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INTERNATIONALIZATION OF MARKETS AND SME DEVELOPMENT: SOME RESULTS FROM AN INTERNATIONAL COMPARATIVE STUDY

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Abstract. *Many firms in transition economies are faced with the increasing internationalization processes, which present both opportunities and threats for SMEs. The project on which this paper is based is concerned with the effects of a variety of internationalization processes. Apart from an internationalization of markets, these include the internationalization of production, the internationalization of capital, the internationalization of human capital and the internationalization of regulatory regimes, which govern the conditions in which products are produced and sold. In the paper, we will focus mainly on the effects of an increasing internationalization of markets, highlighting the nature and extent of the competitiveness of SMEs in the surveyed countries in foreign and domestic markets.*

1. INTRODUCTION

The increasing internationalization of markets presents both opportunities and threats for SMEs in many countries. However, for firms in transition economies, an additional problem has been the pace with which they have been exposed to market competition together with the need to achieve a re-orientation of markets to replace those lost in the former Soviet Union. Moreover, in the early stages of transition particularly, the limited scale and scope of domestic demand has been an additional push factor encouraging firms to look for foreign market opportunities. Within this context, the development of a competitive export base is vital in order to eliminate old dependencies and to stimulate national economic development. In addition, in some countries the implications of increasing internationalization are of particular policy significance in view of their

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aspiration to accede to the EU in the future.

The project on which this paper is based is concerned with the effects of a variety of internationalization processes. Apart from an internationalization of markets, these include the internationalization of production, the internationalization of capital, the internationalization of human capital and the internationalization of regulatory regimes, which govern the conditions in which products are produced and sold. However, in view of the importance (both to the firm and to the country concerned) of the anticipated accession to the European Union of a number of the transition countries featuring in the project, we will focus in this paper mainly on the effects of an increasing internationalization of markets, highlighting the nature and extent of the competitiveness of SMEs in the surveyed countries in foreign and domestic markets.

The food and clothing industries were selected for inclusion in the study for two reasons: firstly, because they represent a significant proportion of manufacturing output and exports in each of the countries featuring in the study; secondly, because of the differences that exist in the existing levels of internationalization in the two sectors and in the types of strategy that managers use to compete.

The empirical data on which the project is based consists of 360 interviews in Poland (120), Bulgaria (120) and the Baltic States (120), plus 100 in the UK and 60 in Greece. Since the interviews were conducted in the summer of 1997 using a harmonized survey instrument, we are able to make a direct comparison between these countries, based on recent data. To be eligible for inclusion in the study, at the time of the survey firms needed to be at least 51% private and domestically owned, trading for at least one year, and employing 100 or less. Firms were selected for inclusion in the study using a two-stage methodology. Since we wanted to undertake some longitudinal analysis, we included as many as possible of those firms meeting the conditions that had been previously interviewed in 1995 as part of our previous ACE project¹, and which agreed to be interviewed again in 1997. The rest were extracted at random from lists supplied by statistical offices.

A short filter questionnaire was administered initially in order to establish eligibility for inclusion in the second stage face-to-face survey. As well as meeting the specified eligibility criteria, firms that were interviewed face to face needed to be affected by, and/or involved in, one or more of the main dimensions of internationalization included in the study. These were exporting, experiencing competition from imports in the domestic markets, foreign capital involved in ownership and/or foreign direct investment by the firm itself, joint ventures or collaboration with foreign partners, and managers with experience of management either abroad or in a foreign company. In order to facilitate comparison with the other national samples, we aimed to include a similar proportion of firms in each of 3 size groups (i.e. 1-20, 21-51, and 51-100) and also a similar proportion of firms in the two sectors. The survey data are currently being supplemented by a number of key informant interviews although we are not able to incorporate the results of these into this particular paper.

The rest of the paper presents some of the findings from the study that refers to the

¹ This project was entitled: 'The Survival and Growth of Manufacturing SMEs in Poland and the Baltic States: Developing a Policy Agenda' (contract no: 94 0743R).

effects of internationalization on firms' markets, both at home and abroad. These refer to: the extent of the involvement of surveyed firms in foreign markets; manager's assessment of the demand trends and competition they face in their main markets (born domestic and foreign); the way in which firms seek to compete in foreign and foreign and domestic markets; and managers' perceptions of the main barriers to increasing foreign and domestic sales. In each case, survey findings are presented for the Bulgarian, Polish and Baltic samples, thus enabling both similarities and differences to be identified. The paper concludes with a summary of the main implications of the analysis for policy.

2. THE INVOLVEMENT OF SURVEYED FIRMS IN FOREIGN MARKETS

At the micro level, competitiveness can be assessed by examining the performance of firms in foreign and domestic markets, by seeing to what extent firms have been able to preserve or enlarge their market shares and, in the case of export markets, by their ability to increase their foreign market sales. Table 1 shows the extent of the involvement of surveyed firms in foreign markets in 1994 and 1996, thus enabling us to see to what extent they have been able to increase their penetration during this period.

Referring to the 360 SMEs surveyed in the five transition countries in 1997, the proportion of exporting firms increased from 45% in 1994 to 60% in 1996, reflecting the fact that a growing number of firms have been able to sell abroad in all countries featuring in the study. Although the sampling procedure used to include firms in the sample means that the proportion of exporting firms is higher than would be found in a random sample from the SME population, our evidence suggests that SMEs in the food and clothing sectors have been able to compete in foreign markets, since their involvement has been increasing during the study period.

Table 1. Export sales of surveyed firms 1994 and 1996

% of total sales from export	1994				1996			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
50-100%								
Food	17	14	17	20	20	19	22	17
Clothing	32	12	60	33	37	18	61	36
Total	25	12	39	26	29	19	42	26
1-49%								
Food	24	14	25	30	36	30	32	45
Clothing	16	9	15	25	26	18	26	38
Total	19	11	20	28	31	23	29	42
0%								
Food	59	73	58	50	44	51	47	38
Clothing	52	80	25	42	36	64	13	27
Total	55	77	41	46	40	58	30	33

Table 2 shows that the mean share of sales generated by exports in the firms surveyed has grown in all countries and both sectors, although faster growth has occurred in Bulgarian firms than in the other cases. Small domestic market, low purchasing power and strong competition are factors that have forced Bulgarian firms to look to export markets. At the same time the mean share of exports in total sales has decreased in

exporting firms in all countries and both sectors, which may be explained that the external environment for exporting firms has getting more difficult. This underlines the potential importance of policy initiatives designed to help firms improve the sustainability of their export effort.

In terms of the main destination markets for exports, there was some variation between countries. In the case of food processing, Baltic SMEs were most commonly exporting to Russia (77% of exporters) and a number of CIS countries, other Baltic countries (58%), the Ukraine (32%) and Germany (16%). In the case of Poland, it was Russia (52% of exporters), Germany (27%), Lithuania (25%), Belarus (17%) and the Ukraine (12%). Bulgarian food processing exporters were most commonly selling to Russia (57%) and Greece (24%), followed by Germany, Macedonian and Ukraine (19% each).

In clothing Baltic exporters most commonly mentioned Nordic countries (98% of exporters), Germany (24%) and Russia (20%). For Polish clothing firms, it was Germany (54%), Russia (24%), Sweden (17%), Netherlands (17%), Lithuania (15%) and the Czech Republic (15%). Bulgarian clothing exporters were most commonly selling to Germany (30%), Greece (27%), Russia (27%) and Macedonian (20%).

Table 2. Change in the average proportion of total sales generated in foreign markets 1994 and 1996

	1994				1996			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Food								
mean	18(44)	13 (47)	21(44)	23 (42)	23 (41)	23 (46)	21 (39)	25 (39)
median	0 (30)	0 (39)	0 (42)	2 (25)	5 (30)	0 (28)	3 (34)	10 (28)
Total number of firms	62	12	20	30	95	23	32	40
Clothing								
mean	30(63)	11(56)	56(75)	30(52)	38(59)	18(51)	61(70)	37(51)
median	0(80)	0(70)	78(90)	5(55)	10(75)	0(55)	89(90)	18(40)
Total number of firms	83	14	39	30	121	26	54	41

Clearly, markets in Russia and CIS countries remain important for exporting SMEs in the surveyed countries, particularly in the case of SMEs in the food-processing sector. In clothing, SMEs are more involved in western markets than in the case of the food industry although this often involves highly dependent subcontract type relationships.

Analysis of the Polish and Baltic survey data indicates the importance of foreign market sales to business performance. Our data shows that overall, exporting firms typically outperformed non-exporting firms in both sectors during the 1994-96 period, although there were differences between countries. In Poland for example, many exporters (particularly clothing) were unable to maintain real turnover during this period, although their performance was still better than that of non-exporters. Similarly in Baltic countries, where 30% of exporting firms experienced a decline in real turnover between 1994-96 compared with 42% of non-exporters.

As Table 3 shows, the most common methods used to service foreign markets were direct exporting (i.e. where the firm was dealing with the customer directly); indirect exports (i.e. through an intermediary, such as an agent) and subcontracting; only 6% of

all firms surveyed were using joint ventures as a means of supplying foreign markets. Predictably however, there were marked differences between the two sectors, with subcontracting particularly common in the clothing industry and direct and indirect exporting more common in food processing, although there are marked differences between the respective use of these two forms between countries. Direct exporting is a particular feature of food processing SMEs in Baltic countries.

Table 3. Methods used to serve foreign and domestic markets

	Food				Clothing			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Direct	70	73	97	48	41	57	31	43
Indirect	48	38	16	78	33	36	26	40
Subcontracting	4	5	3	-	45	32	52	45
Joint Venture	6	5	10	3	6	7	6	5
Total number of exporters	93	22	31	40	124	30	54	40

3. DEMAND TRENDS AND COMPETITION

In the case of the food industry, the majority of managers of exporting firms described demand trends in foreign markets as 'growing' or 'stable'. The main difference between the countries that can be observed is in the case of Bulgaria where although a majority of respondents referred to growing demand, a significant minority faced declining sales. In other words, there was a greater range of experience between managers than in the case of either Poland or the Baltic States. At the same time, foreign markets are seen as highly competitive by the majority of food exporters, particularly in the case of Polish firms where 95% of firms described competition as either 'strong' or 'moderate'.

Table 4. Manager's assessment of demand trends and the level of competition in foreign markets

	Food				Clothing			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Level of Demand								
stable	33	19	29	42	36	52	32	30
growing	52	57	58	45	48	36	56	47
declining	15	24	13	12	16	13	13	22
Level of Competition								
none/weak	9	10	10	7	8	10	8	8
moderate	37	46	36	32	38	30	48	34
strong	55	46	55	60	51	60	44	58
Total number of firms	93	21	31	40	125	31	54	40

Interestingly, when managers were asked to describe the pattern of demand trends in domestic markets (Table 5), their responses were more varied than in the case of foreign

markets. Indeed, it was only in the case of the Baltic States and Bulgaria that more managers described demand as 'growing' than gave other responses. It is clear that domestic demand conditions facing SMEs in the food sector are much more turbulent than in the case of foreign markets. Moreover, Bulgarian food processing SMEs are facing particularly difficult conditions in this respect, although the level of competitors appears less strong than that facing their counterparts in Poland and the Baltic States.

Table 5. Manager's assessment of demand trends and the level of competition in domestic markets

	Food				Clothing			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Level of Demand								
stable	21	14	22	25	15	1	25	27
growing	25	6	41	25	15	3	46	6
declining	21	41	17	8	43	28	27	11
turbulent	34	39	20	43	28	27	11	46
Level of Competition								
none/weak	7	18	5	2	12	19	7	6
moderate	32	59	25	16	47	58	52	25
strong	61	24	70	82	41	23	41	69
Total number of firms	170	51	59	61	172	78	44	48

Although in the case of the clothing industry, manager's overall assessment of demand trends was not significantly different from that of their counterparts in the food sector, there are differences between countries. Polish clothing exporters showed a higher propensity to report declining demand than the Polish food exporters whereas Bulgarian clothing exporters were less likely to do so than Bulgarian food firms, although they do appear more likely to face intense competition in these markets.

However, it is domestic demand trends where the greatest differences between countries in the market conditions facing clothing SMEs can be observed (Table 5). Bulgarian clothing SMEs appear to have very limited opportunities for sales growth in the domestic market although strong competition is less commonly reported than in the case of Poland particularly. Polish clothing firms also face limited opportunities; for domestic sales growth although in this case intense competition is an additional factor. On the basis of these results, the depressed state of domestic demand conditions would appear to be one of the drivers encouraging Bulgarian firms to look to develop foreign market sales in this sector. In the case of Polish firms, the level of competition at home is an additional factor.

In the case of Baltic countries, both domestic and foreign demand trends facing clothing firms may be seen as more buoyant than in the other cases. This may be a result of the recent attempts by some of the surveyed firms to re-orientated themselves away from their previous dependence on subcontracting towards a greater reliance on developing their own clothes collections.

As Table 6 demonstrates, the main sources of competition that firms face in domestic markets were other small private firms, large private domestic firms and imported goods, although a number of differences can be identified between the sectors, and also between

countries. In the case of Bulgaria for example, the slower pace of privatization is demonstrated by the fact that state owned companies were a more commonly reported source of competition by SME managers than in the case of Poland and the Baltic States, particularly in the food industry. In the latter case, large private firms were identified by almost two thirds of responding firms, reflecting the potential for scale economies in food processing, both in production and in marketing and distribution.

Table 6. Manager's assessment of the main sources of competition in domestic markets

sources of competition	Food				Clothing			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
small firms	72	78	75	64	64	58	82	58
large firms	56	41	64	61	45	42	43	54
new entry	17	16	3	31	8	9	9	6
unregistered	14	6	24	13	29	21	25	48
state	15	33	9	8	13	18	7	8
imports	46	22	70	41	62	52	80	62
other	2	10	0	0	1	1	0	0
Total number of firms	169	49	59	61	170	77	44	48

The relatively open nature of the small Baltic economies is evidenced by the fact that the majority of firms in both sectors identified 'imports' as the second most commonly reported source of competition in domestic markets. The highly internationalized nature of the markets for clothing products is illustrated by the fact that in all countries, imports were a more frequent main source of competition than they were in the food industry. Indeed, in Bulgaria imported goods were only identified as one of the 3 main sources of competition by a relatively small minority of firms.

Table 7. Manager's assessment of the main sources of competition in foreign markets

sources of competition	Food				Clothing			
	All %	Bulgarian %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
small firms	54	45	55	56	57	40	64	57
large firms	45	50	52	36	39	24	37	49
new entry	20	15	3	36	19	20	15	24
unregistered	7	0	7	10	7	8	0	16
state	10	20	7	8	6	16	2	5
imports	66	45	84	61	59	40	76	49
other	2	5	0	0	6	16	0	0
Total number of firms	89	20	31	39	115	25	40	37

In foreign markets, the main sources of competition facing exporting firms are from other imported goods, domestic SMEs and large private firms although once again certain differences can be identified between sectors and countries. Competition from imports is particularly prominent in the case of Baltic exporters. In the food industry, this is because of the importance of the Russian market to Baltic firms where competition from other imported products is strong; in clothing, it reflects strong competition in the Nordic and German markets particularly, from subcontractors located in countries such

as China. Competition from state-owned firms on the other hand was more frequently mentioned by Bulgarian exporters in both sectors than in the other countries, reflecting their higher level of dependence on markets in the former Soviet Union.

4. SEEKING COMPETITIVENESS

Whilst in the short term a firm's ability to compete may be measured by performance criteria such as market share, sales growth and profitability, it can be argued that its ability to maintain competitiveness in the longer term depends on the basis of its competitive advantage. In this respect, Michael Porter (1990) refers to a hierarchy of sources of competitive advantage based on their sustainability. Whereas lower order advantages such as low labor costs or cheap materials are often readily duplicated by competitors, higher order advantages are less easily replicated. Examples include product differentiation based on unique products or services, and types of customer relationships, which may be protected by the high costs for customers of switching vendors. These are the types of competitive advantage which SMEs are well equipped to develop in that they offer scope for firms to use the flexibility which their small scale offers, to their own and their customers advantage. We will examine the basis of competitive advantages of SMEs in each of the surveyed countries, in order to see to what extent the current bases of their competitiveness is potentially sustainable.

In order to identify how firms sought to gain competitiveness, managers of exporting firms were asked to assess on what basis their products competed against those of their competitors in foreign markets (up to 3 answers were allowed and managers were asked to place them in order of priority). In both sectors, it was price rather than product distinctiveness or product innovation that managers emphasized as their main competitive advantage, followed by product quality, particularly by Bulgarian SMEs. Although a small number of exporters perceived that they had advantages with respect to characteristics such as speed of delivery, quality of service, established customer relationships and unique products, non-price advantages appear much less prominent than price in the competitive tactics used by SMEs in either sector in foreign markets. Whilst there are some minor variations between sectors and countries, the underlying pattern is fairly constant.

However, certain differences are apparent when the manager's assessment of the basis of their competitiveness in foreign markets is compared in it that in the home market. In the food processing sector, 'reliable product quality' is the most 'frequently mentioned *main* competitive advantage (by 32% of firms), followed by lower price (27%); in fact, no other factor was mentioned by more than 8% of firms. In clothing, the most frequently mentioned main advantages were 'reliable product quality' (29%), lower price (27%) and 'a unique product' (16%). In Poland, 'service quality' was mentioned as the main competitive advantage by 15% of firms. It would appear therefore, that based on manager's assessment of the most important single competitive advantage of their products, price-focused competitive tactics are less dominant at home than abroad among SMEs, with product and service quality more frequently mentioned than they were by exporting firms.

Table 8. Manager's assessment of the most important competitive advantage of their products in foreign markets

comparative advantage	Food				Clothing			
	All %	Bulgaria %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Lower price	44	46	40	45	49	48	55	35
Unique product	7	5	10	5	4	0	4	7
Superior product	2	0	7	0	8	10	13	0
Reliable quality	24	36	23	17	22	29	17	20
Speed of delivery	7	0	0	15	3	0	2	5
Quality of service	4	0	3	7	4	0	0	12
Customer relationships	7	0	10	7	4	0	8	2
Specific market segment	2	2	7	0	1	0	2	0
Effective advertising	0	0	0	0	2	0	0	5
Packing	1	5	0	0	0	0	0	0
Other	2	9	0	2	3	0	0	0
Total number of firms	92	22	30	40	119	13	53	40

Note: This table shows the competitive advantage which managers rated as the most important

When all the answers given by managers to this question are combined price remains the most frequently mentioned basis of competitive advantage in foreign markets, although not surprisingly it is less dominant than when only the first priority is considered. Two non-price factors increase their relative importance in this more broadly based assessment: firstly, the importance of established customer relationships (particularly in clothing and most particularly in the case of Baltic clothing firms), reflecting the high share of subcontracting in the clothing industry; secondly, speed of delivery which was mentioned by firms in both sectors but particularly by SMEs in Poland and the Baltic States.

Managers were also asked what they considered to be the main advantage of their strongest competitor in foreign and domestic markets (Tables 9 and 10). In foreign markets, the most frequently mentioned main advantage of competitors was lower costs, particularly those associated with economies of scale but also from lower wage costs, in some cases (Table 9). This underlines the potential weakness of competitiveness that is overly focused on price, because of the possibility of losing out to larger firms who are able to exploit scale economies or lower wage cost producers. As Table 9 shows, it is Baltic SME managers that appear to perceive the biggest threat from larger competitors with lower production costs, particularly in the food sector, and Polish firms where rising domestic wage costs is exposing them to greater price competition from lower cost producers. Bulgarian clothing firms are also experiencing the latter phenomenon.

The second most commonly mentioned main advantage of competitors was with respect to marketing and distribution (particularly in foreign markets), where better advertising by competitors was managers main concern (particularly by Polish SME managers in the two sectors). However, the managers of Baltic food processing firms placed particular emphasis on the more efficient distribution systems of competitors in foreign markets, which in the case of the food sector is an area where economies of scale are potentially important. Other competitor advantages that were mentioned by managers included better financing (particularly by Baltic and Bulgarian clothing firms); more modern production equipment (particularly Baltic clothing firms) and better product quality (particularly Bulgarian firms in both sectors).

Table 9. Manager's perception of the most important advantage of their main competitors in foreign markets

	Food				Clothing			
	All %	Bulgaria %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Lower cost	31	15	41	29	38	27	34	45
Economic of scale	23	10	38	17	20	12	22	20
Lower wages	8	5	3	12	18	15	12	25
More modern equip.	13	5	17	12	16	15	26	2
Marketing & Distribution	25	15	21	33	18	16	8	33
Advertising	16	10	7	25	12	8	4	25
Distribution	9	5	14	7	6	8	4	7
Better finance	13	10	10	150	17	19	28	0
Product quality	10	25	10	2	6	15	6	0
Other	7	25	0	2	4	8	0	5
Total number of firms	86	20	29	40	111	26	51	40

Table 10. Manager's perception of the most important advantage of their main competitors in domestic markets

	Food				Clothing			
	All %	Bulgaria %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Lower cost	23	14	31	21	27	14	32	34
Lower wages	2	2	0	3	3	2	0	4
Lower product cost	21	12	31	18	24	12	32	30
More modern equip.	16	10	10	27	22	10	22	21
Marketing & Distribution	18	24	17	15	13	24	10	17
Advertising	13	16	14	10	9	16	5	15
Distribution	5	8	3	5	4	8	5	2
Better finance	20	18	24	18	14	18	24	0
Product quality	6	10	7	2	5	10	2	4
Black economy	7	2	5	8	11	2	4	21
Other	2	14	0	8	5	6	0	0
Total number of firms	169	49	58	60	166	78	41	47

5. BARRIERS TO INCREASING SALES IN FOREIGN AND DOMESTIC MARKETS

Finally, in order to gauge how managers thought their competitiveness could be improved, they were asked to assess a number of potential barriers to increasing sales in foreign and domestic markets, on a scale from 1 (no barrier) to 5 (a very important barrier). Their answers with respect to foreign markets are presented in Table 11 and may be used to identify the priorities for policy makers seeking to increase the contribution of SMEs to the national export effort.

Using a score of 4 or 5 on our rating scale to describe a major barrier, Table 11 shows that those barriers that were of the greatest concern to managers were the burden of domestic taxation (including social insurance), a lack of finance to support the marketing effort and the attitudes and behavior of public officials. Both the level of domestic taxation and the financial constraints on marketing were consistently highly rated across the three samples but the attitudes and behavior of public officials was only rated as a

major barrier by a minority of Polish managers. Other barriers that were mentioned by a significant minority of firms included: customs duties in foreign markets (particularly by Baltic and Bulgarian firms); a lack of market information (particularly Bulgarian firms); the lack of direct access to foreign customers (particularly Bulgarian and Baltic companies); the need to improve product quality (particularly Bulgarian and Polish firms); and the need to improve price competitiveness (particularly Baltic firms, who appear to suffer from price competition from larger competitors).

Table 11. Manager's perception of the main barriers to increasing sales in foreign markets

	Minor				Major			
	All %	Bulgaria %	Baltic %	Poland %	All %	Bulgaria %	Baltic %	Poland %
Lack of information	56	47	62	52	44	53	38	46
Need to improve product	66	59	75	59	34	41	25	42
Price competitiveness	69	75	59	76	31	25	41	23
Lack of finance to support marketing	42	35	45	41	58	65	55	58
Lack of technical knowledge	90	89	91	88	10	11	9	12
Lack of skilled labor	87	86	84	90	13	15	17	9
Lack of innovative product	82	72	95	84	18	28	15	16
Border delays	75	75	75	74	25	26	25	25
Customs duties in foreign markets	53	51	55	58	47	49	50	41
Attitudes of public officials/bureaucracy	50	38	38	70	50	63	62	29
Domestic taxation	37	46	32	36	63	54	68	64
Lack of direct access to market (subcontracting)	61	60	57	74	38	40	43	26

Note: Major barriers are those rated 4 or 5 on our 5 point rating scale, minor barriers are that rated 1-3.

Not surprisingly perhaps, managers typically perceived fewer major barriers to increasing domestic market sales than in the case of foreign markets, although there was also greater variation in the pattern of response. The main barrier that managers perceive to increasing domestic sales is the low level of domestic demand, particularly in Bulgaria where 71% of respondents rated it a major barrier, but also in Poland (56%) and the Baltic States (48%). A lack of finance to support the marketing effort was identified as a major barrier by approximately half the responding firms, although in Poland the figure was higher at 59%. Other issues that concerned managers with respect to increasing domestic market sales were problems with late payments (particularly in Poland) and the strength of competition from abroad (again, particularly in Poland where import duties have been reducing). In fact, with the exception of the low level of domestic demand in Bulgaria, more Polish managers identified major barriers to increasing domestic market sales than in the other countries. As we have seen, the particular concerns of Polish SME managers were with delayed payments, the strength of foreign competition and a lack of finance to support the marketing effort. Although there are detailed policy points that can be drawn from manager's assessment of the barriers to exporting, two particular issues are consistently mentioned by firms in all countries.

The first concerns the constraining influence of the tax burden (social taxation as well as enterprise income tax) which was consistently rated by managers as a major constraint affecting their ability to increase foreign market sales. This a recurrent feature of studies concerned with small businesses in transition economies (e.g. Levitsky, 1996; Smallbone et al, 1997) and whilst there may be some tendency for managers to point to external

rather than internal constraints, the view is too consistently expressed to be dismissed by policy makers. A combination of the fact that employers carry most of the burden of social insurance rather than sharing it with employees and the disproportionate effect of payroll taxes on firms that are relatively labor intensive, contribute to this pattern of response. Although the problem may be a general one rather than being specifically related to exporting, one of the reasons why firms place such emphasis on the effect of domestic taxation levels on their international competitiveness may be because of their over reliance on price as the main basis of their competitive advantage.

The second policy related conclusion concerns the perceived constraints on marketing in the successful development of foreign markets. Although there is some variation between countries and also between sectors in many respects, there is a consistent emphasis on the effect of financial constraints on the ability of firms to increase their marketing effort. Whilst a shortage of finance may not be the only constraint in this respect, there is a need to increase the marketing capability of firms, particularly if they are to begin to place more emphasis on non-price factors in seeking competitiveness. Moreover, this is an area where there is a potential role for the state in contributing to the development of a support infrastructure to support the export marketing effort of SMEs. However, the specific instruments used to achieve it can vary from grants to attend trade fairs to joint marketing initiatives and cooperation between firms which may require some external input to act as catalyst to its initiation.

5. CONCLUSIONS

Although the details may vary to some extent between countries, the evidence presented in the paper shows that surveyed firms in the food and clothing sectors in the 5 transition countries, featuring in the study, have demonstrated their ability to compete by increasing their foreign market penetration during the 1994-96 period. At the same time, our evidence suggests that some the present bases of competitiveness that are emphasized by the majority of exporting firms may not be those that are likely to enable them to sustain their export effort in the longer term. Our survey revealed that relatively few firms are currently emphasizing those non-price factors that are more likely to lead to sustainable competitive advantage, although there is some evidence that clothing SMEs in Baltic countries (particularly Estonia and Lithuania) are attempting to move in this direction. Whilst price is always likely to be an important factor influencing competitiveness, strategies based more on design, quality and product distinctiveness would seem to offer a more reliable basis for sustained and profitable exporting than that based on price alone. Other CEEDR research concerned with the effects of increasing internationalization of Portuguese clothing SMEs has demonstrated the dangers of an over-reliance on subcontracting type relationships with foreign customers, not least because of the relatively low sensitivity of these firms to changes in market demand (Smallbone et al, 1999 forthcoming).

Developing and successfully implementing competitive strategies based on more sustainable competitive advantages has implications both for SME managers and for policy makers, because of the potential contribution of SME to the generation of external income through foreign market sales. When surveyed managers were asked their priorities for

government action to improve their ability to sell in foreign markets. The most common responses were 'export promotion' and a reduction in the tax burden, although there were differences in emphasis between countries. Whilst such measures are important short term priorities for government action, which governments in mature market economies (such as the UK) typically recognize the importance of, if firms are to move towards more sustainable bases of competitive advantage it is important to recognize the role of the wider system for technological and innovation support in this process. The longer term competitiveness of SMEs is partly affected by the actions and strategies of their managers but it is also dependent on the nature of the domestic environment in which they operate in which the state is a key player. Government can influence the nature, pace of SME development and their competitiveness in a variety of ways. Direct support measures (such as export promotion) are one aspect of this, although by no means the only one.

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INTERNACIONALIZACIJA TRŽIŠTA PUTEM SME - NEKI REZULTATI MEĐUNARODNE KOMPARATIVNE STUDIJE

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Veliki broj preduzeća u privredama u tranziciji suočen je sa rastućim procesima internacionalizacije, koji predstavljaju istovremeno i mogućnosti ali i opasnosti za primenu SME. Projekat koji je predmet analize ovog rada odnosi se na efekte različitih procesa internacionalizacije. Pored internacionalizacije tržišta, ovi procesi uključuju i internacionalizaciju proizvodnje, internacionalizaciju kapitala, internacionalizaciju ljudskog kapitala i internacionalizaciju regulativnih normi, čime se stvaraju i regulišu uslovi proizvodnje i prodaje proizvoda. U radu ćemo se fokusirati uglavnom na efekte rastuće internacionalizacije tržišta, analizirajući prirodu i širinu konkurentnosti SME na stranim i domaćim tržištima zemalja koje su predmet istraživanja.