

## STRATEGY OF BUSINESS INTERNATIONALIZATION OF THE COMPANY

*Saša Marković, PhD<sup>1</sup>, Marko Pavlović, PhD<sup>2</sup>*

**Abstract:** Processes of globalization, increasingly intense competition on national markets, accelerated development of technology and increasingly intense role of buyers in the international market, have contributed to domestic markets not being sufficient for business growth and development. The company can base its growth, apart from domestic sales, on the growth of sales on the market outside the borders of the national economy. Internationalization of business provides benefits to the company that implements it, but also to the domestic and foreign markets where the company operates. The foreign market receives numerous resources and products that it could not produce independently. Internationalization of business, like any other strategic option, is motivated by the possibility of increasing the value of the company. Before making a decision on the internationalization of business, it is necessary to analyze the possibility of doing business in a foreign market. Also, during the internationalization of business, there are a number of dangers and barriers to entering a foreign market.

**Key words:** strategy of internationalization, reasons of internationalization, market growth, analysis of opportunities, risk analysis, decisions

### 1. INTRODUCTION

Processes of globalization, increasingly intense competition on national markets, accelerated development of technology and increasingly intense role of buyers in the international market, have contributed to domestic markets not being sufficient for business growth and development. These are the main reasons why some companies expand their activities by finding international markets. Internationalization represents one of the basic characteristics of modern business because it leads to the connection of markets, both economically and functionally. Most companies have participated in some form of internationalization during their business, regardless of whether it is the simplest (import-export) or some more complex forms. Growth and development of companies after a certain period cannot be achieved on the domestic market, so they are simply forced to enter foreign markets. Today, the internationalization of business generally represents a necessary and most important prerequisite for the growth and development of a company [1]. The internationalization of a company's operations takes a long time, generally requiring large capital and professional staff. It often results in national markets becoming "just niches in the global market" [2].

The aim of this paper is to, considering the above-mentioned factors from the environment, point out the importance of developing a business internationalization strategy as a prerequisite for the successful growth and development of the company, and sometimes the survival of the company on the market. In this sense, the work in the first part presents the theoretical framework of internationalization, defining the strategy itself. Also, the motives or reasons for the internationalization of business are stated and it gives an overview of the possibilities and dangers in the implementation of this strategy, which will later affect the decision-making about the exit and form of exit to the foreign market.

### 2. THEORETICAL FRAMEWORK OF BUSINESS INTERNATIONALIZATION

The business strategy represents a planning decision that defines the basic methods of realizing the goals of the company's business activities. Goals are states or situations towards which the

---

<sup>1</sup> Professor of applied studies, Akademija strukovnih studija Politehnika, Katarine Ambrozić 3, Beograd, smarkovic@politehnika.edu.rs

<sup>2</sup> Lecturer, Akademija strukovnih studija Politehnika, Katarine Ambrozić 3, Beograd, mpavlovic@politehnika.edu.rs

business activity of the company is directed. Goals for which it is not possible to find adequate strategies for their effective and efficient realization do not serve the basic purpose - to be an “ex ante” criterion for choosing future directions of the company's actions. The basic criterion of the rationality of strategies is their contribution to the achievement of goals. For a growing number of companies in our country, it becomes a matter not of free choice but of coercion. Willingly or not, the company must opt for strategic direction(s) of its own growth that cannot be realized so easily in the home market [3].

### **2.1. The concept and importance of the process of internationalization of business operations**

The company can ensure the growth of income, among other things, with the strategy of market development (expansion) in such a way as to market the existing product in a new market. The company can base its growth, apart from domestic sales, on the growth of sales on the market outside the borders of the national economy. Then we are talking about the strategy of business internationalization [4].

It is very important that the company answers to itself and in its own interest the question of which framework of internationalization of its business it wants, or better, which framework it is capable of in a given situation. The management of the internationalization process should bring all these elements into one consistent whole. Therefore, the process of creating an internationalization strategy should start from two basic objective functions - how much to internationalize and what is the business goal of the company's internationalization. With a large number of companies, there is a strategic dilemma - concentration on a couple of markets or diversification, going to as many markets as the company is able to contact [5].

Internationalization of business provides benefits to the company that implements it, but also to the domestic and foreign markets where the company operates. The foreign market receives numerous resources and products that it could not produce independently. If the home market is more advanced in terms of (for example) technology, in relation to the foreign market that the company wants to enter, that company will enter the foreign market with this new and more modern production and sales technology and thus influence other companies in the new (foreign) market [6].

It is known that large global companies have been implementing the strategy of internationalization for many years in different ways, i.e. in different forms. However, small and medium-sized enterprises also play a large role in most global markets. They participate in 99.8% of the European Union market. The basis of the internationalization of small and medium-sized enterprises lies in the detailed preparation of each phase of the internationalization procedure. By internationalizing their operations, such companies retain their competitiveness and become stronger both on domestic and foreign markets. This can be seen on the example of underdeveloped markets where companies cannot progress without applying internationalization of business. Small and medium-sized enterprises are more flexible than large enterprises, and as a result, they adapt more easily to new situations on the market. However, these companies must be prepared for high costs because the internationalization of the company's operations is not cheap and takes a long time, so it is even more unfavourable for small and medium-sized companies, where they do not have a sufficient number of professional staff, do not have the necessary experience and do not have enough capital [7].

### **2.2. Motives (reasons) for the internationalization of business operations**

Internationalization of business, like any other strategic option, is motivated by the possibility of increasing the value of the company. Achieving this goal is possible thanks to the fact that the company achieves three benefits by entering the international market: (1) increases revenues, (2) reduces costs based on economies of scale and learning economies, and (3) realizes advantages based on access to a new location. The increase in revenue comes as a result of market expansion. The positive effects of economies of scale are particularly pronounced in production operations. On the other hand, learning opportunities especially increase in conditions of dispersion of activities. Finally,

locating capacity outside the national market can help efforts to reduce costs by moving capacity to countries with cheaper labour, energy or raw materials [8].

A company may consider internationalization for other reasons, such as: extending the life cycle of products, better use of technology, easier access to raw materials, integration of business operations on a global level, favourable treatment in terms of taxes and subsidies by the country in which the investment is made, etc. [9].

According to some authors, the main motives or reasons for internationalization are: (1) profit making, (2) development and growth of the company, (3) better utilization of production capacity, (4) possibility of higher employment, (5) product innovation, (6) saturation of the domestic market and (7) export for foreign exchange [10].

Without strong reasons, it is unlikely that a company will react at all to emerging opportunities in international markets. The most common reasons for involvement in international business flows can be classified into four groups: production, market, competitive and financial. Production reasons: (1) more efficient production, (2) diversification of products, (3) more efficient optimization of production and sales assortment and (4) modernization of production capacities. Market Reasons: (1) saturation of the home market or the existence of problems on it, (2) meeting large corporate customers, (3) market diversification, (4) reducing dependence on only one market and (5) using export-import benefits that differ by country. Competitive reasons: (1) researching the competition in the foreign market, (2) learning from the competition and acquiring business routines in international business, (3) maintaining the market position as a competitor and (4) consolidating the position in the home market. Financial reasons: (1) creation of foreign currency, (2) optimization of management of total costs and their structure, (3) more efficient return of investments, (4) creation of a more favorable financial situation and (5) realization of higher profits on the foreign market [11].

### **2.3. Analysis of the company's business opportunities on the foreign market**

Before making a decision on the internationalization of business, it is necessary to analyze the possibility of doing business in a foreign market. This analysis should include: determination of internal and external factors essential for entering the international market, assessment of the management's ability to step forward towards the internationalization of business and assessment of the potential of the offer with which to enter the international market, assessment of distribution channels and assessment of the level and type of communication with new ( international) market.

External factors mean: analysis of the political, economic, social and legal environment on the foreign market, the growth potential of the international market, the assessment of the interest in the product, the existence of the so-called external institutions (export companies, chambers of commerce, banks and other institutions) of the country in which it is planned to enter.

Internal factors mean: financial power of the company, state (expertise and number) of staff (human resources), product competitiveness (level of demand on the domestic market and assessment of demand on the international market) [12].

According to Milisavljević, the assessment is that there are four prerequisites for the internationalization of business:

1. Identifying the early potential of the market, in order for the company to be actively involved in stimulating demand,
2. Analysis of existing and potential regional markets,
3. Maintaining knowledge of the market as well as hiring people for individual markets who know them best considering their own work experiences, and
4. Formation of a strategic partnership that achieves the goal of increasing profits for all partners through business [13].

In addition to the above, one of the important strategic issues related to the analysis of the possibility of internationalization of business is the time when the company will enter the foreign market. The question is whether to go immediately before the competition or to proceed more slowly and carefully, and whether to go step by step or invest simultaneously in several foreign markets [14].

#### **2.4. Analysis of risks in the internationalization of business operations**

During the internationalization of business, there are a number of dangers, that is, according to some authors, barriers to entering the foreign market. They can also be divided into internal and external. Under internal barriers are considered: informational, functional and marketing barriers, and under external barriers: procedural, state, those related to a specific task and those related to the environment [15].

When it comes to internal barriers, informational limitations refer to: limited information needed for market analysis, untruthfulness of data for foreign markets, insufficient ability to identify business opportunities. Functional limitations refer to: lack of manager's time to deal with exports, inadequate professional staff, lack of financial resources. Marketing constraints are mainly related to marketing instruments: developing new products for foreign markets, adjusting product design, meeting product standards and specifications, difficulty in harmonizing prices with competitors in foreign markets, unavailability of warehouse space in foreign markets, and adjusting export promotion activities.

When it comes to external barriers, procedural barriers refer to: ignorance of procedures and documentation for export, problems in communication with customers abroad and slow collection of receivables from customers abroad. State barriers can refer to: lack of state incentives, unfavorable rules and regulations in a foreign country. Barriers related to a specific task refer to: different habits and attitudes of customers abroad and strong competition. Barriers related to the environment are mainly related to economic, political-legal and socio-cultural variables.

In addition to the mentioned shortcomings, according to some authors, there are also risks in the process of internationalization. First, foreign investments may be unfavourably received by nationalist political parties (which may be crucial for the (failure) of this strategy if such parties are in power or represent significant opposition in the country of entry). Then, the business conditions are different compared to the conditions on the domestic market. Finally, doing business in different monetary systems can complicate business because of currency risk [16].

#### **2.5. Making the decision of the company to enter the foreign market**

After the internal and external analyzes of opportunities and shortcomings (barriers and risks) have been carried out, a whole series of decisions on the internationalization of the company's operations are made. Decisions refer to the choice of the target market, accordingly to the choice of the strategic form of internationalization, to the planned volume of production/sales, to changes in the organizational structure of the company and to the engagement of additional working (financial) funds.

According to Milisavljević, the most important decision of a strategic nature in the internationalization of business is the choice of the country or countries (markets) where the company intends to perform with its products or services. The prerequisite for making such a decision refers to the results of research and analysis. According to the same author, the second planning decision of a strategic nature refers to the choice of the company's way of acting on the foreign market. The company has a couple of alternatives and it is necessary to analyze each alternative starting from the goals and possibilities on the one hand and the conditions provided by a certain market on the other hand, in order to choose a rational way of acting on the foreign market [17].

### 3. CONCLUSION

In this paper, we got acquainted with the meaning and concept of the process of internationalization of the company's operations. We also pointed out the importance of the internationalization process for the diversification of the company's operations, as well as for its survival in view of the increasingly intense and numerous changes in the environment and the company itself. After determining the motives or reasons for the internationalization of business, the company must conduct research on the foreign market, but also evaluate its own opportunities and capacities, but also investigate potential dangers in the foreign market in detail. These are probably the key steps that must be taken before deciding on the way and level of internationalization of the company's operations. Based on the results of the research, the company makes a decision on the type of strategic form of internationalization. If the internationalization strategy is successful, its effects will be reflected in: increased sales and profits, longer product life cycle, lower production costs (per unit of product), increased competitiveness of the company and increased quality and increased orientation towards consumers.

### 4. REFERENCES

- [1] Miletić, V., Ćurčić, N., (2020), Građenje strateških alijansi – faktor internacionalizacije poslovanja nacionalnih preduzeća, *Ekonomija – Teorija i praksa*, godina 14, br. 3, str. 64.
- [2] Lučić, M., (2015), Internacionalizacija malih i srednjih preduzeća, *Ekonomija – Teorija i praksa*, godina 9, br. 2, str. 68.
- [3] Milisavljević, M., Todorović, J., (1995), *Marketing strategija*, Univerzitet u Beogradu, Ekonomski fakultet, str. 139.
- [4] Đuričin, D., Kaličanin, Đ., Lončar, D., Vuksanović Herceg, I., (2018), *Menadžment i strategija*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, str. 543.
- [5] Milisavljević, M., Todorović, J., (1995), *Marketing strategija*, Univerzitet u Beogradu, Ekonomski fakultet, str. 145-147..
- [6] Andrijanić, I., (2001), *Vanjska trgovina*, Mikrorad, Zagreb, str. 9-10.
- [7] Škrtić, M., Mikić, M., (2009), Internacionalizacija malih i srednjih poduzeća Republike Hrvatske, *Ekonomski pregled*, vol.60, br. 5-6, str. 290-311.
- [8] Đuričin, D., Kaličanin, Đ., Lončar, D., Vuksanović Herceg, I., (2018), *Menadžment i strategija*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, str. 543.
- [9] Đuričin, D., Kaličanin, Đ., Lončar, D., Vuksanović Herceg, I., (2018), *Menadžment i strategija*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, str. 544.
- [10] Marković, M., (2000), *Međunarodni marketinški menadžment*, Logos, Split, str. 33-36
- [11] Rakita, B., (2003), *Međunarodni menadžment*, Ekonomski fakultet Beograd, str. 43.
- [12] Subash, C.J., (1996), *International marketing management*, 5th edition, South-Western College Publishing, str. 187-213.
- [13] Milisavljević, M., Todorović, J., (1995), *Marketing strategija*, Univerzitet u Beogradu, Ekonomski fakultet, str. 174.
- [14] Mihailović, B., Simonović, Z., Hamović, V., (2008), Formulisanje i realizacija strategije internacionalizacije poslovanja, *Ekonomika poljoprivrede*, br. 3, str. 294.
- [15] Leonidou, L.C., (2004), An analysis of the barriers hindering small business export development, *Journal of small business management*, vol.42, br.3, str. 279-302.
- [16] Đuričin, D., Kaličanin, Đ., Lončar, D., Vuksanović Herceg, I., (2018), *Menadžment i strategija*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, str. 544.
- [17] Milisavljević, M., (1997), *Marketing*, 17. izdanje, Savremena administracija, Beograd, str. 597-600.