Internationalization Process of Entrepreneurial Activities: A Comparative Study of Czech Companies

Šárka Zapletalová

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Abstract

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Internationalization of entrepreneurial activities is not only a matter of large enterprises. Currently, the majority of SMEs is undergoing the process of internationalization. The purpose of this paper is to compare the internationalization process of Czech large enterprises and SMEs. The companies included in the study are those that have already undertaken internationalization activities and are incorporated in the Czech Republic. The findings of the comparison show that the company size affects only the speed of internationalization of Czech companies. The choice of geographical coverage and entry mode is not affected by company size.

Key words

Internationalization process, large enterprises, small and medium-sized enterprise (SME), Czech companies, entry modes, geographical sub-regions

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Contacts

Šárka Zapletalová, Department of Business Economics and Management, School of Business Administration, Silesian University, Univerzitní nám. 1934/3, 733 40 Karviná, Czechia, e-mail: zapletalova@opf.slu.cz.

Introduction

Many significant changes in economic as well as non-economic spheres have recently proven to be a strong stimulus for a number of entrepreneurial subjects to develop new strategies so as to strengthen their positioning not only on domestic but also on foreign markets. Thus the internalization processes have become almost a commonplace for many Czech enterprises, whose activities on foreign markets have doubled since the beginning of the 21st century, and the trend is expected to continue. Taking into account the scope of and intense competition on the Czech market, entering foreign markets will become a necessary must. The necessity of active participation of Czech entrepreneurial subjects at international markets is conditioned primarily by the character of Czech economics and its foreign political orientation. One of the main reasons of the interest of Czech companies to expand to foreign markets nowadays is a limited market size of the Czech Republic and, consequently, the increasing competition in the domestic market. The growing interest in doing business in foreign markets gives rise to interests in internationalization in a broader context. International activities realize Czech enterprises both large and SMEs (Small and Medium-Sized Enterprises). Internationalization process is to a certain extent influenced by the size of entrepreneurial subject. The differences in the internationalization process will be studied on the example of the Czech enterprises.

The Czech Republic government has based its actions on these fundamental economic facts and it is fully aware of the exceptional significance of external economic relations and in particular exports necessary for the development of Czech national economy. The government views dynamic export growth as an effective factor which has a positive influence on GDP growth and the reduction of the differences between the per capita GDP in the Czech Republic and the European Union. The Czech government also considers exports to have a significant impact on the increase in commercial competitiveness. The experiences of the EU member countries have proved that exporters achieve greater work productivity, higher employment, higher wages and better managerial skills than in case of non-exporting companies. The Czech government is aware of the fact that despite the comparability of the level of openness of the Czech economy with those of the medium-sized EU countries, the per capita exports for the Czech Republic do not compare favourably. The government is paying significant attention to the fact that the export share of small and medium enterprises exceeds an average of 50% in the EU countries, but only 37% in the Czech Republic. The Czech Republic is a country with a high share of exported and imported goods in its GDP, which is typical of small countries, of which we are one. The Czech entrepreneurial subjects have been increasingly taking part in international market since the beginning of the 21st century and this trend seems to be growing. A dominant factor that influences this process of the internalization of entrepreneurship activities is globalization. Interconnection of all human activities through information and communication technologies is one of the most important factors that speed up the global processes (Zamarský and Formánek, 2013). The influence of globalization of companies and countries is most significant in the area of foreign direct investment and it is due to the impact of transnational companies. Companies had to meet the new needs and styles (Machová et al., 2015). The global economic crisis in its scope and depth confirmed that in today´s globalized world, the company development possibilities are growing and a substantial part of the variables depends on a large number of global factors and processes that act synergistically (Mynarzova and Káňa, 2014). Companies have to cope with the increased challenges at the beginning of the 21st century, they have to compete with

all the actors in the international trade. The biggest for management is to create global competitiveness and to maintain it (Bencsik and Juhász, 2012). Most companies are aware of the necessity of the development of business and entrepreneurship activities international-wide. The necessity of active participation of Czech entrepreneurial subjects at international market is conditioned primarily by the character of Czech economics and its foreign political orientation. The promotion of developmental trends in trade represents a high level of competition for the Czech trade from abroad, as well as not a simple position of domestic entrepreneurs, and also very difficult customer relationship-building (Starzyczná, 2010).

The objective of this paper is to compare the ways of realization of international entrepreneurial activities of Czech large enterprises and Czech SMEs. The paper is organized into three parts. The first part of the paper outlines selected theories dealing with the internationalization of entrepreneurial activities and with the Czech Republic´s position in the world business. The second part of the paper aims to present and interpret results of the survey carried out among the selected Czech entrepreneurial subjects. Finally, the last section provides conclusion of the research and offers discussion of most important implications.

1. Review of Relevant Literature

International entrepreneurship is understood as company activities performed in international economic relations as well as the realization of entrepreneurial activities exceeding national cross borders. The significance of international entrepreneurship not only lies in the way in which it influences the growth of the national economy, but also in the way it affects the country's payment relations abroad (i.e. the creation of new opportunities for companies and individuals). International entrepreneurship activities are significant and necessary factors of economic growth and development of world economy. Internationalization of company activities is the necessity for majority of entrepreneurial subjects.

The internationalization of entrepreneurial activities is represented by their geographic expansion across national borders (Lopez et al., 2009). According Procházková and Kubíčková (2012) the involvement of companies in the international environment is generally referred as globalization. The problems of the internationalization of entrepreneurial activities have attracted a considerable interest among a number of significant economists such as Johanson, J., Vahlne, J.-E., Andersen, Ruzzier, Lopez and others. The research on internationalization processes has tended to concentrate on large enterprises (e.g. Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Erramilli & Rao, 1993). Scholars like Burgel and Murray (2000) and others (Jones, 1999; Zacharakis, 1997) have suggested that SME internationalization process has received little attention. However, examining the international behavior of SMEs may be important because, as the study by Lu and Beamish (2001) has found, internationalization process is significantly related to SME performance. Small enterprises play a vital role in many societies. There are different definitions of what makes a small and medium-sized enterprise. The EUROSTAT (2011) and Czech Statistical Office classify enterprises by a wide range of variables such as sales revenues and the number of employees. This study follows the conventional idea (European idea) that small and medium-sized enterprises have less than 250 employees (microenterprises have less than 10 employees, small enterprises have less than 50 employees; medium-sized enterprises have between 50 and 250 employees).

The first attempt to explain the behavior of companies on international markets from the microeconomic point of view are believed to have started with Hymer´s doctoral thesis on internationalization of American companies and the theory of monopolistic advantage developed by Hymer and Kindleberger, as well as with the theory of international product life cycle developed by Vernon (Jarosiński, 2013). Two broad theoretical streams have emerged then. First, traditional internationalization theories (such as stage theory, internalization theory, transaction cost theory), have focused on the factors influencing internationalization, especially in larger companies. Second, the international entrepreneurship theories (such as strategic choice theory, learning and knowledge theory relating to international new ventures or born global companies, resource-based theory, network theory) have focused on the SMEs internationalize from the outset (Wright et al., 2007). These theories on international processes or models are continually evolving and developing: this reflects constant changes in global business environment. Despite new and emerging theories of internationalization, the stage approach (gradually globalizing company) and the global approach (born global company) still remain and are treated as most fundamental and default approaches. The newly evolving approaches and theories are usually based on these two basic frameworks which thus become a springboard for further modification and innovation.

The internationalization of entrepreneurship activities counts among strategic long-lasting decisions; these decisions bring significant changes in running a company and are conditioned by them as well. The companies that decide to enter international entrepreneurship must be aware both of entrepreneurship opportunities and risks, which are inseparably connected with entrepreneurship. Avoiding business opportunity risks does not lead to economic growth but results in missing business opportunities. According Navrátilová & Pawliczek (2014) while large companies can invest into new technologies and equipment, providing training to their employees and gain big shares on new markets, this is rarely the case of small companies. On the other hand, larger enterprises tend to create a bureaucracy that is unfavourable to an atmosphere encouraging creativity and they tend to be less flexible than smaller enterprises.

The companies that decide to enter the international market undergo particular stages of internalization. The progress and speed of business activity internalization depends on the importance and role that is assumed to the international entrepreneurship within entrepreneurship strategy of the company. Among some fundamental strategic decisions accompanying the internationalization of entrepreneurial subjects are included timing of entering foreign markets (speed of internationalization); geographical diversification of entrepreneurial activities (geographic scope of internationalization); and ways of entering foreign markets.

The speed of internationalization can be described by two different time spans (Varma 2009), namely: the time span between founding and the first foreign market entry and the time span between the first and the following market entries. Based on various studies, SMEs show more flexibility in entering foreign markets. Their speed of internationalization is influenced by their size. On the other hand, some SMEs have significantly limited financial and organizational resources. As a result, I hypothesize:

Hypothesis 1: The time span between foundation at the first foreign market entry is influenced by the size of the company. The hypothesis supposes that SMEs entering foreign markets earlier than large enterprise.

The geographic scope of internationalization of entrepreneurial subjects can be measured by the criteria such as the number of countries, number of cultural clusters and the number of geographical regions in which the company currently operates. The scope of geographical

diversification of international operations of companies is discussed in various economics literature as a key dimension of the internationalization process. Geographical diversification represents the distribution of entrepreneurial activities in various geographical regions. The internationalization of SMEs is approached from two perspectives to geographical diversification: the wider geographical diversification (spreading strategy) and the concentration on a key destination market (concentration strategy). The spreading strategy is based on the strategy of operation in multiple markets that is in geographic regions. The strategy is typical especially for large companies and for born global companies. Luostarinen and Gabrielsson (2004) suggest that a born global company must have business activities in at least two geographic regions. Katsikea et al. (2005) identified long-term advantages of this spreading strategy when companies used to improve the effectiveness of sales management and personal selling activities. The spreading strategy means that the process of accumulating diversified knowledge and experience has been accelerated, thus improving the competencies of the staff involved in international operations. The widespread geographical diversification is not without risks, particularly for SMEs. Pangarkar (2008) argues that SMEs are not smaller versions of larger companies, but are confronted with constraints in the internationalization process relevant to the pace of geographic diversification. The proactive and well-planned geographic expansion strategy is recommended for SMEs (Eusebio et al., 2007). The concentration strategy is based on the strategy of operation on one key market, or rather one key geographic region. Beleska-Spasova and Galister (2010) suggest that smaller companies are less able to absorb the costs associated with international expansion. As a result, the companies concentrating on the home region often perform better than those trading predominantly in the other regions. When confronting the spreading versus concentrating strategy choice, the negative correlation between the number of markets served and the percentage of markets that are significant seems evident: the larger the proportion of goods that are channeled to a smaller number of key markets, the less remains for sale to other markets (Cieślik et al, 2012). Thus I hypothesize, based on the arguments above:

Hypothesis 2a: *The company size at the first international entry relates positively to the number of geographical sub-regions. The hypothesis supposes that larger companies enter more geographical sub-regions at the first international entry*.

Hypothesis 2b: The choice of a particular geographical sub-region at the first international entry is influenced by the size of the company. The hypothesis supposes that SMEs choose geographical sub-regions that are close (both in terms of physical distance and cultural distance) to their domestic geographical sub-region.

The ways of entering international market are influenced by company strategic analysis and target international business analysis. The choice of a particular way of entering international market has been influenced by several factors such as investment demands of a company's entering international market, company's disposable sources, target market potential, the level of business activities control, potential event risk when entering the market, and company competitiveness on the market. The ways of entering foreign market are usually divided into three dominant groups: export methods, contractual methods, and investment methods. I therefore offer the hypotheses:

Hypothesis 3a: *The number of entry modes at the first international entry is influenced by the size of the company. The hypothesis supposes that larger companies use more entry modes (and different entry modes) at the first international entry.*

Hypothesis 3b: The choice of a particular entry mode is influenced by the size of the company. The hypothesis supposes that larger companies choose entry modes demanding on the investments.

2. Materials and Methods

This study presents selected findings of the empirical research that focused on the internationalization of Czech companies. The research was carried out in the Czech Republic between March 2013 and April 2013.

The internationalization of entrepreneurial subjects has been researched with the method of oral questioning and the main instrument was a questionnaire. In order to ensure a representative sample, the questionnaire was submitted to the selected top managers and directors of enterprises. The instrument used in the survey was a structured questionnaire containing 16 questions of varying degree of complexity relating to the area internationalization (entry mode in the first entry to foreign markets, the rationale behind the first foreign market entry, international experience of the firm's management staff, knowledge level of foreign markets etc.). The questions are based on information offered due to personal communication with selected experts from business and universities and on the basis of previous researches.

In some questions, particularly those related to the entry mode choice and market choice, simple and complex scales were used, mostly the Likert-type scale (5 = strongly agree to 1 = strongly degree). The entry mode choice draws on 25 specified criteria. The reliability of measurements was acceptable: the total reliability reached the value of $\alpha = 0.865$, standardized item $\alpha = 0.865$. The market choice draws on 16 specified criteria. The reliability of measurements was acceptable: the total reliability reached the value of $\alpha = 0.799$, standardized item $\alpha = 0.803$. The criteria (for the entry mode choice and also for the market choice) are based on information from expert publications and on the basis of previous researches.

In addition to the interview questions the questionnaire also included 5 questions related to the company background itself (the type of a business sector, the contemporary size of company measured by the number of employees and the level of revenue, the company size at the initial stage of foreign market entry, the year of company foundation, and the year of the first foreign market entry).

The companies under research were selected with the method of non-probability purposive sampling, or more precisely on the basis of assumption and occasional selection. The companies included in the study have already started their internationalization operations, they are incorporated in the Czech Republic and all of them are private companies. The research then covered 400 companies. A total of 297 valid questionnaires were collected, which provided a response rate of 74 %. There was a wide range of industries that participated in the research: in the sample there were 54 % of companies representing manufacturing and 46 % of service companies. The companies differed as to their size assessed by the number of employees so that 53 % of the sample consists of small companies (to 50 employees), 29 % medium (50 – 250 employees) ones and large (above 250 employees) ones 18 %.

This exploratory study is based on the information from two groups of variables. The first group was related to the internationalization process. The group was investigated with the help of these measures: the number of target markets penetrated at their first foreign market entry (hereinafter referred to as number of markets); the number of years between the

founding of the company and the first foreign market entry (hereinafter referred to as timing of entry); foreign sales as a percentage of total sales in the first year of implementation of international activities (hereinafter referred to as percentage of foreign sale), the level of knowledge of the target foreign market (hereinafter referred to as knowledge level), the number of years of international management experience at the first foreign market entry (hereinafter referred to as international experience).

The second group of variables measured effects of company characteristics: the company size at the first foreign market entry (hereinafter referred to as the company size); the company age at the first foreign market entry (hereinafter referred to as the company age at the first foreign market entry); the branch of business activity (hereinafter referred to as business activity); and the company age.

3. Results

The research findings were interpreted in two stages. The analysis began by examining the correlation between variables. All variables were screened to reveal their distribution through Pearson correlation coefficients (Tab 1). The focus has been on the validity of the overall framework by examining the impact of the identified relevant entry mode variables operated together on the final entry mode choice. It is important to recognize that while each of the identified variables influencing the entry mode choice. The second stage includes categorical analysis and regression analysis.

Tab. 1: Correlation Matrix

	Mean	SD	1	2	3	4	5	6
Company size	130.86	427.47	1					
Speed of internationalization	7.65	16.41	0.432**	1				
Number of geographical sub-regions	1.45	1.33	0.049	-0.029	1			
Particular geographical sub-region	13.91	10.03	-0.011	-0.069	0.731**	1		
Number of entry modes	1.33	0.68	0.001	0.074	0.012	-0.058	1	
Particular entry mode	9.39	12.61	0.017	0.110	-0.009	-0.081	0.919**	1

** Correlation is significant at the 0.01 level

Source: personal research

The hypotheses 2b and 3b were tested through categorical data analysis; Table 2 presents the results of the analysis.

Tab. 2: Categorical Data Analysis for Hypotheses 2b and 3b

	Pearson Chi-Square Value	df	Cramer´s V Value	Asymp. Sign
H2b	2327.45	2075	0.560	0.000
H3b	4996.64	4067	0.586	0.000

Hypothesis 2b assumes that the choice of a particular geographical sub-region at the first international entry is influenced by the size of the company. This hypothesis has been confirmed: the strength of this relationship is medium (V = 0.560). In Hypothesis 3b it was assumed that the choice of a particular entry mode is influenced by the size of the company. This hypothesis has been confirmed: the strength of this relationship is medium (V = 0.586).

The hypotheses 1, 2a and 3a were tested through Regression Analysis. The dependent variables are: the number of geographical sub-regions at the first international entry, speed of internationalization (the number of years between founding of the company and the first international entry) and the number of entry modes at the first international entry. The independent variable is the size of company.

Table 3 presents the results of a regression analysis in which the company size on the number of years (speed of internationalization) in Model 1was first. Model 2 has been based on the number of geographical sub-regions. Lastly, in Model 3, one interaction has been incorporated: the number of entry modes.

Tab. 3: Regression Analysis for Hypothesis 1

	R^2	Adjusted R^2	R^2 Change	F	Sig. F Change	Durbin-Watson
Model 1	0.187	0.184	0.187	67.722	0.000	1.810
Model 1	B	β	t	Sig.	Tolerance	VIF
Constant	5.476		6.086	0.000		
Number of years	1.7E-02	0.432	8.229	0.000	1.000	1.000

N = 297, p<0.01**

The regression equation in Model 1 is statistically significant (F = 67.722, p < 0.01). The independent variable explains 18.7 % of the variance in Model 1. Hypothesis 1 proposed that the company size relates to the increasing speed of internationalization (measured by the number of years). This hypothesis is supported (β = 0.432, p < 0.01). The relationship has shown that with increasing number of employees grows the number of years between the founding of the company and the first entry into foreign markets.

Tab. 4: Regression Analysis for Hypothesis 2a

	R2	Adjusted R2	R2 Change	F	Sig. F Change	Durbin-Watson
Model 2	0.002	-0.001	0.002	0.716	0.398	1.581
Model 2	B	β	t	Sig.	Tolerance	VIF
Constant	1.431		17.722	0.000		
Number of geographical sub-regions	1.5E-04	0.049	0.846	0.398	1.000	1.000

N = 297, p<0.01**

The overall regression equation in Model 2 is not statistically significant (F = 0.716, p > 0.10), which suggest that the company size does not explain the number of geographical sub-regions at the first foreign entry. The independent variables explain 0.2 % of the variance in Model 2. In Hypothesis 2a it has been hypothesized that larger companies enter more geographical sub-regions at the first international entry. This hypothesis is not supported (β = 0.049, p > 0.10).

Tab. 5: Regression Analysis for Hypothesis 3a

	R2	Adjusted R2	R2 Change	F	Sig. F Change	Durbin-Watson
Model 3	0.000	-0.003	0.000	0.000	0.991	1.850
Model 3	B	β	t	Sig.	Tolerance	VIF
Constant	1.326		32.033	0.000		
Number of entry modes	1.1E-06	0.001	0.012	0.991	1.000	1.000

N = 297, p<0.01**

Source: personal research

The overall regression equation in Model 3 is not statistically significant (F = 0.991, p > 0.10), which suggest that the company size does not explain the number of entry modes at the first foreign entry. The independent variables explain 0.00 % of the variance in Model 3. In Hypothesis 3a it has been hypothesized that larger companies use enter more entry modes at the first international entry. This hypothesis is not supported (β = 0.001, p > 0.10).

Conclusion

The Czech entrepreneurial subjects have been increasingly taking part in international market since the beginning of the 21st century and this trend seems to be growing. Most companies are aware of the necessity to develop their business and entrepreneurship activities internationally. The necessity of active participation of Czech large enterprises and SMEs at international market is conditioned primarily by the character of Czech economics and its foreign political orientation.

The major objective of the paper was to compare an internationalization process of Czech large enterprises and SMEs. In the internationalization process attention was paid to the three indicators: the speed of internationalization; the geographical coverage at the first foreign entry; the entry modes at the first foreign entry. This study has shown that the company size is not a significant factor affecting the internationalization process of Czech enterprises. The influence of company size was seen only in the case of the speed of internationalization. In the case of speed of internationalization, has shown clearly that with increasing company size increases the number of year between the founding of the company and its first foreign entry (decreases the speed of internationalization).

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