# Entrepreneurs and Small Businesses: International Expansion Strategies

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*Abstract: In today's global economy, many entrepreneurs, small and medium enterprises are opting for an international expansion strategy as a key component of their growth strategy. International market offers far greater business opportunities than operating in domestic market alone. The aim of this paper is to examine the strategic options available to small businesses when they decide to enter international market. This paper will argue that entering international market can also cause certain business problems. The paper will discuss the necessity of quality preparation, in order to overcome possible obstacles, such as lack of knowledge on international market and on legal regulations, lack of qualified employees, as well as deficiency of other resources. The aim of this paper is to highlight the opportunities and threats posed to entrepreneurs, small and medium enterprises in the Republic of Serbia, while defining strategic options for international market entry and expansion.*

*Keywords: International market, entrepreneur, small and medium enterprises, small business, entry strategy, expansion strategy, Republic of Serbia.*

## Introduction

Globalization of world business, global liberalization of economic policies and the elimination of barriers to foreign capital entry, led to international expansion of entrepreneurship in almost all countries in the world today [1]. International market offers entrepreneurs significantly greater business opportunities, than restricting their business to the domestic market alone. Some of the options are: achieving economies of scale, entering a new environment that fosters innovation and development, and meeting advanced technologies and knowledge. All this enables entrepreneurs to increase competitiveness, further growth and development, increase profitability, and numerous other strategic benefits.

International entrepreneurship generally refers to the expansion of entrepreneurial activities beyond national borders, and implies the strategic goals achievement by initiating these activities to increase business profitability [2]. In today's global and increasingly virtual economy, many small businesses are opting for an international expansion strategy as a key component of their overall growth strategy. Entering the international market, however, can also cause certain problems in business due to lack of knowledge about the international market and lack of knowledge of its business operations, lack of qualified people, differences between national regulations in domestic and foreign markets, protection of intellectual rights, loyalty and preferences of domestic customers, etc. For this reasons, good preparation for entering the international market is of the utmost importance.

# 1 Prerequisites for entering the international market

In order to successfully enter a foreign market, entrepreneurs must be ready for new challenges and risks, and must possess specific knowledge and skills as well as human, financial, material and technological resources. Entrepreneurs should undertake an analysis of strengths, potentials and degree of readiness of their organization for international operations [3]. It is also necessary to analyze the conditions for entry into foreign market in order to facilitate the decision making about strategy selection, as well as the entrepreneurial options. Based on an analysis of conditions in international market, an entrepreneur should make four basic strategic decisions [4]: which market to enter; when to enter that market; to what extent to exit; what exit strategy to apply.

While the market choice depends primarily on the assessment of economic growth and development, and on the market potential, a proper estimation of entering time also influences the final entrepreneurial action. Proper timing depends on a number of facts regarding the market preparation by the supporting organizations [3]. The optimal way depends on various factors such as: transportation costs, trade barriers, political risks, economic risks and organizational strategy [5]. In order to reduce the risk, it is necessary to collect all the important information that may influence the business venture, then analyze the information collected, and make the optimal business decision [6]. Among the most important information that entrepreneurs need to analyze are the following factors: language barriers, marketing barriers, legal barriers, access to raw materials and human resources, government obstacles, and in addition, factors such as: national culture, corruption level, and international security [6].

# 2 International market entry models

Entry models are a part of international business theory that explains why and how entrepreneurs internationalize their business activities [7]. Therefore, a brief overview of relevant entry models follows, and it should be emphasized that neither model represents a rule that will completely lead an organization to successful international business [8].

One of the oldest and most famous models is the stage of development (SD) model [9]. This model is linking organizational entry strategy to a foreign market with its development degree. According to SD model, the development of international business is a long and gradual process that is limited by the geographical expansion and the ability of management. Transaction cost analysis (TCA) model [10] is characterized by a foreign market entry strategy that takes into account both long-term efficiency and foreseeable risks. Risks could be lack of resources, external and internal insecurity, and free market economy. Organizational structure is determined by minimizing transaction costs. The ownership, location, and internalization (OLI) model [11, 12] ignores significant strategic elements for entering foreign markets. This model is guided by the strategy that ownership and business location are key elements in choosing a foreign market entry strategy. The next model, the organizational capacity (OC) model [13], connects the foreign market entry strategy with the organizational capacity. The idea is to enable international appearance through the desired level of development of production and organizational capacities. Hierarchical (H) model [14] emphasizes the complex decision-making process regarding the foreign market entry strategy. There are different factors at each decision-making level in organization, emphasizing the importance of decision-making process optimization.

# 3 International market expansion strategies

The emergence of globalization at the end of the 20th century, and the highly developed global competition today, makes international entrepreneurial appearance impossible without a well-designed strategy that will enable the entrepreneur to become a successful competitor on the target international market. A quality strategy involves first and foremost careful selection of markets where an entrepreneur can sell his products competitively. After that, the entrepreneur should choose the entry time, the volume of international business, and the products offered, and ultimately the foreign market entery strategy.

The most common international market entry strategies are outlined below [15].

Ethnocentric strategy in which the entrepreneur is primarily oriented to domestic market and distributes only superior products to international market (the ones that can succeed in that market). The entrepreneur does not require any specific international market entry strategy.

Polycentric strategy refers to the business of entrepreneurs who are oriented at only a few foreign markets. Therefore, attention should be paid to a particular market and a business strategy should be defined for each, since each individual market is specific.

Regiocentric strategy is developed in accordance with the characteristics and requirements of each region in which the organization operates. Significance and impact of regionally oriented business is increasing with the creation of European integrations such as European Union, NAFTA, ASEAN, and other regional organizations.

Geocentric or global strategy is unique throughout the world market and considers the world a unique market. Global strategy focuses on creating new products or services that have global use and on converting existing products into global ones. Implementing such a strategy requires considerable resources, experience and defensive competitiveness.

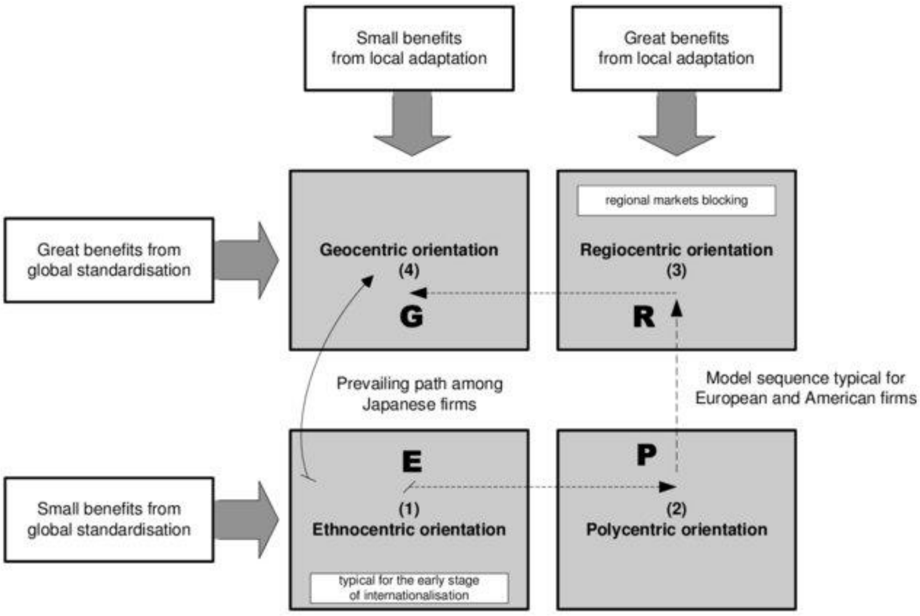


Figure 1

The path of international market entry strategies

Source: Wach, K. (2014). International Strategies of Businesses: Some Evidence from Internationalised Polish Firms (chapter 3). In: Gubik, A.S. & Wach, K. (eds), International Entrepreneurship and Corporate Growth in Visegrad Countries. Miskolc: University of Miskolc, pp. 41-56.

# 4 Factors affecting the selection of international market expansion strategy

Before an entrepreneur decides to enter the international market, it is necessary to determine the factors that influence the selection of international market entry strategy. There are three groups of factors that influence this choice. Those are [16]:

- strategic factors
- environmental factors
- transactional factors

Strategic factors limit the choice of strategy and are particularly important for selection of international market entry strategy. They cover the following aspects:

1. The extent of national differences. The choice of strategy depends primarily on the entrepreneur views and his goals for appearing in a particular market. Also, different modes of international appearance require different levels of international market experience and knowledge. If the entrepreneur strives for stronger integration of its business units, a direct ways of entering a market would be more useful (such as opening a branch). On the other hand, if an entrepreneur wants to participate in different markets without strong integration, then licensing, franchising or joint ventures may also be a good choice.
2. Degree of economies of scale. One of the reasons for entering the international market is cost savings, by increasing the volume of business operations. When selecting a strategy, both technical and non-technical sources of cost savings must be assessed. Less cost savings will be achieved if a multinational strategy is implemented, while a global strategy will generate significantly greater savings. It requires quality coordination and control of all business operations. In this case, foreign direct investment is the best choice.
3. Concentration means that in a given market, only a few organizations control most of the sales. With increasing concentration, the market often approaches an oligopoly or even a monopoly. Success in such a market depends on coordination of strategic goals. Foreign direct investment in this case is also the best solution.

Environmental factors relate to the competitive pressures and environmental conditions that exist in international markets. Four factors deserve attention.

1. Risk of investing in the country. Before choosing how to enter a foreign market, entrepreneurs should assess four types of business risks: political (political instability), ownership and control risks (expropriation risks), operational risks (local price control) and transfer risks (currency rates and monetary issues). If risk is high, the entrepreneur should choose the type of business that requires limited investment of resources, such as export or licensing.
2. Location knowledge. Organizations should understand the economic, social, technological and cultural values of potential markets. However, to understand these factors, it takes years, sometimes decades, of experience. If entrepreneurs feels that they are not familiar with international market, they should choose doing business without significant investments, such as franchises or exports.
3. Demand conditions. If a market is uncertain due to declining demand or recession, the entrepreneur should definitely choose doing business with less investment of resources.
4. Competitive conditions. These conditions define the competitive advantage degree of entrepreneur, as well as the strategy that should be used for market entering. When market competition is high, the entrepreneur should certainly again use an entry mode that requires limited investment of resources, for example franchises.

Transaction factors are related to the business costs in international market. Two factors are of great importance.

1. The value of specific knowledge. By protecting their intellectual property, entrepreneurs today seek to protect certain specific knowledge. However, when selling licenses, there is a real danger that other organizations will obtain certain information, and thus diminish the competitive advantage of licensee. With the franchise, there is a similar danger. For example, once competitors gain access to technology, or technology solution, they could develop a replacement technology. The aforementioned ways of doing business cannot therefore fully protect the entrepreneur from potential loss of specific knowledge. Therefore, the risk of imitation should be considered when choosing the international market, especially if the country is underdeveloped. Some of the problems mentioned above could be solved by foreign direct invesments, but at the same time, other risks could be created. Therefore, the organization must analyze the cost-effectiveness of setting up its own subsidiaries, and compare this with export risks and costs, licensing or franchising costs. The higher the profits, and the greater the need to retain control over specific knowledge, the greater is the need for foreign direct investment.
2. Quiet knowledge. Organizational competitive advantage can be tangible or intangible. Tangible competitive advantages are materialized into the technological resources of organization. However, intangible or quiet knowledge is placed in the minds and experiences of entrepreneur and his employees. This knowledge is often crucial for the quality and speed of decision making. Therefore, when choosing entry strategy, entrepreneur should also determine the level of quiet knowledge required for a particular business in the international market. When retaining and preserving this quiet knowledge is of great strategic importance to entrepreneur, he should not use a license or franchise when making an international appearance. Instead, entrepreneur should consider the foreign direct invesment option.

**Conclusions**

International business strategy enables entrepreneurs to expand their profitability opportunities through activities outside the domestic market. Entrepreneurs who expand their business by entering the international market, are trying to make a profit by selling their products and services in markets where domestic competitors do not produce, or cannot produce, in sufficient quality, price or quantity. Applying an international entrepreneurial strategy makes sense if small business possesses valuable key competences that domestic competitors in foreign markets do not have, and if it faces relatively weak legal constraints and barriers to entry into international market. In such circumstances, international entrepreneurial strategy could be very profitable.

In conclusion, it should be emphasized that the quality and correct way to enter international market is a critical step in defining the overall strategy of international appearance. It should be emphasized that the international market entry strategy is not exclusive, that is, the entrepreneur can simultaneously use several strategies, depending on the conditions prevailing in international market.

Entrepreneur could choose several international market strategies, a franchise in one market, a direct export in another, and a foreign direct investment in a third.

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