

Critical Success Factors of Export Excellence and Policy Implications: The Case of Hungarian Small and Medium-Sized Enterprises

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Summary

The economic growth rates in the European Union raise the question of how the internationalisation of small and medium-sized enterprises (SMEs) can be facilitated by national economic policies. Research evidence in the area of international business suggests that enterprise competencies are critical in internationalisation. Naturally, economic policies should facilitate the development of adequate competencies with SMEs. Ten case studies on Hungarian-majority-owned SMEs that export were analysed to explore their critical success factors. This chapter contrasts the enterprise level findings with economic policies towards internationalisation using the findings of this qualitative research project.

Keywords: Critical Success Factors, Export Performance, Internationalisation of SMEs, Economic Policies, Competitiveness.

JEL classifications: F23, F43, L25, M16

5.1. INTRODUCTION

Policy makers and academics have advocated competitiveness at industrial and national levels since the publication of Porter's seminal work in 1990. This has been the case in Hungary as well. Since the mid-1990s, several research projects have focused on the competitiveness of Hungarian enterprises and its policy implications (Chikán et al. 2002, Chikán 2008, Chikán & Czakó 2010). Although the academic background of competitiveness may need further elaboration, it seems that it has some practical relevance. Especially in a period of slow economic growth, competitiveness is at the heart of economic considerations, and how enterprises are registered and operate in a country may enable them to better face and cope with competition.

In the mid-1990s there was a shift in both the competitiveness and International Business (IB) literature, and new priorities for small and medium/sized enterprises (SMEs) in the national economies crystallized. Previously the key roles of SMEs were associated with innovation and job creation. The observed phenomena of international new ventures (INVs) (Oviatt & McDougall 1994, 1995; Rialp et al., 2005) and decreasing sizes of internationalising enterprises altered the research focus and policy considerations. As the EC (2007:7) put it, "internationalisation is an engine for SME competitiveness". The internationalisation process of SMEs is the second theme of the paper, to uncover the key success factors for managers and also to orient policy makers in initiating competitiveness to enhance policies and measures.

An exploratory qualitative research project was launched in 2011 (called hereafter the pilot project) to examine the internationalisation theory of Johanson and Vahlne (2009) on Hungarian SMEs (Figure 1). Its aim was to elaborate and test an interview outline and gain feedback on the first results from Hungarian scholars (Kozma & Könczöl, 2012). From the lessons and conclusions, a three-pillar project was set out, two of which have been completed. Findings were published in a Hungarian language research book to facilitate IB teaching and learning and to aid the work of policy makers in Hungary (Ábel & Czakó, 2013). The first pillar reviewed international and Hungarian findings on internationalisation and export performance and the international part presented a proposition formulation for the analysis of case studies (Ábel et al., 2013). The second pillar was a case study based research project, where founders and top-level managers of 10 SMEs were interviewed. Case studies were written on each SME with conclusions on their outstanding performance. The third pillar of the project on comparing the financial performance of exporting and non-exporting enterprises is in progress. Its preparatory work and preliminary results influenced and supported the second pillar of the research. This third pillar research approach was also employed to support the validity of the qualitative research.

In this paper the literature review and main propositions are discussed first. International strategy, competitiveness and internationalisation literatures were used to provide theoretical references. Internationalisation was considered as a strategic managerial process to uncover and identify key critical success factors (CSFs). High,

sustained export intensity was taken as a proxy for internationalisation. It is assumed that some of CSFs are competencies that can be assisted by policy measures. Literature and policy papers are reviewed to channel the conclusions on policy implications. Part 3 is on research method and the sample. The 10 export-oriented SMEs will be described here. The notion of CSFs and the method for their derivation are also discussed in this part. The following part discusses the CSFs in matching them to the case studies to set out the general ones. Part 5 sets out policy implications for enhancing and facilitating the competitiveness of SMEs in their internationalisation journey.

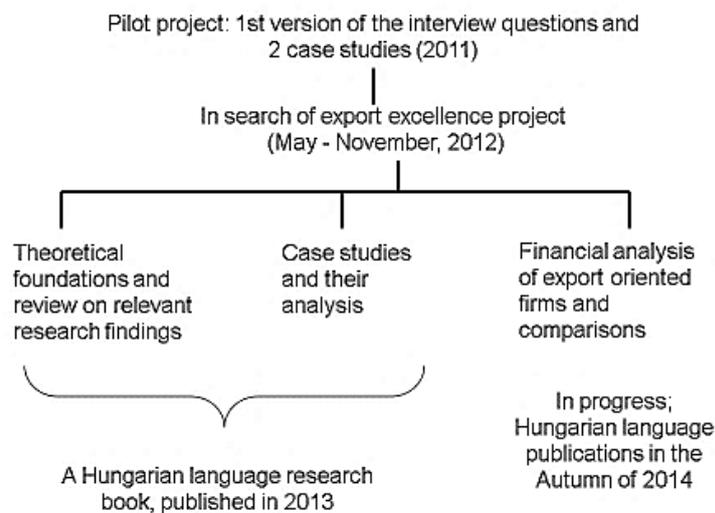


Figure 5.1. The research project on export excellence

The paper takes a broad perspective from theoretical considerations at enterprise- level internationalisation and it moves toward competitiveness policy implications. This is a trajectory with several academic and professional considerations and limitations. It is assumed, however, that for enhancing capacities and competences in both academic and professional work, these kind of ventures may have both theoretical and practical relevance.

5.2. LITERATURE REVIEW AND PROPOSITIONS

Though the idea of competitiveness came up in a period of slow growth period (Scott & Lodge 1985; Dertouzos et al., 1987), its heyday was in the late 1990s. This was a high growth period fuelled by opening up markets and the spread of information and communication technology in the developed countries. The OECD (2001a, 2001b, 2005) initiated a project on exploring hard-to-measure factors of high growth rates in developed countries. In parallel with the first announcement of the Lisbon Strategy, the European Commission launched the enterprise benchmarking exercises (EC 2000, 2001, 2002, 2003, 2004a, 2004b). The OECD assumption was that there are several micro-level factors of macroeconomic growth, which might have interplayed in outstanding growth rates of the most developed countries (Canada, Finland, Sweden,

the Netherlands, and the USA) in the late 1990s. It was proposed that most of these micro-economic drivers induced the economic performance of enterprises. Quantitative and qualitative methods were applied to uncover them. Four micro-economic drivers were identified – entrepreneurship, information and communication technologies, science and technology, and human capital – and each was decomposed. The EC enterprise benchmarking exercise was initiated in 2000 to map the best practices of the EU members and monitor the advancement of the 2000 Lisbon Strategy. (It was ended in 2004.) The benchmarked fields included the micro-economic drivers of the OECD, and besides them, some others were added (e.g., taxation, markets, eco-efficiency). Entrepreneurship is the only micro-driver which was identified as a fairly new driver of economic growth.

The two approaches of the OECD and the EC were compared to orient public policy initiatives to enhance the competitiveness of Hungarian enterprises (Czakó, 2007, 2010, 2011)¹. In examining and considering the applicability of the best practices to the overlapping fields, entrepreneurship was singled out. In the empirical work, an emerging segment of internationalising SMEs was detected. Meanwhile, the internationalisation of SMEs became the focus of EC policy papers as well (EC 2007, 2008). Based on these considerations and findings we formed a proposition for channelling policy implications.

Proposition 1. The critical success factors of internationalisation in SMEs propose measures for public policies to increase the skills of SMEs to tackle internationalisation.

Several quantitative analyses on Hungarian and non-Hungarian exporting companies were done to reveal patterns of exports and imports and their role in firm performance (Békés & Muraközy, 2012; Békés et al., 2009, 2011b; Castellani et al., 2010, Halpern et al., 2011). Their findings suggest that exporting firms are heterogeneous in their financial performance. Two propositions were set:

Proposition 2. The case study research method is suitable to uncover managerial competences of enterprises with different export intensity and product scope.

Proposition 3. Financial performance analysis needs to be supplemented with other performance analysis for evaluating the export excellence.

Proposition 2 served as a rationale for the qualitative research. The 3rd pillar was initiated to study Proposition 3 and draw conclusions for financial instruments to enhance the internationalisation process of SMEs.

A study on 15,000 enterprises from 7 EU member states concluded that the firms which had intensive international business connections through their import could cope with the 2008 crisis more effectively than those with no, or less intensive international trade relations (Békés et al. 2011a).

Proposition 4. Export-intensive SMEs can resist and cope with economic downturns. It follows that in low economic growth rate periods they can be one target segment to encourage economic growth.

¹ The project was initiated and sponsored by the Hungarian State Audit Office in 2006-2010, and its papers were published in Hungarian.

Internationalisation of SMEs in different countries was one of the hot topics in IB papers and journals in the 1st decade of the 2000s. Most of them relied on a qualitative method and their findings need further investigations. The role of founders and top-level managers is one core finding (Amal & Filho, 2009, Rialp et al. 2005, Suárez-Ortega & Álmao-Vera 2005). The competencies and capabilities of the founders, their personal involvement and the size of their enterprises set limits on internationalisation.

Proposition 5 The role of the founder(s) and the top-level managers is the initiating and enabling factor of internationalisation.

Internationalisation is considered as a process where knowledge accumulation is a key factor in coping the liability of foreignness and with commitment to foreign markets (Johanson & Vahlne 1977). Based on several decade-long research projects, accumulated research findings worldwide and new phenomena from the middle of the 1990s, it was proposed that internationalisation can be considered as foreign network entry and coping with the liability of outsidership, and network position improvement became a key factor (Lu & Beamish 2001; Kaplinsky 2004; Johanson & Vahlne, 2009).

Proposition 6. Among of the drivers of internationalisation the supplier position is as important as that of other national push factors (e.g. size of the market).

Proposition 7. Among the strategic priorities the market development direction includes the strategic partnership development with buyers.

Proposition 8. The geographical scope and foreign market entry modes are secondary in comparison with the supplier position and strategic partnerships.

Propositions 5-8 were employed in designing the key Critical Success Factors and the mind map of the research program.

5.3. THE RESEARCH METHOD AND THE SAMPLE

The selection of SMEs was based on the following five criteria: (1) Hungarian majority ownership, (2) foundation or re-foundation after 1990, (3) sustained high export intensity², (4) more than 50 employees and/or above 1 billion HUF (approximately 3 m Euro) annual revenue and (5) used as case exhibits for Hungarian internationalisation success stories in an International Business textbook published in Hungarian (Czakó 2011). The 1st, 3rd and 4th criteria were tested by publicly available electronically submitted financial reports, the 2nd criteria was checked from the Hungarian Business Register. In compiling the list to contact SMEs that met the criteria, the published and recognized success stories served as a basis. We aimed to represent as many successful industries by export figures as possible. Twelve SMEs were contacted in July of 2012 and 10 of them agreed to participate in the interview and gave their full name for the case studies.

² Export intensity was calculated as a ratio of the export revenue and the total revenues. A more than 25% ratio was taken as high, and when it was valid for each of the previous 3 business years, it was considered sustained.

Table 5.1. Main characteristics of the SMEs in the sample

1	2	3	4	5	6	7	8	9	10	11	12	13		14
Code	Product scope	Year of foundation	1st year of exports	Revenue, million HUF, 2011	Exports revenue in 2011, million HUF	Export intensity ratio, % 2011	Trend of Exports/Revenues ratio, 2000-2011	Trend of Taxed incomes/Revenues ratio, 2000-2011	Number of employees in 2011	Value Added per employee, thousand HUF, 2011	Number of countries exported to	3 main export countries and their characteristics		Authors of case studies
A	Feed premixes, concentrates, prestarter feeds for livestock	2001	2001	15496	6939	62%	High	Decreasing	118	17.689	11	Russia, Ukraine, Belorussia	CIS	Boda, Gy. & Stocker, M.
B	Alumina-oxide industrial ceramic products	2000	2000	1491	1339	90%	High	Fluctuating	135	4.768	20	USA, Great Britain, Italy	Developed	Kozma, M.
C	High precision automotive parts with alumina die casting technology	1999	1999	7897	6030	76%	High	Fluctuating	230	5.202	7	Germany, France, Austria	EU	Kiss, J.
E	Designing, selling, installing and maintaining CRM products	2000	2000	649	192	29%	Fluctuating	Fluctuating	38	4.940	13	Great Britain, Germany, France	EU	Tátrai, T.
G	Grinding wheels and discs	2001	2001	1566	826	53%	Low start then high	Stable	114	4.779	25	Ireland, Germany, Canada	Developed	Juhász, P.
H	Metal machined vehicle-industry components	2005	2005	5822	1910	33%	Low start then high	Stable	138	9.900	7	The Netherlands, Portugal, Italy	EU	Kzzainé Ónódi, A.
L	Pharmaceuticals for veterinary use	1991	1993	2880	2010	70%	Low start then high	Stable	42	20.000	30	Germany, Poland, Denmark	EU	Pecze, K.
M	Human and pre-clinical imaging systems	1990	1994	4736	3041	64%	High	Fluctuating	133	11.900	84	USA, Germany, Poland	Developed	Szántó, R.
P	Oyster mushrooms	1991	1991	674	513	76%	High	Stable	42	2.029	10	Germany, Romania, Slovakia	EU	Boda, Gy. & Stocker, M.
S	Traumatologic, spine and dental implants	1996	1996	2637	1860	70%	Low start then high	Stable	218	7.478	35	Switzerland, Russia, China	Mixed	Szalay, Zs.

Source: Enterprise financial reports, interviews and case studies on the SMEs, as well as company websites.

Half-structured interviews were done in August and September 2012. Each interview took between one and a half and 2 hours. Interviews covered 5 broad topics: (i) history before the foreign market entry, milestones of internationalisation, (ii) current export markets and their main characteristics, (iii) the role of imports (suppliers) in the exports and the role of buyers, cooperation with them; (iv) the role of learning and upgrading the process of knowledge in exporting and internationalisation; (v) the role of the founders and other owners and of top level managers in internationalisation.

The Sample

Table 1 shows the main characteristics of the 10 SMEs. For each of them, a detailed case study was completed and published in Hungarian. (The authors of cases are listed in column 14 of Table 4.1.) The published case studies discuss the internationalisation stories based on the interviews and publicly available sources, and the stories are also supplemented by key financial figures. The authors of the case studies took part in refining and finalizing the 2011 pilot project interview outline and deriving the propositions for and of the CSFs through the case studies in three workshops.

The 1st column of Table 5.1. gives the code for the SMEs, which is the initial letter of their names. The 2nd column provides the product scope of each case. It shows that there were altogether 2 companies from agriculture (A and P) and 3 from broadly defined pharmaceutical and health care (L, M and S), while half of them belonged to manufacturing (B, C, E, G and H) industries. From Columns 3 and 4 it can be said that 8 of them were internationally new ventures (INVs) since they started their exports in the year of their foundations. Columns 5 and 6 provide orientation on their value of revenues in HUF³. These figures suggest that each case belongs to the SME category based on revenues in the European Union, and this is also true for their size based on the number of employees (Column 10). By the number of employees, 3 companies belong to small (E, L and P) and the other to medium-sized enterprises. Column 7 shows the export intensity of each firm. Eight enterprises have a higher export intensity than 50%, signalling heavy reliance on international markets. Only E and H have an export intensity below 50%. Columns 8 and 9 are for analysing the financial trends for CSFs and are discussed in the next section. Column 11 gives an overview on the value added⁴ per employee. The value is the highest for an R&D oriented pharmaceutical company (case L), and it is surprisingly high for an agricultural SME (case A). The two agriculture firms signal extremes, as other company (P) has the lowest figure in the column. Columns 12 and 13 are on internationalisation by geography. The number of export countries in Column 12 shows a high dispersion, from 7 countries to 84. The three main export markets, in Column 13, signal the focus of the SMEs and show more concentration. Five of them focus on EU member states (C, E, H, L, P), three on developed countries (B, G, M) and only two of them have key markets in non-developed countries (A and S).

³ According to the Hungarian National Bank the yearly average exchange rate of HUF was 279.21 for Euro and 200.94 for USD in 2011.

⁴ This was calculated to be a proxy for the contribution of each enterprise to the national economic growth rate. The data were calculated using data from financial reports and interview sources for each SME. The values of operating profit, depreciation and wages with contributions were added and then divided by the number of the employees for the year of 2011.

The Map of Critical Success Factors

Critical Success Factors (CSFs) are taken from the field of strategic management. They are resources or competencies which are of key importance in management to meet goals of an organization or a project. They require special attention and/or measurement from managers in charge (Daniel 1961; Rockart & Bullen 1981). Internationalisation is considered a special strategic management process. Based on the internationalisation literature and the findings of the pilot project, 6 key CSFs were proposed, which were further decomposed by using a mind map approach (Buzan & Buzan, 1993). (See Figure 5.2.)

The 1st CSF was identified as a question: what export excellence is, and how it is pursued and/or measured. Three options were set: the growth rate, performance indicators and sustainability.

The 2nd CSF was the role of founder(s) and the management. Four elements were proposed. The change of generation refers to the fact that founders of the SMEs started their businesses in the early 1990s and their companies may face to the challenge of retirement of founders and this situation may endanger their achievements so far. The aspiration of founder(s) refers to the widely shared proposition that it is one key element in SMEs achievements. The managerial capabilities reflect the findings that the SMEs are not one-person shows, and professional managers and managerial capabilities are needed. The last element is about the division of labour between the group of founders and managers and its effectiveness.

The 3rd CSF is the drivers of internationalisation, broken down into three elements. The first one relates to the size of the Hungarian markets, which correlates with the economies of scale in many industries. The second one reflects the network type of internationalisation pattern and focuses on the relationships with the buyers. The last one is a special chance or opportunity that was taken.

The 4th CSF is about the ways and modes of foreign market entry. Its elements include the foreign entry modes (e.g. direct export, international joint venture), the number of export markets and their diversities (EU member, developed or less developed countries), and finally the branding policy in international markets. This latter one reflects that most SMEs find that it is time and resource intensive to market their private brands abroad and they sell their products through foreign private branding channels.

The 5th CSF is the strategic priorities, which goes back to Ansoff's (1965) strategic direction choices. Its elements are product development, market development and strategic partnerships, technology development, and innovation in other fields (e.g. general administration).

The 6th is about the critical milestones. It is method specific and emerged from the fact that most case studies highlight some turning points in internationalisation.



Note: The shaded boxes signal the most dominant CSFs.

Figure 5.2. The critical success factors and findings

Source: Könczöl, 2013.

5.4. THE CRITICAL SUCCESS FACTORS

Based on the analyses of the 6 key CSFs in each of the 10 case studies, the following factors were defined as dominant ones.

The most frequently mentioned and underlined CSF was understanding, defining and accepting the drivers of internationalisation (3rd CSF). The dominant element of this factor group was the size of the Hungarian market as a barrier to growth and to achieve economies of scale. The space of time between understanding that critical factor and the action of the companies differed – two companies were “born to export” at the very beginning, the others took the necessary steps gradually – but all of the 10 successful companies understood and followed these drivers.

We found that most of the reviewed companies have gone through an intense growth period. The rate of the growth was different among the companies, but it was relevant in sales volume, in export turnover and in investments as well. For some companies, growth factors were attached to declining profitability (1st CSF).

The role of one or two key persons was crucial in relation to the most studied companies. There was at least one “dreamer” or “visionary” who could foresee the relevant drivers and was in an influential position to support the necessary actions. In some cases, that person was the founder or a new owner and in other cases a top manager. How can these persons be described? They have a strong

commitment towards the company, a strategic approach, and they are open to changes and capable of managing change (2nd CSF).

Besides the role of the key persons, we could also identify critical organisational capabilities within these successful companies. The most frequently referred to capabilities were related to innovation, experiential learning, ability to build and maintain external relationships and capability to develop their organisational culture.

An important and strong success factor is R&D and innovation, which includes permanent efforts for technology development and innovative reactions to customer needs (5th CSF).

It is also worth mentioning that some factors that we had assumed to be major CSFs were eventually proven to be not so dominant. An example is the legal form of entering foreign markets, or a strong brand (the 1st, 4th and 6th CSFs).

5.5. POLICY IMPLICATIONS

The EC reports (2007 and 2008) discuss recommendations and best practices for supporting the internationalisation of SMEs in EU member states. EC (2007) provides a European overview on internationalisation and EC (2008) picks out the best practices. It is stated that for the social embeddedness of SMEs, national policies should be matched with the national conditions and context. In drawing up policy implications, the EC papers are taken as reference. There is financial research in progress and this field will not be covered in detail here.

The internationalisation level of SMEs in Europe is low and the lack of awareness of the founders is considered as a key impediment for that (EC 2007). Out of the 10 cases, 8 were INVs. This purports that internationalisation intentions in starting up businesses are a promising start. General and professional dialogue on globalization and internationalisation may be a first inducement in this regard.

Supporting managerial competency and capacity building to develop management skills may be the second broad field. Learning-by-doing practices were outstanding with the 10 SMEs and this is suggested by the theories of Johanson & Vahlne (1977 and 2009), as well. Appropriate institutional network and financial incentives may spur the learning intentions and enlarge the necessary knowledge base within SMEs. Skill development may require theoretical knowledge as well.

There was evidence from the 10 SMEs' cases that besides their own strategy and development efforts, financing sources for their development plans were also crucial elements of their success. As the new financial planning period of EU will start in 2014 and its preparation is still an on-going process at present, this might be the right time to draw attention to the importance of preferential forms and means of financing export-oriented SMEs.

5.6. CONCLUSIONS

This paper is based on a qualitative study to map the CSFs of 10 export-intensive Hungarian SMEs. It was assumed that deriving CSFs could give insights into what skills

for their development need assistance. The paper linked two strands of research findings: the competitiveness theme, with its inquiry on what fields are worthy of assistance and support to enhance the internationalising of SMEs, and the internationalisation of SMEs. Several years of high export intensity were used as a proxy for internationalisation. The ten sample SMEs are in a wide variety of industries. Interviews and case studies were used to gain insights on their CSFs, and these factors are regarded as indicating fields where both SMEs and economic policies may contribute to the competitiveness.

Eight propositions were set to channel the discussion of the research findings. Propositions 2 and 3 were for the qualitative research method selection. Propositions 5-8 were on the fields in which skills development is required. Proposition 1 and 4 were set to channel the policy implications. The propositions are diverse in their theoretical, academic and professional backgrounds. This is one of the limitations of the eclectic academic backgrounds of competitiveness, as well.

The other limitation comes from the qualitative method. The empirical base includes a one-country sample of 10 cases. This poses restrictions on the generalization of the findings. There is evidence, however, that the SMEs – founded in the 1990s or later – show the characteristics of the network-based internationalisation pattern of Johanson & Vahlne (2009).

The CSFs are applied in strategy literature and consultancy. Their purpose is to orient thinking on the strategic development of organizations. The role of the founder(s) and the top-level managers supports the research evidence on their role in both SMEs development and internationalisation. This finding has a consequence for policy. The skills and competence development may be a key area in policy initiatives and measures to assist and support SMEs. This is in line with the messages of the EC (2007 and 2008) reports.

In a slow growth period, traditional economic policies such as fiscal and monetary policies blur the sophisticated policies and measures to enhance the economic performance of enterprises. Further research is needed on how this approach can be altered to make internationalisation one engine of competitiveness.

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