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The Role of SMEs in International Trade: Selected Aspects

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Abstract

Research background: International trade is an important stimulant for economic development that simultaneously ensures free access to raw materials, goods, services and technologies. It essentially involves trade in goods, yet what is also significant is the invisible trading sphere (tourism, transport, financing sources). Being a vital factor in macro-economic policies pursued by contemporary national economies, SMEs build the single market, which integrates the European economy, through trade development that directly fosters economic growth.
Purpose of the article: The article strives to answer the question whether EU-based SMEs enjoy benefits and greater stability as well as state support when operating in foreign markets. The article presents the contribution of SMEs to international trade conducted by selected EU countries and Poland. The results of the author's own research relate to the share of SMEs in the sectoral and geographical structure.
Methodology/methods: The research findings are based on source data from annual reports and publications that have been produced and made available by financial market institutions and on the author's own research concerning Polish entrepreneurs. The volume and structure of SME imports and exports in the various markets are outlined by means of analyses, figures and comparisons.
Findings: The author's own research shows that Polish entrepreneurs operating in international markets are primarily driven by: (1) profitability of transactions, (2) prospects for establishing long-term cooperation, and (3) high demand for products originating in their country in foreign markets. The ongoing standardisation and unification with respect to internationalisation should be supported by the state along with forms of financial security and contract insurance. What SMEs expect most is support as regards co-financing investments that are a necessary and costly element of the international activity development process.

Introduction

Membership of the EU or the euro area has a direct impact on international trade development in individual European countries. Although a company's decision to undertake international activities is affected by a range of internal and external factors, today's enterprises should not be faced with a choice between being national or international but rather they should decide on the method of participating in international trade, in particular in the context of increasing globalisation. This is because companies become internationalised not only in the economic but also in cultural and social spheres. Internationalisation is directly linked with company strategy affected by global competition (within the business sector itself, and service- or product-related competition). Significant changes in the Polish export and import structures were determined by political developments. The group of EU partners was expanding systematically, strengthening mutual relations and trade (see:Gorynia, 2012, pp.403-425; Kundera, 2013).

Several years have passed since Poland joined the EU and this time has generally been used efficiently by SMEs (Małecka, 2016, pp.91-122; Kołodziejczyk, 2016, pp.9-26). Their number and capital expenditures have been steadily growing. Also their awareness is increasing as regards financial solutions offered by the capital market. The results achieved by SMEs in terms of investment and choice of foreign trade directions have an immediate effect on their income, expenses and profitability, consolidating their ever stronger position as entities that are more and more substantially contributing to macroeconomic indices in each national economy (Małecka, 2015, pp.349-362). The importance of this sector is undeniable – around 30,000 SMEs worldwide employing from 50 to 100 people can be categorised as global enterprises. Between 150,000 and 300,000 SMEs operate in the markets of at least five countries or in two major European markets, generating 40% of their turnover there (OECD, 1997, p.29). The impact of SMEs expansion in international markets certainly does not apply to trade issues only but also to their foreign direct investment (Hinteregger, 1993). In this context, SMEs economic power, flexibility to adapt to constantly evolving market conditions, readiness for changes and smooth adjustment to market requirements are confirmed (see: Małecka & Łuczka, 2016, pp.418-431).

Efficient foreign trade requires each participant to both know laws and regulations and be able to prepare and conduct transactions (Stępień, 2015; Wang *et al.*, 2017, pp.182-185; Klapper *et al.*, 2006, pp.591-629). In this context, practical experience becomes indispensable and can be gained with help of state institutions and, in the case of Poland, through programmes

offered by the Polish Agency for Enterprise Development (PARP), e.g. the 4 Stock Programme supporting SMEs in accessing the capital market and BizNest, whereby public and private funds are co-invested in 1:1 relation (see also: Dudziński, 2010; Budzowski, 2008).

Membership of the EU-28 is expected to facilitate intra-EU trade. Focusing on today's global economy, business should, however, be steadily expanded to countries outside this group (Wydmus & Pera, 2014). This issue must take into account both directions of changes in the commodity structure of exports and the cultural and social background of international trade management mechanisms as well as links between imports and exports resulting from fragmentation of the production process. There is also a management aspect from the perspective of which SME foreign trade portfolio diversification may play a major role in SME development (Łuczka, 2002, pp.277-290; Wyrobek, 2013; Małecka, 2015, pp.349-362). The research results herein demonstrate a clear link between international operations and liquidity and profitability of the analysed enterprises. There is a growing interest in international finance too (Kosztowiak *et al.*, 2009; see also: Miklaszewski, 2006).

Whatever the aspect of the topic under discussion, there is no doubt that SMEs must join the mainstream of international economy and their management dilemmas in this field should be limited to their adaptability and methods facilitating the commencement and development of international trade (Smith, 2009; Smith, 2016; Łuczka, 2002, pp.277-290; see also: Simakova, 2014, pp.305-312; Ganelli & Tervala, 2015, pp.347-362; Wydmus & Głodowska, 2013; Hinteregger, 1993).

Research Methodology

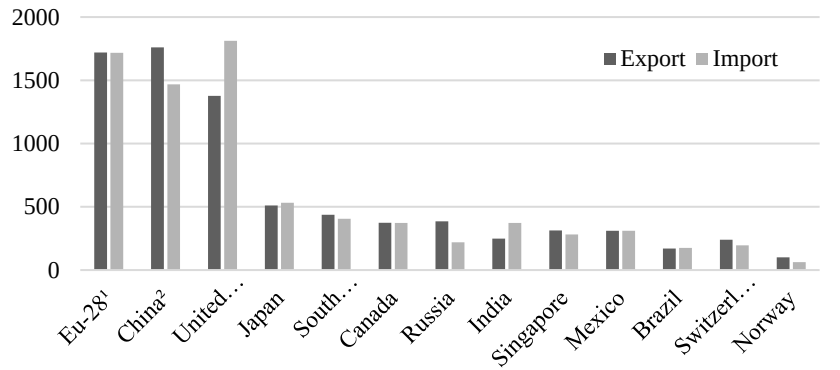
The research findings are based on source data from annual reports and publications that have been produced and made available by financial market institutions and on the author's own research concerning Polish entrepreneurs. The research involved 238 respondents representing various branches of entrepreneurship in Poland. In order to calculate and present the findings in tables and figures, mathematical analysis tools were employed that allowed for determining:

- the quantitative share,
- the percentage value of shares to illustrate the examined structures in the studied aspects,
- and outlining a trend analysis based on linear regression methods.

1. The Structure of the EU's and Poland's Foreign Trade

According to Eurostat data, 15% of world trade in goods is represented by the EU-28 countries. The value of external exports and imports amounted to EUR 3517 billion in 2015, an increase in exports of EUR 88 billion and in imports of EUR 35 billion over the previous year. The turnover of international trade in goods exceeds the turnover of services almost threefold. This ensues from the specificity of certain services that are difficult to trade abroad. After 2004, China's share of international trade exceeded that of Japan, the US and the EU-28, the leading participants in this market. European leaders include Switzerland and Norway (Fig. 1).

Fig. 1. Leaders in international trade in 2014 [EUR billion]

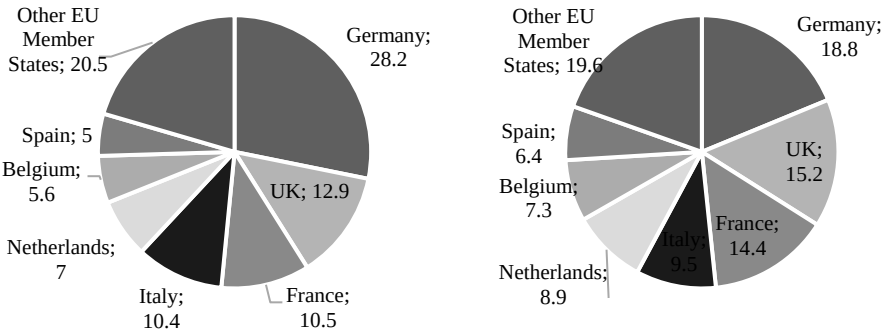


1-External trade flows with extra EU-28; 2-Excluding Hong Kong
Source: based on Eurostat data (21.07.2016), www.ec.europa.eu

In the EU-28, Germany is a clear leader in external trade with exports of 28.2% of goods to non-EU countries and imports of 18.8%. The second position – as in 2014 – is taken by the UK, followed by France and Italy (Fig. 2). Overall, the value of exports from the EU-28 to non-EU countries was EUR 1791 billion in 2015.

Fig. 2. Structure of external trade of the EU-28 in 2015 [%]

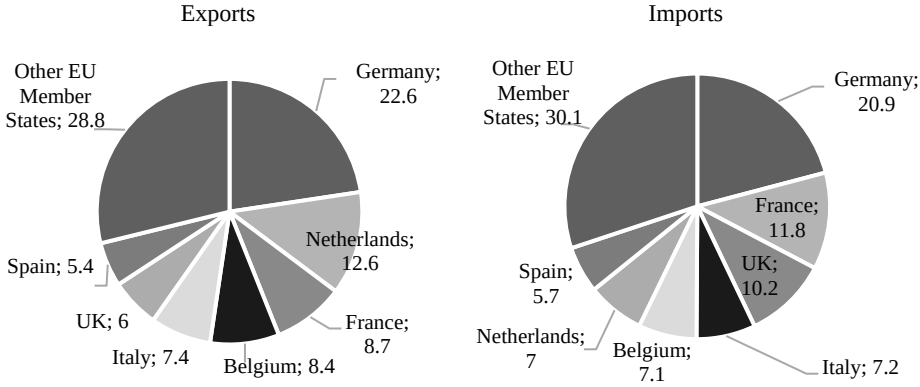
Exports Imports



Source: based on Eurostat data (21.07.2016), ec.europa.eu

Intra-EU trade is estimated at EUR 3070 billion in 2015 (71% more than the value of exports from the EU-28 to non-EU countries). This increase is also observed in 2016 (4.7% in 2015 over the previous year[1]). The intra-EU trade leader is Germany (Fig. 3).

Fig. 3. Structure of the EU-28 internal trade in 2015 [%]



Source: based on Eurostat data (21.07.2016), ec.europa.eu

According to Eurostat data, the general statistics say that Poland exported more than it imported in 2015. In both trade directions, it achieved growth over the previous year. Generally, the whole EU-28 achieved growth in exports except Estonia, Greece, Lithuania, Latvia and in imports except Finland and Belgium, Ireland, Greece, Cyprus, Latvia, Lithuania

[1] The biggest increases in intra-EU trade were recorded by Ireland (13.4%) and Croatia (12.3%). Decreases were recorded by: Estonia (-2.7%), Latvia (-2.1%), Belgium (-0.4%) and Finland (-0.2%).

and Finland (see also: Ganelli & Tervala, 2015, pp.347-362; Mazure & Tiltina, 2015, pp.268-279; Zysk & Śmiech, 2014, pp.7-18).

The analysis of data has shown that in 2013 fewer than 5% of companies operating in Poland exported goods and fewer than 1% exported services[2] (CSO, 2013). Among SMEs, especially medium-sized enterprises stand out, exporting 47% of goods and over 22% of services. Definitely more goods than services are also exported by small businesses – over 31% vs. 8%. Imports show a similar relationship. The analysis of data has also revealed an evident prevalence of imports over exports among SMEs operating in Poland in 2007-2013 (Tab.1).

Tab. 1. The structure of exporters and importers of goods and services in Poland in 2007–2013 [%]

Structure:	Company type	2007	2008	2009	2010	2011	2012	2013
goods importers	**micro**	4.5	3.6	3.5	3.4	5.4	5.5	5.8
	small	37.7	41.8	39.2	39.6	39.2	39.0	41.3
	medium	55.8	59.8	58.5	57.4	57.3	57.2	58.2
goods exporters	**micro**	2.2	1.8	2.1	2.0	2.6	2.9	3.1
	small	28.4	32.0	32.1	32.4	28.6	30.0	31.5
	medium	43.9	47.7	48.6	47.5	45.0	47.1	47.3
services importers	**micro**	N/A	N/A	N/A	0.4	0.4	0.5	0.6
	small	N/A	N/A	N/A	7.9	8.0	9.1	10.2
	medium	N/A	N/A	N/A	23.0	23.7	26.9	29.9
services exporters	**micro**	N/A	N/A	N/A	0.3	0.3	0.3	0.4
	small	N/A	N/A	N/A	6.2	6.5	7.1	8.1
	medium	N/A	N/A	N/A	16.3	16.4	19.1	22.4

Source: own calculation based on CSO data for 2008–2014

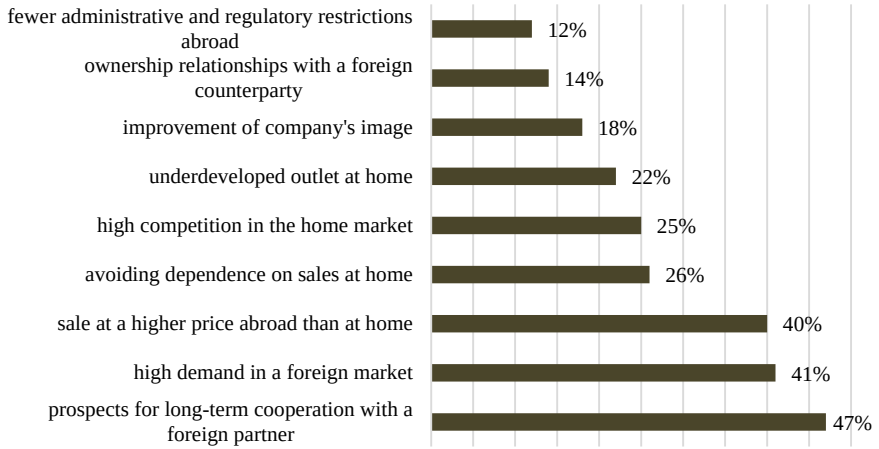
Polish companies prefer foreign trade in the EU market. They ever more frequently establish cooperation with non-EU countries – cooperation visible since 2009 for imports and showing a steady trend for exports. The SME share in international trade is by far higher than that of large companies active in the market, for all examined indices. Legal regulations also matter as they can both encourage and significantly hinder the development of international cooperation (see: Wang *et al.*, 2017, pp.182-185; Klapper *et al.*, 2006, pp.591-629).

[2] 4.6% (i.e. 819 thousand companies); 0.9% (i.e. 16.5 thousand companies).

2. Polish Foreign Trade in the Light of Empirical Research

Polish entrepreneurs indicate long-term cooperation with foreign partners as SMEs' main motivation to export – over 40%. Observed high demand in a foreign market and the opportunity to sell at a higher price than in the domestic market are of vital importance too (PARP, 2015). The surveys indicated the conditions for taking up and pursuing international activities by SMEs and their opinions on the available public support instruments for international operations (Fig. 4).

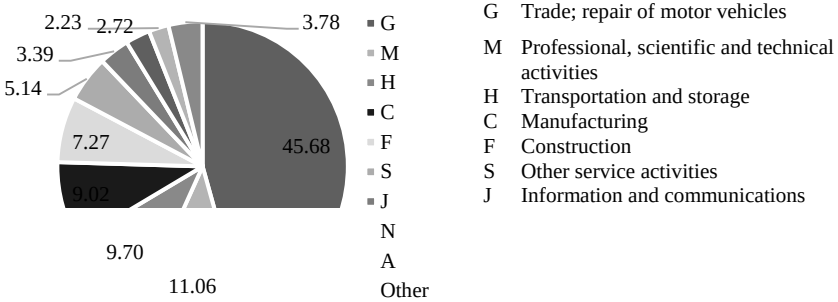
Fig. 4. Main reasons for starting export operations as reported in the survey



Source: PARP, 2015, p. 84

A detailed analysis has revealed that almost every second company surveyed is engaged in wholesale and retail trade, repair of motor vehicles including motorcycles – 45.68%(Polish Classification of Activities (PKD) section G). Every tenth represents professional, scientific and technical activities – 11.06% (M), and transportation and storage – 9.70% (H) (Fig.5). The smallest share was demonstrated for accommodation and catering – 0.48%.

Fig. 5. Internationalisation of enterprises by PKD section [%]

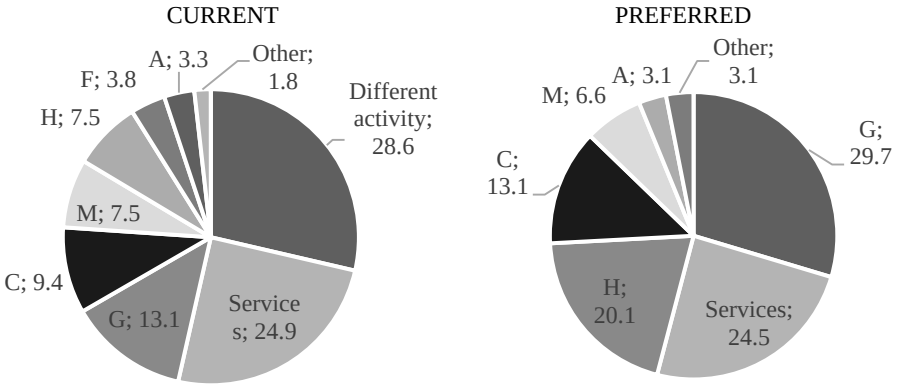


N Administrative and support service activities
A Agriculture, forestry and fishing

Source: own calculation based on PARP data, 2014, p. 33

The results of the author's own research conducted among SMEs in the Wielkopolskie region confirm the interest in trade as almost 30% of respondents wished to carry out activities in this field although this section ranked third and was indicated by 13.1% of respondents (Fig. 6).

Fig. 6. The shares of business sectors by PKD section [%]



Source: own calculation based on PARP data, 2014

The current share of companies operating in the services sector and that of enterprises that still see this sector's trade attractiveness are similar (24.9% vs. 24.5%). The position of the construction section is also noteworthy. In the survey, it is represented by 3.8% of respondents who intended to change their business profile in the future – in the long term, only 0.9% see their future in this sector. Respondents show an increased interest in industrial activity (9.4% vs. 13.1%).

One quarter of respondents is currently involved in international trade, with 22.5% of those surveyed with more than one EU country. 18.5% of respondents intend to start foreign trade operations within 5 years, also considering a change of sector. 91.0% say that they can communicate in English and 68.5% in German. The main determinant indicated by most respondents as a barrier to participation in international trade is financial reasons.

What entrepreneurs expect most is informational and promotional as well as consulting and training support, which confirms the literature assumptions outlined in the introduction hereof as regards the opportunities of SMEs and the need for state support.

Nonetheless, they are reluctant to resort to public support. The absence of such a need is the most frequently declared (49.2% of respondents) reason for this. 13.6% do not believe that such actions may prove to be efficient, and 12.2% do not have confidence in the support offered by public institutions. 11.4% think that the support offered is not adequate to their needs, and 10.6% of respondents are not able to meet the formal requirements imposed by the public sector. It should be emphasised that nearly every third entrepreneur surveyed did not know anything about the opportunities to obtain such funding (see also: Zapletalova, 2013, pp.572-577). Entrepreneurs expect financial support in the stage of planning to start international activities, entry and operation in a foreign market as well in the consolidation stage (36%). Almost every second respondent expects co-financing of investment. Among the most frequently mentioned needs, subsidies to contract insurance ranked second and refund of the cost of obtaining licenses, patents, certificates and approvals in foreign markets took the third position. In the context of standardisation and unification in global markets, such support seems indispensable.

Conclusion

International trade development allows for achieving economic growth and concerns not only trade in goods but also in services and intellectual property, and foreign direct investment.

It is obvious that not all enterprises in national economies will become international. In Poland, however, only one in five small and medium-sized enterprises is engaged in foreign trade. The main players in the international market, in addition to the EU-28, are the US and China – the countries that should also be targeted by Polish entrepreneurs seeking to establish and develop international cooperation.

Polish companies most often engage in trade by exporting, importing or both. Import intensity of exports is also noticeable. The key issues include the degree of internationalisation and the existence of a support system allowing the development of SMEs in this respect. According to CSO data, in 2013 fewer than 5% of companies operating in Poland exported goods and fewer than 1% exported services. Definitely more goods than services are also exported by small businesses – over 31% vs. 8%. Imports show a similar relationship. The author's own research reveals that entrepreneurs are not afraid to change or expand their business activities and are primarily driven by profitability of transactions, prospects for establishing long-term cooperation and high demand for products originating in Poland in foreign markets. To summarise, SME internationalisation and globalisation is becoming widespread. It is accompanied by expectations of SMEs towards the state. The ongoing standardisation and unification should be supported

by the state along with forms of financial security and contract insurance. What SME entrepreneurs expect most is support as regards co-financing investments that are a necessary and costly element of the international activity development process. This thus raises the question about the methods and ways of providing knowledge on opportunities offered by public institutions to support SME international activities.

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