organization is that each department is viewed as a separate business unit. This means that each department leader has the right to decide whether a service should be provide from external organization or from another internal Walltopia division. The contributing factors are price, quality and open capability. The division heads are subordinate to one of the two entity owners.

As the Chief production officer, Metin Musov leads the design, production, engineering and logistic departments. In addition, he has the responsibility for the existing production facility in Letnitza and the three new facilities which are currently under construction. In 2016 the whole production and a large part of the office are in Bulgaria and there are manysales offices around the world. The reasons for this are the production and labor costs, which are much lower in Bulgaria than they are in other developed European countries. In this sense the organization costs of Walltopia are lower than the market transaction cost that is why the hierarchical company structure is efficient. This responds to the study of Hennart (1989) “Can the ‘New Forms of Investment’ Substitute for the ‘Old Forms?’- A Transaction Costs Perspective”.

4.2. Company’s international experience

From the beginning Walltopia was orientated to international markets, because the local climbing market was not developed enough and respectively the revenue would have been extremely low. As professional climbers, the two entrepreneurs knew that demand on the US climbing market was high. Ivaylo Penchev and Metin Musov started the production of climbing elements such as climbing panels, different types of carabiners, harnesses, ropes, nuts, cams etc. in a garage. More than 98% of all orders were coming outside the domestic country. In the beginning it was hard for the two entrepreneurs, because the company was unknown to the customers who were uncertain and suspicious the firm’s Bulgarian origin. Because of this the two Walltopia founders thought about registering another company in Switzerland which can buy Walltopia Bulgaria in order to avoid the country’s poor reputation. In addition, as already mentioned, the banking system in Bulgatia was not able to finance their business ideas. They had an option to finance their business from outside the domestic country because of the lower loan interest rates. They gave up the idea, however, since they knew that one day the truth always comes out and it will negatively reflect on the reputation of the company. This was also the main reason for the slow development of the company in its first few years. This fact **confirms** the Hypothesis 3 from the theoretical part (chapter 2.4 Ressource-based view) - “Perceived lack of access to finance increases the likelihood of an SME to internationalize with the motive to access finance.”

The first big export deal for Walltopia was in 2002 for Momentum Indoor Climbing, a US company. Until then there had been many small orders mainly from the US, which helped the company survive. It is important to note that at the beginning Walltopia worked only with US agents, which helped to realize export deals. As reward they became a percentage of the sale. The reasons for choosing an indirect export market entry strategy are obvious. First, at the beginning Ivaylo Penchev and Metin Musov did not have much international experience. Therefore they chose this entry mode, because it gives them the opportunity to go quickly international without a major investment. The two entrepreneurs realized the negative effect of indirect exports, namely the lower profit return and the little control over intermediaries. This was the reason why they travelled onevery occasion in order to create personal contacts with customers, which would help them in the future when they establish their own network of sales offices around the globe.

According to the interview with the management, the main controls, which they use to evaluate the performance of the agents, are revenue, ability to gain new customers and satisfaction ofexisting customers.

The internationalization of Walltopia continued with the implementation of the exporting entry mode without agents in the region where the company already has customers and its name is wellknown. . The company continued working with agents, but at the same time it also developed its own sales department in Sofia. In the period between 2002 and 2008 the company invested in new technologies and developed its own special products such as:

- „Geome3x“, which affords climbing over variously positioned planes
- “hydraulic walls and boulders” which allows the walls’ owner to make adjustments, and reorganize climbing routes without additional investment
- “mobile climbing walls” which are widely used when organizing corporate events, conferences and competitions
- “Rocktopia walls” which is made from material like real rocks (Walltopia ltd, 2016).

Walltopia found its first UK agent in 2006. On 4th February 2008 it founded the first sales office in the US and on 6th August 2009 its sales office in Canada. It is not surprising thatthe first sales office is in the US. The reason is because of the well developed climbing market, citizens’ higher purchasing power and the climbing popularity in the country. Interesting fact is that according to the interview (see Appendix 3) Walltopia has stronger cultural differences with the UK market in comparison to those in the US and Canada. In addition, financial risks in the US and Canada are lower concerned than in theUK.

The first offices on continental Europe, outside the domestic country, were in Germany (September 2011) and Austria (October 2011). The characteristics of the two markets are very similar. This leads to the fact that cultural and political risks are also similar, classified as very low. There is a difference in the financial risk classification between those two countries, which can be explained by the lower investment cash available for Austrian office after the opening of the German office. According to the reasons for the choice of these two target markets are characterized as identical to the US market, mainly due to the customers purchasing power, the climbing popularity and the brand popularity. Some differences among the markets are observed, e.g. the purchase orders in Germany and Austria are for much smaller walls compared to those in the US.

In 2013 Walltopia made a big internationalization step. A new partnership with Asia Pacific marked the beginning of a new adventure. It allowed Walltopia to enter the Asian market. After conquering the US market, Walltopia recognized the Asian market as highly profitable. That is why Walltopia is currently searching for qualified vendor with experience in Asian languages and cultural knowledge. Due to high cultural differences, not only in terms of language, but also in terms of religion, domestic traditions and social perception doing business in Asia does not have the same sense as it does in Europe or in North America. With respect to the reasons for choosing to penetrate the Asian market, Walltopia management mentioned the increasing middle class and respectively the increase of citizens' purchasing power, the neet to increase the brand popularity in this part of the world and increasing climbing popularity as sport in this region. Some differences between the market in EU and the Asian market exist. For example, the orders in Germany and in Austria are for much smaller walls compared to those in Asia, where the investments are in larger projects. Because of this the company concentrates its efforts on this developing market.

Walltopia's latest sales office is located in Russia. It was opened in January 2016. The reason why the Russian Federation was chosen as a target market is because of the market's high growth potential and vast possibilities. Company management wants Walltopia to be the first on this market in order to outmatch competitors.

During the discussion with Walltopia's management the topic about sales offices in other European countries was raised. The reason why there are currently no open offices in other European countries is because of the small market and the lowpopularity of climbing sport. Some countries were mentioned as middle markets, such as Portugal, Spain, and France, but other mainly CEE countries were outscoped from their internationalization policy because of the very low citizens purchase power and low interest and demand for this sport. It can be concluded that the Consistent cluster is the only driver for the company on the European market. The other two clusters – Moderate and Catch-ups are not interesting for the enterprise.

4.3. Barriers

Appendix 4 summarizes the barriers which Walltopia has been facing within the framework of its internationalization. According to the survey the barriers that the management is most concern about are the lack of qualified personnel and cultural differences in Asia Pacific. These two barriers are the only issues with the highest barrier level (Extremely concerned). As mentioned in the previous chapter, Walltopia is going to solve this problem by recruiting a qualified vendor with native Asian background in order the overcome the language and cultural differences. Walltopia is also concerned about tariffs, laws and regulations as well as environmental uncertainties in Asia.

In Russia the barriers that the management is most concern about are environmental uncertainties, laws and regulations. The cultural and language differences are not so high, because the language in the head office (Bulgarian) is in the similar language group. In addition, currently there are employees with good Russian language knowledge.

The fact that barriers such as environmental uncertainties, tariffs laws and regulations are mentioned is not surprising, because the countries in these regions are characterized as experiencing high economic and financial volatilities and political instabilities. In addition, there is also an exchange rate risk in Russia.The Russian ruble has conciderably depreciated in the last two years (from 43 Rubles for 1 Euro in 2014 to 83 Rubles for 1 Euro in 2016). This uncertrainty is also taken into account by the company's management. As a resultmost of the deals are made in US dollars or Euros.

Walltopia did not find any big barriers on the other markets, which could not be overcome. According to the interview, the enterprise finds the US market as the easiest to operate in. This is also visible from the barriers overview in Appendix 4. USA has only two times other values than 1 (not concerned).

To conclude, developed countries have a much better developed business environment with lower barriers. The only issues that rise are the lower margins due to high local competition competitativenes with local competitors and the market oversold. As a result, Walltopia is searching for new possibilities on much risky markets.

4.4. Reaching competitive advantage by know-how products and production facilities

Walltopia's success is based on innovation and creativity. Asset specificity is a must have for the entity. The company consistently invests in new technologies and equipment, but the most capital intensive investments are mainly in new production facilities in the domestic country. This is a management action in response to the risk that differentiated assets could fall into the hands of competitors. As Klein et al. (1990); Williamson (1985) and Williamson & Ouchi (1981) examine in their research, asset specificity refers not only to physical, but also to human resources. These two factors are well recognized and developed by Walltopia.

Walltopia has a R&D department with highly qualified employees, who consistently improve the products. In addition, the installation of the projects is organized in a different way as compared to that done by most competitors. The entity has trained 60 qualified installers and sends them abroad on each project. This leads to a quick execution of the contract and high customer satisfaction. According to Walltopia's management, this optimized and fast process reduced execution time by up to three monthsin comparison to the most of entity's competitors, who are seeking employees in the country where the project is. In addition, according to McNaughton & Bell, (2001) and Klein et al. (1990) "asset specificity may create switching costs when initial foreign agents do not perform well", this, however, does not apply to Walltopia Walltopia has not dealt with switching costs yet, because the agents have shown good performance during the years (see the consistent revenue increase in table 10). Consider the fact that entity structure doesn't have production facilities outside the domestic country and it is fully orientated on export entry mode, with and without agents could switching costs are low, because of low-specificity investments abroad.

kEUR	1998	2006	2007	2008	2009	2010	2011	2012	2013	2014
Employees	n/a	46	65	82	162	210	244	289	311	366
Turnover	n/a	2,257	2,575	1,754	3,790	5,458	6,597	7,949	12,678	16,557
Balance sheet	n/a	1,828	3,802	3,404	4,664	4,487	6,162	9,721	11,154	16,461

Table 7 Walltopia ltd. [source: (Bulgarian Registry agency, 2016)]

Walltopia's main manufacturing unit is located in villiage of Letnitza, in Lovech Province in the Republic of Bulgaria. The factory was put in operation in 2010. It has 6,000 m^2 production area. The Letnitza plant was upgrated in 2012 with another 4,000 m^2. Currently, Walltopia is able to produce nearly 100,000 m^2 of plywood panels per year. Walltopia plans to extend the facility after 2015. About 200 full-time employees work there. The facility is organized into three main areas:

- Iron Shop for producing steel frames for the climbing walls. The Iron Shop has capacity of 800 tons of steel per year.
- Plywood Panels Shop –with a capacity to produce high-level qualitative 100,000 m^2 per year.
- GRP Panels Production – is one of company competitive advantage providing durability and various 3D walls forms regardless of the weather conditions, including Deep Space and Rocktopia wall designs. The annual capacity of GRP Panels Production 10,000 m^2 (Walltopia ltd, 2016).

In addition there are other smaller departments: "plaster and mold casting, grinding, plywood paint and texture, molding, cutting and volume production". The enterprise invests also in in the building of two production facilities in Bozhurishte near Sofia in order to meet increased demand levels. The investment in machines and production equipment is recognized as priority for the company's' management, in response to the company values such as: efficiency, innovation and flexibility. For example the newest machine investment is a 3D printer. This will improve the quality of the production, the production time for the cutting the panels and gives the possibility to produce panels in every possible form, which the customer prefer.

As mentioned in this and chapter "Company's international experience" Walltopia consistent investing in new technologies and developing its own special products thanks to their R&D

centre in Letniza and in Sofia. Some of the special products are already mentioned - „Geome3x", "hydraulic walls and boulders", "mobile climbing walls", "Rocktopia walls". A big innovation step is "Fun Walls Scoring System", which is a mobile app connected with sensors on the wall. This allows the climbers to score points by choosing harder ways when they climbing and challenging to other climbers in an online global and regional ranking lists. This makes the sport more interactive and mix the amusement of climbing and adventure with online games.

"Company's international experience" Walltopia consistent investing in new technologies and developing its own special products thanks to their R&D center in Letniza and in Sofia. Some of the special products are already mentioned - „Geome3x", "hydraulic walls and boulders", "mobile climbing walls", "Rocktopia walls". A big innovation step is already mentioned "Fun Walls Scoring System".

Some other innovations are (Walltopia ltd, 2016):

- "Transformable walls structure", thanks to the standardized innovative modules, ables the walls owners to transformate their walls composition fast without changing the steel construction.
- "Anti-scuff texture" is a new dirt-proof platform technology that allows simple cleaning and avoids climbing shoe rubber from sticking to the wall.
- "Fiction holds" a new material, which increase UV resistance and expand life span of the brighter paint.
- "Belay bar", which is a stainless steel bar that increase the ropes useful life by reducing the effort in belaying
- "Mobile Fun Wall" is based on 4 different fun wall models and allows climbers to try different challenges. Another advantage is that this wall is easy to be relocating and to assemble.

The list with the Walltopia innovations is long. The company improves constantly their products in order to stay ahead of market rivals. Product development is realized from the management as an important "must have" to gain competitive advantage. According to the operating figures during the years (see table 10) the enterprise is on the right way. Its internationationalization policy and management competence lead to great success.

4.5. Influence of the financial and economic crisis

According to the interview with Walltopia management and public sources such as the Bulgarian Registry Agency, there were no traces of the economic and financial crisis from 2009. The company was not affected. On the contrary, the enterprise has been constantly increasing its turnover, total balance sheet value and employee numbers. In 2009 the revenue increased by over 100% from 1,754 kEUR in 2008 to 3,790 kEuro in 2009. The employee number also doubled from 82 in 2008 to 162 in 2009. This growth continued after 2009. In 2010 the revenue reached 5,458 kEuro and the employees were 210. In 2011 the turnover increased to 6,597 kEUR and in 2012 reached 7,949 kEUR. The years 2013 and 2014 were very successful for the company as revenue increased from 12,678 kEUR in 2013 to 16,557 kEUR in 2014. Unfortunately, the Financial Report for 2015 is not already published, but according to Walltopia's management, the financial year of 2015 is also a successful one.

The company successfully overcomes the economic issues by a well planned internationalization including the penetration of markets, which are well developed and experience with consistently high demand for climbing goods. The indirect export entry mode (work with agents) also spends a lot of money. In addition, as mentioned, the whole production process is organized in the domestic country, which is characterized with low employee costs. As a result the indirect exporting market entry mode has proven to be effective for the company products and services. All these factors present effective advantages over the competitors.

Although many SMEs risk bankrupcy when facing financial and economic challenges during the crisis, Walltopia managed not only to overcome the bad times, but it succed to improve its results every year. Walltopia's impressive results could be explained by some as chance ("right time on the right place"), but in reality the reason why the company has managed to overcome many turbulent times is the very good management of the internationalization process. Walltopia's example disproves the Hypothesis 2 that SMEs from Catching up countries are less able to internationalize.

4.6. Case study conclusion

Walltopia is the leading global climbing wall manufacturer. In comparison to the other competitors in this industry Walltopia has a large production capacity. Innovation has always been a driving force for the entity (see chapter 4.4.). "Walltopia offers not only the largest and most complete range of climbing wall surfaces available in the world today but also delivers complete solutions for customers' facilities and businesses from project design to wall assembly, route setting and staff training" (Walltopia ltd, 2016).

Walltopia's internationalization can be characterized by curtainty steps and a well applied internationalization policy. The company relies on the partnership with its agents all over the world as well as on its own sales offices in countries, in which climbing is a popular sport, such as USA, Canada, UK, Germany, Austria, Portugal and Spain. Walltopia's internationalization confirms the transaction cost theory, which suggests that firms tend to select entry modes that balance the advantages of integration with the additional costs of control.

The Asian market is also recognized by Walltopia's management as having a high potential. This is why the company is working to open a sales office in China. This step is also linked to the highest barrier concers – cultural differences (see chapter 4.3. Barriers). Countries from the Moderate cluster, such as Cyprus, Greece, and Malta and most countries from CEE (Catching-up cluster) are not a target market for the firm, because of the unpopularity of the sport and the low citizens purchase power.

5. Conclusions and final remarks

The main aim of the thesis is to conduct a detailed overview of the contemporary research literature and to present important recommendations about the internationalization issues of the European SMEs. The review of the theoretical framework and the analysis of the SME internationalization issues led to the formulation of three hypotheses, which were qualitative tested in chapter 4. An overview of the Hypotheses and their test results are presented below:

1. “SMEs from slow recovered countries are less able to internationalize in the post crisis time” **not supported** – Walltopia (company from Bulgaria, slow recovered country from the catching-up cluster) show that the right market entry decisions lead to successful internationalization.
2. “SMEs from Catching-up countries are less able to internationalize.” **not supported –** This hypothesis is quite similar to the first one. It is true that most of the Catching-up companies are smaller and do not have so much financial resources as the SMEs from the moderate cluster, but they have other positives (they have access to cheaper resources e.g. labor cost, lower taxation etc.), that combinedwith the right management decisions could give them competitive advantage over the competitors.
3. “Perceived lack of access to finance increases the likelihood of an SME to internationalize with the motive to access finance.” **Supported** – The globalizing world gives the opportunity to borrow cash for investing activities from financial institutions which give more attractive interest rates and loan conditions.

Quick summarized: “It is not so important where the SME is from, it is more relevant where it goes and what kind of internationalization decisions it takes”. Crucial factor if SME internationalization succeed, or not, depends mainly on the already taken management international decisions.

The master thesis has some limitations. It is important that the case study is not representative and does not allow generalizing common principles for the European SME market entry approach for the whole economy or even for the whole climbing sector, because of the low number of the explored cases. Nevertheless, it presents useful examples of SME managerial practices, applicable for other enterpreneurs.

Last but not least, the thesis has an important public policy embroilment. SMEs should be more suported, because they are the backbone of the EU and they have crutial role for the entire economy.

The thesis confirms the vital role of the Internationalization for the SMEs survive and development. More researches are needed for better understand analysis of SMEs issues during their internationalization in dynamically developing world economy. It would be very useful if further studies make an empirical research about the SMEs from the three clusters.

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Appendix 1

	From (OUR COUNTRY)	From countries inside the EU	From countries outside the EU
EU28	66%	21%	13%
Company size			
1-9 employees	66%	21%	13%
10-49 employees	71%	19%	10%
50-249 employees	60%	27%	13%
Sectors grouped (NACE)			
Manufacturing (C)	65%	24%	11%
Retail (G)	66%	20%	14%
Services (H/I/J/L/M/N/R/Q/S)	66%	21%	12%
Industry (B/D/E/F)	74%	17%	9%
Company age			
Before 2008	68%	20%	12%
Between 2008 and 2014	59%	25%	16%
Turnover in 2014			
100,000 euros or less	59%	29%	13%
100,000 to 500,000 euros	71%	18%	10%
500,000 to 2 mil. euros	69%	19%	12%
More than 2 mil. euros	64%	22%	15%
Type of company			
Independent	67%	20%	12%
National group	67%	20%	13%
Inetrnational group	59%	24%	17%
Type of market			
Goods to consumer	76%	16%	8%
Goods to companies	67%	21%	13%
Services to consumer	74%	18%	7%
Services to companies	69%	20%	11%

Figure 13 European SMEs revenues in 2014 [source: (TNS Political & Social at the request of the European Commission, 2015, p. 41)

Appendix 2

Q12. Which of the following measures would help your company the most to engage in business abroad? (MAX. 3 ANSWERS)

	Grants, subsidies or low interest loans	Tax incentives	Support for finding business partners and networking	Opportunities to take part in international trade fairs	Information on market opportunities	Information on rules and regulations	Advice or training	None (SPONTANEOUS)
EU28	30%	28%	27%	20%	20%	19%	17%	25%
BE	30%	47%	28%	15%	27%	31%	24%	17%
BG	23%	22%	23%	12%	19%	10%	23%	23%
CZ	26%	17%	31%	19%	24%	14%	12%	25%
DK	15%	19%	27%	24%	19%	15%	17%	35%
DE	27%	24%	25%	21%	16%	20%	13%	29%
EE	25%	26%	28%	25%	19%	15%	20%	21%
IE	33%	24%	21%	26%	20%	14%	22%	13%
EL	59%	45%	34%	35%	23%	9%	6%	5%
ES	41%	36%	32%	24%	32%	23%	27%	16%
FR	41%	37%	41%	19%	22%	28%	20%	11%
HR	65%	41%	36%	20%	12%	13%	11%	15%
IT	17%	25%	12%	15%	16%	13%	9%	44%
CY	60%	34%	29%	17%	16%	7%	7%	22%
LV	41%	37%	35%	29%	24%	11%	12%	11%
LT	33%	20%	37%	29%	19%	11%	16%	14%
LU	24%	22%	29%	25%	24%	22%	12%	22%
HU	20%	34%	23%	32%	26%	15%	14%	24%
MT	28%	32%	22%	41%	24%	17%	9%	22%
NL	22%	28%	23%	6%	12%	25%	16%	33%
AT	34%	26%	28%	32%	10%	19%	10%	20%
PL	48%	26%	31%	22%	13%	17%	22%	14%
PT	27%	44%	40%	37%	25%	22%	19%	11%
RO	38%	33%	28%	28%	23%	17%	15%	11%
SI	39%	39%	22%	15%	17%	17%	13%	15%
SK	25%	26%	22%	16%	20%	12%	13%	21%
FI	30%	29%	29%	26%	25%	13%	20%	17%
SE	13%	13%	29%	21%	20%	18%	20%	26%
UK	21%	20%	18%	12%	18%	18%	17%	32%

Figure 14 Support for European SME Internationalization [source: (TNS Political & Social at the request of the European Commission, 2015, p. 105)]

Highest percentage per country	*Lowest percentage per country*
Highest percentage per item	Lowest percentage per item

Base: All companies (N=13,111 in the EU)

Appendix 3

Please rate your concern for the following types of risks associated with international market entry projects:

- UK (1st January 2007)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial			x		
Political					x
Economical			x		
Cultural			x		

- US (4th February 2008)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial				x	
Political					x
Economical				x	
Cultural					x

- Canada (6th August 2009)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial				x	
Political					x
Economical			x		
Cultural					x

- Germany (1st September 2011)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial			x		
Political					x
Economical			x		
Cultural					x

- Austria (3rd October 2011)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial		x			
Political					x
Economical				x	
Cultural					x

- Asia Pacific (1st July 2013)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial				x	
Political					x
Economical			x		
Cultural		x			

- Russia (1st January 2016)

Type of risk	5- extremely concerned	4	3	2	1 – not concerned
Financial		x			
Political					x
Economical			x		
Cultural			x		

Appendix 4

Please rate your concern for the following types of barriers associated with international market entry projects:

5- Extremely concerned; 1 – Not concerned

Type of barrier	UK	US	Canada	Germany	Austria	Asia Pacific	Russia
Lack of capital	2	1	2	2	1	1	1
Lack of capabilities	1	1	1	2	2	3	1
Lack of managerial knowledge	1	2	2	1	1	3	1
Lack of international managerial experience	1	1	1	1	1	1	1
Tariffs or other trade barriers	1	1	3	1	1	4	3
laws and regulations	2	2	2	3	3	4	4
Lack of qualified personnel	2	1	1	2	3	5	2
Limited information	1	1	1	1	1	1	1
environmental uncertainties	2	1	1	3	3	4	4
Language and cultural differences	1	1	1	1	1	5	3