

SMES INTERNATIONALIZATION IN CROATIA: ACTIVITIES, CHALLENGES AND MEASURES

Tihana Koprivnjak

Postdoctoral Researcher; Josip Juraj Strossmayer University of Osijek, Faculty of Economics in Osijek, Osijek, Croatia; tihana.koprivnjak@efos.hr

Sunčica Oberman Peterka

Full Professor; Josip Juraj Strossmayer University of Osijek, Faculty of Economics in Osijek, Osijek, Croatia; suncica.oberman.peterka@efos.hr

Nataša Šarlija

Full Professor; Josip Juraj Strossmayer University of Osijek, Faculty of Economics in Osijek, Osijek, Croatia; natasa.sarlija@efos.hr

Abstract: *Internationalization of small and medium enterprises is a specific process, which enables growth and development. However, internationalization brings both opportunities and challenges that SMEs do not always know how to deal with. The aim of this paper is to identify activities and challenges in the internationalization of small and medium enterprises in Croatia, as well as measures that could facilitate this process. In order to obtain these findings, the Flash Eurobarometer 421: Internationalisation of SMEs database was used as a secondary data source. Data were collected from the study which has been conducted by the European Commission. The paper analyzed 501 companies from Croatia, and dependence was sought between company and industry size and activities, challenges and assistance measures for internationalization. It has been proven that there are differences in relation to the size of the company, as well as to the industry. Based on the conducted statistical analyses it is shown that internationalized SMEs from Croatia still base this internationalization on imports and exports of goods and services and other international business activities are less developed. There is a noticeable advantage of the European Union market as the primary choice of Croatian companies for internationalization. Recommendations for SMEs focus on the better understanding of the internationalization process and proper preparation, while policy recommendations are oriented towards raising awareness of the importance of internationalization and providing an enabling ecosystem for internationalization.*

Keywords: *internationalization; export; small and medium enterprises.*

JEL classification: *L26, F23*

INTRODUCTION

Internationalization is the geographic expansion of business activities beyond national borders (Ruzzier, Hisrich, & Antoncic, 2006). The simplest explanation of the concept of internationalization is the process of increasing involvement in international operations, and the reason for such a broad definition is the fact that internationalization can be both inward and outward, where the premise that internationalization encompasses a wide range of activities is taken into account (Welch & Luostarinen, 1988). There are several recognizable directions in the study of internationalization of small and medium enterprises: gradual internationalization (Uppsala model and innovation model) ((Andersen, 1993), (Bilkey & Tesar, 1977), (Czinkota, 1982), (Johanson & Vahlne, 1977), (Johanson & Vahlne, 1990)); network theory ((Bell, McNaughton, Young, & Crick, 2003), (Johanson & Vahlne, 2009)); born globals ((Madsen & Servais, 1997), (Oviatt & McDougall, 1994)); international entrepreneurship ((McDougall & Oviatt, 2000), (Zahra & George, 2002), (Zuchella, Hagen, & Serapio, 2018)).

According to the Small and Medium Enterprises Report Croatia (Alpeza, Oberman, & Has, 2019), 99.7% of companies in Croatia are small and medium enterprises, which employ 72.7% of all employees in the business sector, generating 58% of total revenue and 53% of exports. The European Union (European Commission, 2011) has recognized the importance and need for internationalization of SMEs and is trying to provide support for the companies. Internationalization is defined as one of the ten fundamental principles of growth and development of SMEs, which means that small and medium enterprises are encouraged to take advantage of the opportunities and benefits of the growth of the global market (Small Business Act). The importance of research on internationalization of small and medium enterprises (SMEs) stems from the very role of SMEs in Europe, including Croatia, and the fact that their internationalization is a specific process that requires certain assumptions while facing certain challenges, which are different from those in the domestic market. Market liberalization and digitalization have encouraged small, medium and large enterprises to turn to operations beyond national borders (Hamidizadeh & Zargaranyazd, 2014), which enables them to grow and develop. Although it brings many opportunities, it can bring many obstacles as well. SMEs face many challenges, such as access to foreign markets, understanding the needs in those markets, and providing after-sales support (Porter, 1990). In the process of internationalization, companies create new capabilities, make structural changes in the company, but internationalization also provides a platform to expand activities, products and markets (Sapienza, Autio, George, & Zahra, 2006). It is extremely important to understand that the process of internationalization of SMEs is different from the internationalization of large enterprises. From simple differences, such as the availability of resources and bargaining power of companies through differences in knowledge levels of owners and managers, innovation capacity of companies, to various obstacles and challenges that companies face. Internationalization of SMEs in Croatia is insufficiently researched, and most research is focused on company's export, rather than on the internationalization of different business activities ((Leko Šimić & Horvat, 2006), (Racic, Aralica, & Redzepagic, 2008), (Škrtić & Mikić, 2009), (Paunović & Prebežac, 2010), (Miočević & Crnjak-Karanović, 2012)). The aim of this paper is to understand the process of internationalization of small and medium enterprises and the characteristics of the process (-activities and challenges). The focus

of the paper will be on the differences between micro, small and medium enterprises, and on the differences with regard to industry, which has not been observed in previous research so far. Given the general knowledge and insights about the business of micro, small and medium enterprises, as well as about internationalization, relevant differences in this process are expected. The same expectations are present with regard to differences in industries that companies belong to, due to the fact that some industries are naturally oriented towards internationalization and international market, while other industries focus more often on the domestic market. This research seeks to find and understand these differences more clearly.

LITERATURE REVIEW

Many small and medium enterprises are still heavily dependent on the domestic market, not thinking about possibilities of internationalization of business (insufficient knowledge and competence), and once they do start the internationalization process, due to insufficient preparation, they face many obstacles in the process (Costa, Soares, & de Sousa, 2015). In the process of internationalization, companies must decide on the manner, time and scope of entry into foreign markets, and these decisions are influenced by a series of internal and external factors (Olejnik, 2013) and various challenges. Internationalization is often associated only with exports, or sale of products/services in foreign markets, while other business activities are neglected. Research often neglects internationalization of other activities of a company's value chain (Zahra & George, 2002), and unanswered questions arise, such as: which parts of production, marketing, research and development, and sales companies leave in their countries, and which parts they internationalize and why (Young, Dimitratos, & Dana, 2003). Service companies are increasingly internationalizing their business activities, along with manufacturing companies which more often provide additional service packages in order to sustain competitive advantage on the international market (Đokić, Lukić, & Nešković, 2016).

Many small and medium enterprises still hesitate when deciding about entering foreign markets, and companies that choose to do so often have significant challenges and barriers in the process of internationalization. There is special interest in the study of barriers to exports, because exports are considered one of the most common ways of entering foreign markets (Leonidou, 1995), but also as one of the most common measures of company success (Leko Šimić & Horvat, 2006). Although international markets create many opportunities for European companies, small and medium enterprises face a number of challenges when entering the global market, from access to the market, searching for buyers and partners, to the lack of knowledge about legal regulations, processes (European Commission, 2014).

Barriers are all those attitudes, structures, operations and other constraints that hinder a company's ability to initiate, develop and sustain international operations, and may occur at any stage of the process of internationalization (Leonidou, 1995). Barriers can be classified as: (a) internal (related to the availability of organizational resources) or external (related to the environment within which the company operates) or (b) domestic (in the market from which the company comes) or foreign (in the market in which the company plans to operate). Internal barriers can be informational (required to enter a foreign market), functional (capacities of management, employees and pro-

duction) and marketing (product, price, distribution, logistics, promotion). External barriers are related to procedures (ignorance or non-existence of procedures related to international business), government (legal regulations and incentives), tasks (situation on foreign markets) and environment (economic, political-legal and socio-cultural conditions on foreign markets). It is important to emphasize that barriers can be viewed as perceptual or experiential, given that they are perceived from the perspective of potential exporters, current exporters and ex-exporters (Leonidou, 2004). Two types of barriers stand out as crucial in the process of internationalization: market-related barriers (e.g. perceived cultural differences) and finance-related barriers (e.g. perceived costs of doing business abroad) (Baum, Schwens, & Kabst, 2013).

Another view on the barriers as internal and external provides further understanding (Kahiya, 2013). Internal barriers are related to: resources (production capacity, insufficient skills of employees, short-term financing problem), management (export orientation, export attractiveness), marketing (foreign market entry, marketing mix) and knowledge (activities of the internationalization process). External barriers are related to: domestic market (geographic location, lack of funding sources, taxes), foreign market (unfavorable working conditions, legal regulations and restrictions) and industry (industry structure, intensity of competition).

Other authors emphasize the following as the most common obstacles to the internationalization process: lack of language skills, lack of experience in foreign markets, high promotion costs, lack of state aid and incentives, lack of information on foreign markets (Toulova, Votoupalova, & Kubickova, 2015).

A study by the European Union (European Commission, 2010) examined various internal and external barriers to internationalization of small and medium enterprises. Internal barriers are those barriers that are related to the characteristics of the company itself, while external barriers are all barriers that come from outside the company. The mentioned study has shown that companies that have not yet been internationalized, and are considering this option, perceive internal barriers to be much stronger than the internationalized companies. The following internal barriers were examined: product price, high cost of internationalization, product quality, qualified employees, product specifications, language, other. The greatest barriers for companies that are internationalized are price of products and high cost of internationalization. For companies that are not internationalized, perception of all barriers is significantly higher and uniform. The following external barriers were examined: lack of capital, lack of public support, lack of adequate information, costs of or difficulties with paperwork associated with transport, laws and regulations in foreign countries, tariffs or other barriers in foreign countries, cultural differences, tariffs or other barriers in the country, other external barriers. The study has shown that, during the process of internationalization in EU countries, but also countries outside the EU, the strongest perceived barriers are: lack of capital, lack of public support, lack of adequate information.

When analyzing research on challenges and barriers to internationalization of small and medium enterprises, it can be observed that the importance of a specific challenge or barrier depends on various factors such as the characteristics of the entrepreneur, company, environment, or stage in the process of internationalization. Moreover, perceptions of the same challenge change in relation to these characteristics. When making a decision on the internationalization of a company, as well as managing the

entire process of internationalization, it is important to be aware of all barriers and understand what and how much impact they can have on the company.

METHODOLOGY

The aim of this paper is to identify activities and barriers in the internationalization of small and medium enterprises in Croatia, as well as measures that could facilitate this process, through analysis of companies by size (micro, small and medium enterprises by number of employees) and by sector. In order to obtain these findings, the Flash Eurobarometer 421: Internationalisation of Small and Medium-sized Enterprises database was used in this paper as a secondary data source (European Commission, 2015). This study has been requested by the European Commission, in order to better understand the experiences and perceptions of small and medium enterprises in the process of internationalization. The database is publicly available for use and was downloaded from the Gesis - Leibniz Institute for Social Sciences website. The database contains data for 28 countries of the European Union, but only data for the Republic of Croatia was used in this analysis. The survey was conducted by the Hendel agency, Zagreb through telephone interviews, in the period from June 10, 2015 to June 30, 2015. The focus was on small and medium enterprises, i.e. enterprises with 1 to 249 employees. If a company was eligible to participate in the survey, the person interviewed had to be the owner, manager or head of finance. A random stratified sample of companies was used.

In order to answer the questions raised in this paper, the following hypotheses are set:

- H1 There is a dependence between the number of employees in a company and business activities within the EU*
- H2 There is a dependence between the number of employees in a company and business activities outside the EU*
- H3 There is a dependence between the number of employees in a company and company's export activities*
- H4 There is a dependence between the number of employees in a company and the perception of difficulties that can occur when exporting*
- H5 There is a dependence between the number of employees in a company and the perception of assistance measures for doing business abroad*
- H6 There is a dependence between the sector and business activities within the EU*
- H7 There is a dependence between the sector and business activities outside the EU*
- H8 There is a dependence between the sector and company's export activities*
- H9 There is a dependence between the sector and the perception of difficulties that can occur when exporting*
- H10 There is a dependence between the sector and the perception of assistance measures for doing business abroad.*

The total sample for the Republic of Croatia consists of 501 companies, of which 39.5% are companies with up to 9 employees, 37.9% with 10 to 49 employees, and 22.6% companies with 50 to 249 employees. The survey covered numerous sectors

according to the NACE classification: mining and quarrying; manufacturing, electricity, gas, steam and air conditioning supply; water supply, sewerage, waste management and remediation activities; construction of buildings; retail trade and wholesale trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication; real estate activities; professional, scientific and technical activities; administrative and support service activities; health and social work activities; arts, entertainment and recreation; other service activities. This survey did not cover the following sectors: agriculture; financial and insurance activities; public administration and defence and compulsory social security; education; activities of households as employers, undifferentiated goods - and services - producing activities of households for own use; activities of extraterritorial organizations and bodies.

For statistical analysis of data and to minimize the possibility of a too small sample size, sectors are grouped into four main groups: manufacturing, trade, services and industry (Table 1), in accordance with the research methodology conducted by the European Commission. Manufacturing comprises 22.1% of surveyed companies, trade comprises 40.7% of surveyed companies, services comprise 21.2% of surveyed companies, while industry comprises 16.0% of surveyed companies.

Table 1. Sectors - groups

	Frequency	Percentage
Manufacturing (category C)	111	22.1
Trade (category G)	204	40.7
Services (category H/I/J/K/L/M/N/Q/R/S)	106	21.2
Industry (category B/D/E/F)	80	16.0
Total	501	100.0

Source: Authors' calculation according to Flash Eurobarometer 421

Pearson's chi-squared test was used in analysis and search for associations. Given the small number of answers to certain questions (20% and more cells with less than 5 cases), the likelihood-ratio chi-squared test was used in such cases.

RESULTS

Data analysis sought dependences between individual variables, with the aim of understanding the differences between micro, small and medium enterprises, as well as enterprises in different sectors.

H1 There is a dependence between the number of employees in a company and business activities within the EU

Table 2. Business activities of companies within the EU with regard to the number of employees

	0 – 9 employees	10 – 49 employees	50 – 249 employees	p
Exports to EU countries	81 (40.9%)	82 (43.2%)	66 (58.4%)	0.008*
Imports from EU countries	138 (69.7%)	127 (66.8%)	80 (70.8%)	0.732
Cooperation in R&D	18 (9.1%)	16 (8.4%)	26 (23.0%)	<0.001*
Subcontractor for a company in the EU	11 (5.6%)	19 (10.0%)	16 (14.2%)	0.036*
Company in the EU as a subcontractor	8 (4.0%)	16 (8.4%)	17 (15.0%)	0.003*
Investing in a company in the EU	4 (2.0%)	4 (2.1%)	6 (5.3%)	0.183

Source: Authors' calculation according to Flash Eurobarometer 421

A statistically significant dependence at significance level of 5% was found when comparing the number of employees and the following activities of companies¹: exports to EU countries ($p=0.008$), cooperation in research and development with companies from the EU ($p<0.001$), subcontractor status for companies from the EU ($p=0.036$) and using companies from the EU as subcontractors ($p=0.003$). The presented results show that companies with 50 to 249 employees have a somewhat higher share of exports to EU countries (58.4%), compared to companies with 10 to 49 employees (43.2%) and companies with 0 to 9 employees (40.9%). These companies are also at the forefront of cooperation in research and development (23.0%) and using (15.0%) or providing subcontracting services (14.2%). Of the above activities, companies of all sizes are still internationalized the most through imports of goods and services from EU countries (69.7%; 66.8%; 70.8%), while international investments account for the smallest share of activities (2.0%; 2.1%; 5.3%).

H2 There is a dependence between the number of employees in a company and business activities outside the EU

Table 3. Business activities of companies outside the EU with regard to the number of employees

	0 – 9 employees	10 – 49 employees	50 – 249 employees	p
Exports to countries outside the EU	79 (39.9%)	77 (40.5%)	55 (48.7%)	0.274
Imports from countries outside the EU	63 (31.8%)	72 (37.69%)	53 (46.9%)	0.030*
Cooperation in R&D	5 (2.5%)	10 (5.3%)	9 (8.0%)	0.090
Subcontractor for a company outside the EU	0	9 (4.7%)	9 (8.0%)	0.001*
Company outside the EU as a subcontractor	2 (1.0%)	5 (2.6%)	9 (8.0%)	0.003*
Investing in a company outside the EU	0	6 (3.2%)	8 (7.1%)	0.001*

Source: Authors' calculation according to Flash Eurobarometer 421

¹ Companies could choose more than one business activity that they perform.

When testing at significance level of 5%, a dependence was found between the number of employees and imports from countries outside the European Union ($p=0.030$), subcontractor status for companies outside the EU ($p=0.001$), using companies from the EU as subcontractors ($p=0.003$) and investing in a company outside the EU ($p=0.001$)². In this case, too, companies with 50 to 249 employees stand out in all activities with companies from countries outside the European Union, although cooperation is still based on export (48.7%) and import activities (46.9%), while other forms of internationalization are less represented. Companies with 1 to 9 employees have little or no cooperation in other forms of internationalization and base their existing international cooperation on export (39.9%) and import activities (31.8%).

H3 There is a dependence between the number of employees in a company and company's export activities

Table 4. Export activities of companies with regard to the number of employees

	0 – 9 employees	10 – 49 employees	50 – 249 employees	p
You used to export, but you don't do it anymore	6 (6.3%)	4 (4.6%)	2 (5.0%)	0.126
You tried, but you gave up	1 (1.1%)	1 (1.2%)	0	
You are trying to do it now	2 (2.1%)	4 (4.6%)	2 (5.0%)	
You are thinking about doing it in the future	25 (26.3%)	31 (35.6%)	13 (32.5%)	
You will probably never export	52 (54.7%)	31 (35.6%)	12 (30.0%)	
Do not know / No answer	9 (9.5%)	16 (18.4%)	11 (27.5%)	

Source: Authors' calculation according to Eurobarometer 421

The hypothesis on the existence of a dependence between the number of employees and export activities is not confirmed ($p=0.126$). As mentioned in the description of the variables, these are companies that have not been internationally active in the past 3 years. No statistical significance has been found in this analysis, but it can be noted that a large proportion of surveyed companies are only thinking about exporting or believe that they will never export, while only a tiny number of companies are currently trying to export their products and / or services. The largest proportion of companies that are thinking about exporting in the future relates to companies with 10 to 49 employees (35.6%), and among those that think they will never export, companies with up to 9 employees (54.7%) stand out.

H4 There is a dependence between the number of employees in a company and the perception of difficulties that can occur when exporting

The following perceptions of difficulties were observed: shipping costs are too high, your company doesn't know the rules that have to be followed, payments from

² Also in this case, companies could choose more than one business activity in which they participate.

other countries are not secure enough, it is too complex or too expensive to deal with taxation abroad, your company does not have the language skills to work with foreign countries, your company's products and / or services are specific to your country's market, cross-border resolution of complaints and disputes is too expensive, your company has no specialized staff to work on exports, it is too difficult to identify business partners abroad, administrative procedures are too complex, financial investment is too large, your company does not know where to find information about a potential market. Only statistically significant results are shown in tables below.

Table 5. Perception of difficulties when exporting with regard to the number of employees

		0 – 9 employees	10 – 49 employees	50 – 249 employees	p
Financial investment is too large	Big problem	12 (15.2%)	18 (27.3%)	3 (11.1%)	0.034†
	Small problem	8 (10.1%)	13 (19.7%)	3 (11.1%)	
	Not a problem at all	23 (29.1%)	16 (24.2%)	5 (18.5%)	
	Not applicable	33 (41.8%)	17 (25.8%)	11 (40.7%)	
	No answer	3 (3.8%)	2 (3.0%)	5 (18.5%)	
Your company does not know where to find information about a potential market	Big problem	3 (3.8%)	12 (18.2%)	1 (3.7%)	0.043†
	Small problem	9 (11.4%)	10 (15.1%)	3 (11.1%)	
	Not a problem at all	31 (39.2%)	26 (39.4%)	9 (33.3%)	
	Not applicable	34 (43.0%)	18 (27.3%)	13 (48.2%)	
	No answer	2 (2.5%)	0	1 (3.7%)	

Source: Authors' calculation according to Flash Eurobarometer 421

It has been proven that there is a statistically significant dependence between the number of employees and the following difficulties that can occur when exporting: financial investment is too large ($p=0.034$) and company does not know where to find information about a potential market ($p=0.043$). Companies with 10 to 49 employees have problems with financial investments required for such activities. As many as 47% of these companies see a big or a small problem associated with financial investments. The same group also has the most problems with finding information about a potential market (33.3%). Shipping costs, finding business partners abroad and complexity of administrative procedures are also seen as potential problems for these companies. Other difficulties are not perceived as problems when exporting.

H5 There is a dependence between the number of employees in a company and the perception of assistance measures for doing business abroad

Table 6. Perception of assistance measures with regard to the number of employees

	0 – 9 employees	10 – 49 employees	50 – 249 employees	P
Information on rules and regulations	23 (11.6%)	30 (15.8%)	17 (15.0%)	0.462
Opportunities to participate in international trade fairs	35 (17.7%)	56 (29.5%)	27 (23.9%)	0.023*
Support for finding business partners and networking	71 (35.9%)	77 (40.5%)	46 (40.7%)	0.568
Consultancy or training	21 (10.6%)	33 (17.4%)	24 (21.2%)	0.031*
Grants, subsidies or loans with low interest rates	122 (61.6%)	128 (67.4%)	78 (69.0%)	0.327
Tax incentives	80 (40.4%)	82 (43.2%)	41 (36.3%)	0.499
Information on market opportunities	28 (14.1%)	17 (8.9%)	13 (11.5%)	0.279

Source: Authors' calculation according to Flash Eurobarometer 421

Statistical significance at the level of 5% is has been proven when testing dependence between the number of employees and the following variables: opportunities to participate in international trade fairs ($p=0.023$), and consultancy or training ($p=0.031$). Companies with 10 to 49 employees believe that opportunities to participate in international trade fairs would be of great help for doing business abroad (29.5%), while companies with 50 to 249 employees, compared to other companies, recognize the importance of consultancy or training for such business operations (21.2%). When looking at the overall results it is evident that companies of all sizes still emphasize grants, subsidies or loans with low interest rates as the most necessary measure (61,6%; 67,4%; 69,0%), which is in line with the results related to difficulties when exporting, where financial investments are listed as one of the most significant difficulties. Tax incentives and support for finding business partners and networking are also perceived as significant measures by all companies.

H6 There is a dependence between the sector and business activities within the EU

Table 7. Business activities of companies within the EU with regard to the sector

	Manufacturing	Trade	Services	Industry	p
Exports to EU countries	76 (68.5%)	96 (47.1%)	34 (32.1%)	23 (28.8%)	<0.001*
Imports from EU countries	87 (78.4%)	165 (80.9%)	57 (53.8%)	36 (45.0%)	<0.001*
Cooperation in R&D	16 (14.4%)	21 (10.3%)	17 (16.0%)	6 (7.5%)	0.226
Subcontractor for a company in the EU	12 (10.8%)	11 (5.4%)	15 (14.2%)	8 (10.0%)	0.070*
Company in the EU as a subcontractor	7 (6.3%)	20 (9.8%)	9 (8.5%)	5 (6.3%)	0.649
Investing in a company in the EU	6 (5.4%)	1 (0.5%)	6 (5.7%)	1 (1.3%)	0.009†

Source: Authors' calculation according to Flash Eurobarometer 421

When looking at the dependence between the sector and business activities within the EU, at significance level of 5%, several significant differences can be observed: exports to EU countries ($p < 0.001$), imports from EU countries EU ($p < 0.001$), subcontractor for a company in the EU ($p = 0.070$) and investing in a company in the EU ($p = 0.009$). Manufacturing accounts for the largest share of exports to EU countries (68.5%) compared to other sectors. Imports from EU countries are mostly related to trade (80.9%) compared to other sectors. Services lead over other sectors as subcontractor for a company in the EU (14.2%). Manufacturing (5.4%) and services (5.7%) stand out regarding investing in a company in the EU, although the total number of companies that have participated in this activity is very low (6 companies from the mentioned sectors). When analyzing the overall situation, it can be concluded that imports are the most represented activity in all sectors, while exports are in second place. Regarding research and development, it is noted that there are attempts to establish cooperation in this area by companies in manufacturing (14.4%) and services (16.0%) sectors.

H7 There is a dependence between the sector and business activities outside the EU

Table 8. Business activities of companies outside the EU with regard to the sector

	Manufacturing	Trade	Services	Industry	p
Exports to countries outside the EU	70 (63.1%)	94 (46.1%)	29 (27.4%)	18 (22.5%)	<0.001*
Imports from countries outside the EU	49 (44.1%)	95 (46.6%)	26 (24.5%)	18 (22.5%)	<0.001*
Cooperation in R&D	3 (2.7%)	7 (3.4%)	12 (11.3%)	2 (2.5%)	0.005*
Subcontractor for a company outside the EU	4 (3.6%)	2 (1.0%)	9 (8.5%)	3 (3.8%)	0.012†
Company outside the EU as a subcontractor	2 (1.8%)	4 (2.0%)	8 (7.5%)	2 (2.5%)	0.077†
Investing in a company outside the EU	1 (0.9%)	4 (2.0%)	7 (6.6%)	2 (2.5%)	0.082†

Source: Authors' calculation according to Flash Eurobarometer 421

Analyzing the dependence between the sector and business activities outside the EU, statistically significant differences were also observed between some variables at significance level of 5%. Differences exist in the following activities: exports to countries outside the EU ($p < 0.001$), imports outside the EU countries ($p < 0.001$), cooperation in research and development ($p = 0.005$) and subcontractor for a company outside the EU ($p = 0.012$). At significance level of 10% there are statistically significant differences in variables company outside the EU as a subcontractor ($p = 0.077$) and investing in a company outside the EU ($p = 0.082$). The largest share of business activities in countries outside the EU relates to exports and imports. Manufacturing (63.1% compared to 44.1%) and services (27.4% compared to 24.5%) have a higher share of exports than imports. Other activities are represented in significantly smaller shares. Only cooperation in research and development in the services sector (11.3%) stands out.

H8 There is a dependence between the sector and company's export activities

Table 9. Export activities of companies with regard to the sector

	Manufacturing	Trade	Services	Industry	p
You used to export, but you don't do it anymore	4 (16.0%)	2 (2.4%)	2 (3.2%)	4 (7.8%)	0.013†
You tried, but you gave up	1 (4.0%)	1 (1.2%)	0	0	
You are trying to do it now	1 (4.0%)	3 (3.6%)	2 (3.2%)	2 (3.9%)	
You are thinking about doing it in the future	11 (44.0%)	18 (21.7%)	19 (30.2%)	21 (41.2%)	
You will probably never export	3 (12.0%)	48 (57.8%)	28 (44.4%)	16 (31.4%)	
Do not know / No answer	5 (20.0%)	11 (13.3%)	12 (19.0%)	8 (15.7%)	

Source: Authors' calculation according to Flash Eurobarometer 421

The hypotheses on the existence of dependence between the sector and export activities is confirmed at significance level of 5% ($p=0.013$). A significant share of companies that have not been internationally active in the past three years are thinking about doing it in the future: 44% of companies from the manufacturing sector, 41.2% from the industry sector, 30.2% from the services sector and 21.7% from the trade sector.

H9 There is a dependence between the sector and the perception of difficulties that can occur when exporting

Table 10. Perception of difficulties with regard to the sector

	Manufacturing	Trade	Services	Industry	p	
Shipping costs are too high	Big problem	19 (20.9%)	26 (21.0%)	5 (11.1%)	3 (9.1%)	0.004†
	Small problem	26 (28.6%)	29 (23.4%)	15 (33.3%)	10 (30.3%)	
	Not a problem at all	44 (48.4%)	67 (54.0%)	17 (37.8%)	17 (51.5%)	
	Not applicable	1 (1.1%)	1 (0.8%)	8 (17.8%)	3 (9.1%)	
	No answer	1 (1.1%)	1 (0.8%)	0	0	
Your company has no specialized staff to work on exports	Big problem	5 (5.5%)	1 (0.8%)	0	1 (3.0%)	0.024†
	Small problem	11 (12.1%)	13 (10.5%)	4 (8.9%)	5 (15.2%)	
	Not a problem at all	74 (81.3%)	110 (88.7%)	39 (86.7%)	24 (72.7%)	
	Not applicable	1 (1.1%)	0	2 (4.4%)	3 (9.1%)	
	No answer	0	0	0	0	

Source: Authors' calculation according to Flash Eurobarometer 421

Testing this hypothesis proved that there is a statistically significant dependence between the sector and the following difficulties that can occur when exporting: shipping costs are too high ($p=0.004$) and company has no specialized staff to work on exports ($p=0.024$). As expected, shipping costs are the biggest problem for companies in the manufacturing sector (49.5%). Also, companies in the manufacturing (17.6%) and industry (18.2%) sectors believe that them not having specialized staff to work on exports is a problem.

H10 There is a dependence between the sector and the perception of assistance measures for doing business abroad

Table 11. Perception of assistance measures with regard to the sector

	Manufacturing	Trade	Services	Industry	p
Information on rules and regulations	18 (16.2%)	29 (14.2%)	10 (9.4%)	13 (16.3%)	0.451
Opportunities to participate in international trade fairs	25 (22.5%)	48 (23.5%)	32 (30.2%)	13 (16.3%)	0.170
Support for finding business partners and networking	53 (47.7%)	65 (31.9%)	50 (47.2%)	26 (32.5%)	0.006*
Consultancy or training	13 (11.7%)	33 (16.2%)	26 (24.5%)	6 (7.5%)	0.008*
Grants, subsidies or loans with low interest rates	86 (77.5%)	125 (61.3%)	67 (63.2%)	50 (62.5%)	0.027*
Tax incentives	54 (48.6%)	86 (42.2%)	32 (30.2%)	31 (38.8%)	0.045*
Information on market opportunities	13 (11.7%)	20 (9.8%)	15 (14.2%)	10 (12.5%)	0.710

Source: Authors' calculation according to Flash Eurobarometer 421

Testing the hypothesis on dependence between the sector and assistance measures for doing business abroad has partially confirmed the hypothesis at significance level of 5%. Statistically significant dependence of the sector was found in following variables: support for finding business partners and networking ($p=0.006$), consultancy or training ($p=0.008$), grants, subsidies or loans with low interest rates ($p=0.027$) and tax incentives ($p=0.045$). Companies from all sectors see various forms of financial assistance as the biggest help. Manufacturing, trade and industry put tax incentives in second place, and support for finding business partners and networking in third. The order is somewhat different in the services sector: support for finding business partners and networking is in second place, and opportunities to participate in international trade fairs are in third place.

DISCUSSION AND CONCLUSION

Internationalization of small and medium enterprises in Croatia is an important area of research, the results of which are intended for business owners, but also for policy makers. It is extremely important that companies recognize the potential that internationalization brings, but also that policy makers in the country enable companies to take advantage of these opportunities as easily as possible. This paper presents a new view of differences within the small and medium enterprise sector (micro, small

and medium) and the differences with regard to industry sectors. The research used in this paper included 501 small and medium enterprises from Croatia. Based on the conducted statistical analyses of data collected from companies, it can be concluded that internationalized small and medium enterprises from Croatia still base this internationalization on imports and exports of goods and services, regardless of size or sector to which they belong. Other foreign business activities are less developed. There is a noticeable advantage of the European Union market as the primary choice of Croatian companies for internationalization, compared to markets of countries outside the European Union. However, it is important to note the ratio of exports to imports to these areas: imports from European Union countries are 23.2% higher than exports to European Union countries, while the situation with countries outside the European Union is somewhat different – imports are higher than exports by 4.6%. The percentage of both small and medium enterprises is higher compared to micro enterprises in terms of all activities related to internationalization within the European Union. The situation is the same with regard to countries outside the European Union. When analyzing companies that have not had foreign business activities in the past three years, it is worrying that data shows that a large share of companies believe that they will never export (trade 57.8%, services 44.4% and industry 31.4%). When the above is analyzed with regard to company size, it can be seen that the largest share of small enterprises is considering this in the future, while more than half of surveyed micro enterprises believe that they will probably never export (54.7%). From this we can conclude that internationalization requires resources, which micro enterprises usually do not have at their disposal, such as people, financial resources, etc., and that internationalization is a process that requires both time and resources. According to sector (manufacturing, trade, services and industry), companies from the manufacturing sector have the largest share in exports to countries both within and outside the European Union. Of the other business activities, only imports have significant shares in all sectors, while internationalization through other business activities (cooperation in research and development, use and provision of subcontracting services, investing) is not very developed. Companies see various financial supports, which are necessary to implement the process of internationalization, as a big problem, and, accordingly, as the key assistance measure, and they also see supports for finding partners as an important assistance measure. It is interesting to note that companies from all sectors find it difficult to identify business partners abroad, which is one of their biggest problems, along with complex administrative procedures and the already mentioned large financial investment. Given that perceptions are examined, it is not possible to conclude whether companies' views are based on perceptions only, or on previous experience as well.

The importance of these conclusions is reflected in the recommendations that can be made based on them, both for small and medium enterprises and for policy makers. Recommendations for owners / managers of small and medium enterprises:

- Acknowledging the importance of understanding the process of internationalization, as well as the opportunities that this process brings for growth and development of companies – internationalization is one of the possible growth strategies, especially in the conditions of a small domestic market such as Croatia. In addition, internationalization is not only exports, but, through internationalization of other business activities, companies can take

advantage of numerous possibilities and opportunities, which lead to growth and development.

- Full and proper preparation for the internationalization process – the persons responsible for entering and implementing the internationalization process must be prepared for everything that international business brings.

Policy recommendations go in the direction of raising awareness of the importance of internationalization as a strategy for business growth, and providing an enabling ecosystem for internationalization:

- Build awareness of the importance and significance of internationalization of small and medium enterprises in Croatia.
- Provide support for internationalization – increase the transparency and timeliness of existing measures and incentives for internationalization of small and medium enterprises.
- Develop educational programs related to internationalization of small and medium enterprises – knowledge is one of the basic prerequisites for successful internationalization, which strengthens companies and increases the chances for successful internationalization. In order to increase the level of awareness of entrepreneurs about the importance of preparation for the internationalization process, one of the options is to condition granting supports by completion of an educational preparation program.

Some limitations of this research are found in the use of a secondary database. Although the data is representative, this is a database from 2016, and the data was collected by third parties. Independently preparing and testing of the questionnaire, which would be specifically oriented to the Croatian market could give more accurate results and connections between certain variables, through conducting more complex statistical analyses, which could not have been done on the existing database. Nevertheless, this research has allowed drawing certain conclusions, which contribute to the understanding of the situation in Croatia related to internationalization of small and medium enterprises, it has contributed to the understanding of the importance and complexity of the topic, and can also serve as a basis for future research. Also, given that this research was conducted at the European Union level, it is possible to make a comparison with other member states, and thus serve as a basis for the development of new common policies.

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