

BARRIERS AND WAYS TO ACHIEVE BUSINESS GROWTH OF THE EXPORTS FOR SMEs

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Abstract:

SMEs are drivers of economic growth and are situated of many years in the top European policy of sustainable development. SMEs are considered a key factor for employment and economic competitiveness. The 20 million SMEs in the EU represent 99% of businesses, and are a key driver for innovation, employment and social integration), In contrast to their contribution, SMEs are confronted with significant obstacles which impede their development. This paper aims at sorting out the perceived external vs internal barriers to SME exports and ways to achieve business growth.

Keywords: *SMEs, sustainable exports, barriers, business development, competitiveness*

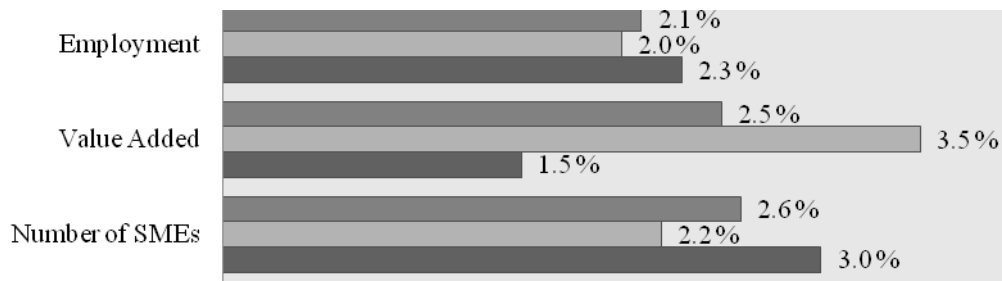
JEL Classification: F20, L10, O19

I. INTRODUCTION

The globalization process has determined the world economy to become increasingly integrated, beyond national and regional environment (Daniels, J.D. et al 2015), The liberalization of markets opened new horizons and created the proper framework for new business opportunities, not only for multinational companies operating globally but also for SMEs (Țarțavulea R.I &Belu M.G., 2016), SMEs represent the most numerous and important category of enterprises, with multiple economic, technical and social functions (Isachi, S.E., 2015), SMEs are the main generator of economic performance and substance in any country and have a significant impacts on supply chain performance because can serve the role of suppliers, distributors, producers and customers (Hong P. & Jeong J., 2006), Statistical definition of SMEs varies by country and is usually based on the number of employees, and value of sales and/or value of assets. Due to its ease of collection, the most commonly used variable is the number of employees.

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- 2017 and 2016 compound annual growth rate
- 2017 annual growth rate
- 2016 annual growth rate

Figure 1- Growth in EU-28 SME employment and value added and EU-28 number of SMEs in the non-financial business sector in 2016 and 2017 (Source: Eurostat National Statistical Offices, DIW Econ)

As we see in the Figure 1, the SME sector in the EU-28 continued to grow at a moderate pace in 2017. Value added generated by SMEs in the non-financial business sector increased by 3.5%, following growth of 1.5% in 2016, and SME employment grew by 2.0% in 2017 after an increase of 2.3% in 2016 (Muller P., et al, 2017).

SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55% – 95%, provide employment for most of population, and *generate a major part of the technical innovation applicable in the economy* (White Charter of Romanian SMEs, 2009, p. 15).

According with (Sanchez A.G. et al, 2011) the elements that explain higher performance of the SME sector are:

- The higher flexibility of SMEs,
- the permanent contact of the entrepreneur with the organization,
- the capacity of producing goods and services to satisfy different needs and demands
- the organizational environment favorable to change and innovation Small Business Act

The “Small Business Act” for Europe (SBA), adopted in June 2008, has served as the framework for guiding SME policy-making, based on a set of voluntary policy recommendations centered on 10 principles (Figure 2), The overall objective of the SBA is to reduce administrative burdens, foster entrepreneurship, improve access to finance and markets, and overall, to improve the conditions for SMEs to develop and grow.

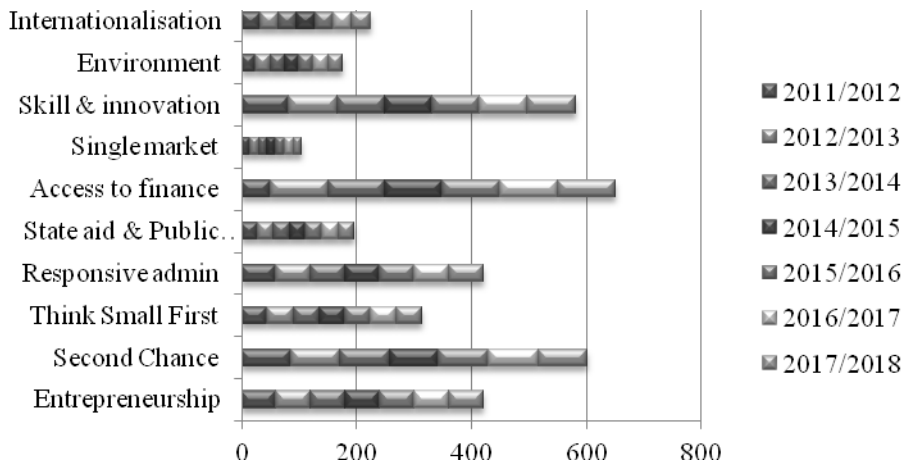


Figure 2 – SBA policy implementation EU-28(2011-2018) (Source: CARSA and PWC)

Since 2011, the principles ‘access to finance’, ‘entrepreneurship’, ‘skills & innovation’, and to a lesser extent ‘responsive administration’ have enjoyed the greatest policy progress, with around two-thirds of the identified policy measures adopted/implemented. ‘Second chance’ and ‘single market’ are the principles with the least policy activity observed, followed by ‘environment’ and ‘state aid & public procurement’ (Muller P. et al, 2018).

(Metcalf S., Ramlogan R., and Uyerra E., 2003) argue that competitiveness is embodied in the characteristics of the firm; namely:

- The current efficiency and effectiveness of the use of resources,
- The willingness and the ability to relate profitability to growth of capacity (i.e. the willingness to invest),
- The ability to innovate to improve technology and organization and thus improve efficiency and effectiveness.

However, in order to tap into the potential of SMEs for development and poverty reduction, transition and developing country governments, development partners and SMEs themselves need to address a number of challenges (2nd OECD Conference, 2004):

- The domestic SME/private sector has to expand, through:
 - The creation of new and innovative firms
 - The graduation of as many informal enterprises as possible into the formal sector.
- SMEs have to become more competitive and productive at their home base.
- At least a proportion of these nationally competitive SMEs have to achieve a level of competitiveness that will enable them to integrate into the global value chains through trade (exports and internationalization) and investment, including linkages with FDI.

SME internationalization has contributed to growth. EU-28 SME exports of goods have increased by 20% since 2012. According with the annual report on European SMEs of the Consulting Company of DIW Berlin, in the following table are presented the comparative indicators between 2014 and 2015. Exports by SMEs to the represented FTA partners showed overall higher growth than SME exports to non-FTA countries (New Annual Report on European SMEs 2017 / 2018),

Table 1 - Involvement of European SMEs in exports - comparative indicators

Region	Share of the region in total extra-EU exports, % in 2015	Share of SMEs in exports with the region, % in 2015	Total exports, % change 2015/2014	Exports by large enterprises % change 2015/2014	Exports by SME, % change 2015/2014	Number of exporting SMEs, % change 2015/2014
Iceland, Norway, Switzerland	8,77%	34%	6%	5%	8%	3%
Turkey	3,28%	30%	7%	5%	11%	3%
Other European non-EU countries	17,11%	36%	-4%	-6%	-1%	0%
Algeria, Egypt, Morocco, Tunisia	2,33%	45%	7%	1%	15%	4%
Other African Countries	4,89%	42%	-1%	-7%	11%	-2%
Mexico	1,60%	32%	17%	15%	20%	7%
Central America and Caribbean	2,27%	37%	21%	18%	25%	5%
Chile	0,39%	35%	16%	11%	25%	6%
Other countries of South America	2,87%	33%	-4%	-10%	12%	-4%
Israel	0,65%	31%	8%	3%	15%	5%
All extra-EU trade, except the FTAs named above	80,71%	24%	5%	3%	13%	n.a.

Source: DIW Econ

II. REASONS RELATED TO ACTUAL OR PERCEIVED EXTERNAL BARRIERS TO SME EXPORTS

SMEs are confronted with significant obstacles which impede their development (Wang Y., 2014), According with Le Europe, the leading specialist policy and economic consultancies, the following reasons are viewed as important or very important by the majority of stakeholders in explaining why some SMEs do not export. Reasons related to actual or perceived external barriers to SME export:

- Have a broad understanding of the rules to be followed in foreign markets but find that the administrative procedures are too complicated;
- Do not know the rules which have to be followed;

- Dealing with foreign taxation issues is too complicated;
- Resolving cross-border disputes and complaints are too expensive;
- Identifying business partners abroad is too difficult;
- Delivery costs are too high;
- Lack of rule of law;
- Corruption.

Reasons related to knowledge about foreign markets:

- Do not know where to find information about foreign markets;
- Not aware of the potential opportunities offered by foreign markets;
- Do not have a good understanding of economic development;
- Not interested in foreign markets because the home market offers sufficient opportunities.

III. REASONS RELATED TO BARRIERS WHICH ARE INTERNAL TO THE SME

There are numerous factors that can affect firm growth (Şeker M. and Correa P.G.,2010), The majority of stakeholders believe that ‘not having specialized staff to deal with exports’, ‘large investment required to serve foreign markets’ and ‘lack of language skills to deal with foreign countries’ are important or very important factors explaining why many SMEs do not export said Le Europe.

Reasons related to internal barriers:

- Do not have specialized staff to deal with exports;
- Investments required to serve foreign markets is too high;
- Lack the language skills to deal with foreign countries;
- Product or services would not be competitive in foreign markets;
- Do not see the need to export as their domestic market offers sufficient opportunities;
- Not interested in expanding their business activities;
- Product or service is specific to home country and is not exportable.

IV. WAYS TO ACHIEVE BUSINESS GROWTH

New product growth -This approach enables a close collaboration with customers in all development process steps including common R&D activities. The most frequent idea sources for new product development are: buyers, competitors and fairs and exhibitions.

Strategies recommended:

- 1) Open innovation (universities and innovation centers), through collaboration at national, regional and international level;
- 2) Creation of network with collaborators to increase of internal innovation in the enterprise and effective involvement of SMEs in an open network of innovators (Vorkapic M., Cockalo D., and Dordevic D., 2016).

Market diversification - expanding companies' operation by adding markets, products, services, or stages of production to the existing business activities.

Strategy recommended:

- Brainstorming session - a group of experts (universities, marketing companies and other professionals in different fields) who will estimate the technical and economic viability of the idea (Grozeva R., 2017).

Accessing export markets - The recent and ongoing wave of global industrial restructuring, combined with technological advances have been the major driving force for the rapid development of cross-border strategic alliances, mergers and acquisitions and inter-firm networking. Opportunities have emerged for SMEs to become:

- 1) Partners in international strategic alliances;
- 2) Participants or targets in cross-border mergers and acquisitions;
- 3) Specialized suppliers to multinational enterprises;
- 4) Members of globalized informal networks; and/or
- 5) Participants in electronic networks (Sakai K., 2002),

For SMEs such arrangements can confer benefits including access to financial resources, pooled research efforts, product development, wider distribution channels, etc.

Large firms are motivated to form alliances with SMEs, as when faced with rapid changes in technologies and customer preferences, and shorter product life cycles, such alliances can help to fulfil specific needs (2nd OECD Conference, 2004). To be competitive, SME exporters need a coherent, forward-looking business strategy and must improve efficiency, reduce costs and enhance the reputation of their products. This can be done by:

- Practicing sound export management principles;
- Creating a competitive, market-oriented strategy;
- Effectively marketing and branding products;
- Building reliable supply networks;
- Designing and producing quality products and services adapted to markets.

To be competitive, SMEs also need to embracing information and communication technologies, investing in research and development, and acquiring appropriate technologies (Charbonneau J., 2013).

Improved marketing to increase sales volumes

- 1) 1. Building customer relationships
- 2) 2. Modern-day technology - Internet helps you reach a larger customer base and communicate in unique ways. You build customer relationships by creating an easy-to-use website, presenting clear contact information, and providing excellent customer service.
- 3) 3. Website - offer benefits to keep customers coming (Cappel M., 2017)

Changes in business strategy etc. - The concept of performance is reflected in the literature with different meanings, for instance: successful result of an activity, action, and in economic field, with the meaning of profitability, productivity, efficiency (Vâlceanu Gh, Robu V., and Georgescu N, 2005), Effective strategies for managing change require the culture to change, along with the more tangible changes. Successfully

managing change means you must ensure that you are communicating regularly and effectively during periods of change.

To enable successful change, you must recognize that:

1. Effective leaders in your organization are needed to help in managing change.
2. Communicate with employees early on and engage them in the change management work.
3. Use problem solving techniques and/or decision making tips.

V. CONCLUSIONS

Obstacles to trade are particularly burdensome for SMEs and further reforms and steps need to be taken towards achieving a sustainable economic growth. Evidence suggests that a lack of information about foreign distribution networks, border regulations and standards represent the main obstacles to trade for SMEs (World Trade Organization), (Melitz M.J., 2003) work had the role of scale and economies of scale in differentiating exporting firms, consisting in essence that only the most productive firms (generally the largest ones) are able to exceed fixed / outbound costs. (Albornoz et al., 2012) notes that firms find out how profitable exporters can only be after they actually start exporting to a particular foreign market. They suggest that trade liberalization (both multilateral and bilateral) has an external effect: seeing that exports to a market are profitable will increase the likelihood of serving other markets. Similarly, (Alvarez R., 2006) notes that past export experience and multinational expansion have increased the likelihood of a firm being a permanent exporter.

Based on a review of the literature we can conclude that:

1. SMEs need to develop products based on global requirements that contribute to the standardization of production processes reducing adaptation costs. Formation of strategic alliances would also help reduce distribution and logistics costs (Vijay N., 2015).
2. E-commerce is a way where SMEs can partially overcome these barriers and improve their participation in global trade but SMEs must to solve the obstacles related to the logistics of shipping or delivering a service, data protection and payment (World Trade Organization).
3. To overcome both governmental and external environmental barriers, SMEs would need both support and guidance from governmental organizations and policy-makers.

The benefits of the SMEs to increase export opportunities according with (Bloodgood L., et al), are:

- reduced costs through tariff reduction, standards harmonization, mutual recognition of certification, easier information access;
- reduced time to deliver products or services to markets or reduced delivery time to customers through customs facilitation and cross-country certification standardization;
- reduced risks through greater IPR protection and enforcement, the institution of dispute settlement procedures, increased regulatory transparency, and more predictable regulatory and legal regimes;
- access to more and diverse markets.

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