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Evaluating the impact of environmental factors on the international competitiveness of Small and Medium-sized Enterprises in the Western Balkans

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Small and Medium-sized Enterprises (SMEs) with an export potential face significant obstacles in gaining international competitiveness, due to the highly dynamic environment in which they operate. This study evaluates the impact of environmental factors on international competitiveness of the Western Balkans SMEs by identifying the key pairs of environmental factors and factors of international competitiveness, which facilitate an increase in international competitiveness of these firms. The paper also studies the importance of strategic planning and decision making process in the Western Balkans SMEs. Research is based on a questionnaire conducted on the representative sample of SMEs in Serbia, Montenegro and Bosnia and Herzegovina in the period September 2008 to March 2009. The findings of the research indicate which significant environmental factors have an impact on gaining the international competitiveness of the Western Balkans SMEs, therefore offering sound basis for strategic positioning and further gaining of competitive advantage.

Key words: International competitiveness, small and medium enterprises, strategic positioning environmental factors, Western Balkans.

INTRODUCTION

Small and medium sized enterprises (SMEs) are the focus of this study because they have a significant role in many economies (Zou and Stan, 1998; Ulubağcıoğlu et al., 2009). SMEs are instrumental to the economic development of Serbia, Montenegro and Bosnia and Herzegovina. In Serbia, these firms represent 99% of all firms. They employ over 2/3 of national workforce; participate with 70% in the overall trade of goods and services and with 50% in total exports (Ministry of Economy and Regional Development of the Republic of Serbia, 2009). With its foreign-trade deficit in constant increase, gaining international competitiveness of SMEs is crucial to the further economic development in Serbia. In fact, Serbia still has not reached its gross domestic product (GDP) per capita level which it had in 1989. In 2008, it measured

80% of GDP and 50% of industrial production registered in 1990. Although GDP primarily depends on market demand, due to privatization and implementation of structural reforms it has increasingly been reliant on factors of supply such as investments, competitiveness and productivity. Direct foreign investments in Serbia for the period from 2002 to 2008 added up to 12.42 billion dollars (Serbian Chamber of Commerce, 2008). Low export rates and significant increase in importation deteriorated both the trade deficit and the balance of payment (Bartlett, 2007). High foreign-trade deficit is primarily generated by insufficient scope and low share of exports in GDP. The coverage of imports by exports of goods was less than 50%, except in 2006 and 2007, when it was 51.0% and 50.1%, respectively (National Bank of Serbia, 2008). In Montenegro SMEs represent 80.22% of all firms, and they employ 60% of national workforce, with participation of 60% in GDP, and 22.23% in overall exports (Directorate for Development of SMEs of Montenegro, 2008). SMEs in Bosnia and Herzegovina

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represent 99% of all firms, employing 53% of all workforce, and participating with 36% in GDP (Dzafic, 2006).

Considering the above, it can be concluded that SMEs play a significant role in transitional economies in the Western Balkans. In fact, transitional processes in the Western Balkan countries stipulated restructuring of the entire economic scene, invoking the creation of adequate business environment and legislative and institutional system preconditions necessary for fast and dynamic development of SMEs. In the Western Balkan countries, SME sector is expected to have a great contribution to the successful closure of transitional processes, integration into the European Union and improvement of their economic performance. Therefore, the essentiality of SMEs in the Western Balkans is evident in their high levels of flexibility and adaptability to highly dynamic environment. As a result, it is expected that the active participation of SMEs on the international market will make a great contribution to further economic development in the Western Balkan countries.

The focus of this study is the validation and analysis of environmental factors which have a determining impact on international competitiveness the Western Balkans SMEs through employment of qualitative and quantitative methods. Therefore, a specific research was executed with an objective to quantitatively test the significance of correlation between the environmental factors and those of international competitiveness of the Western Balkans SMEs. The obtained results allow for creation of healthy and pragmatic assumptions aiming to help the Western Balkans SMEs adapt to the environment in which they operate and maximize their international competitiveness. SMEs are the expected generators of development and change in the Western Balkan countries on their way to European integrations.

An important element of internationalization strategy of the Western Balkans SMEs is international competitiveness, which implies the firms capability to build its own competitive position on the international market under contemporary conditions. International market offers great possibilities for successful exports and other forms of business opportunities for SMEs. However, SMEs operate with very limited financial resources and insufficient experience relative to the global scope of the markets they develop. As a result, SMEs consider internationalization as an emergent strategy (Naude, 2010; Chetty and Campbell-Hunt, 2003; Arranz and de Arroyabe, 2009). This is the main cause of low competitiveness levels of SMEs on the international market. Hence, there is a wrong notion that SMEs cannot have a greater international status than indirect exporters (Rakita, 2003). These arguments are especially stressed in transitional economies, which deal with issues of high internal debt, overdue receivables, dynamic market environment, inadequate milieu for investments, extreme exchange rate fluctuations etc. Therefore, the Western Balkans SMEs operate under extremely unstable conditions, which impact their market positioning to a great extent,

especially when considering the correlation between environmental factors and factors of international competitiveness.

There are numerous factors within a firm which can influence export strategy success, such as organizational culture, capabilities and competencies of the firm, internal status of the export management, location, and product differentiation (Valmohammadi, 2010). Many export market factors can impact the level of marketing adaptation to the foreign market (Wheeler et al., 2008). Some of them include the influence of local government, the exporting image of the country, technological and cost factors, as well as export market differences in terms of product life cycle, culture, infrastructure, and government regulations (Lages and Montgomery, 2004). It is necessary to identify these factors and evaluate their impact on international competitiveness of the Western Balkans SMEs, thus providing the basis for gaining new competitive advantages and better strategic positioning of these firms on the international market.

This paper first offers a theoretical overview of related material, and follows with the presentation of the hypotheses which are the foundation of this particular empirical research. These hypotheses are then tested with an objective of gaining and maintaining international competitiveness of the Western Balkans SMEs. Finally, the research methodology is presented along with the findings, whose legitimacy is additionally analyzed in the conclusion of the paper with a special emphasis on their theoretical, as well as empirical implications.

THEORETICAL BACKGROUND

Gaining international competitiveness is an imperative for nations, regions and firms respectively. Exporting is crucial for countries since it contributes to the economic development on both macro and micro level (Hessels and van Stel, 2010). It impacts the amount of foreign exchange reserves, the level of imports a country can afford, and at the same time it moulds the public perception on international competitiveness. Besides, export enhances social prosperity and helps development of national industries, improvement of productivity and creation of new jobs (Bennett, 2010). Firms on the other hand value exporting because it allows for creation of market diversification which offers less dependency on the domestic market. In addition, operating in international markets benefits these firms in gaining more competitiveness on the domestic market as well (Lages and Montgomery, 2004). Exporting is an instrumental tool for firms in reducing production costs, stabilizing cyclical demand, reaching new markets and gaining experience for other forms of internationalization (Czinkonta, 1994).

Today, exporting is one of the fastest growing economic activities essential for both countries, and firms. However, there is still no theoretical framework for researching the export activity phenomenon (Leonidou et

al., 2002). The intention to internationalize is influenced by managerial views on the firms competitive advantage, readiness to export, the risk associated with internationalization and the perceived internal and external barriers in international business (Jaffe and Pasternak, 1994; Doern, 2009; Etemad and Wright, 2001). Internationalization is the process through which firms increase their exposure and response to international opportunities and treats through a variety of cross-border modes of operations (Morgan-Thomas and Jones, 2009, Bello, 2009). Calof and Beamish (1995) claim that attitudes of the SMEs decision makers contribute to internationalization of these firms more than environmental factors and that they make international decisions based on previous experience (Holbrook et al., 2000; Welch and Luostarinen, 1988). However, it is evident that there are numerous market factors and factors within a firm which can impact the success of export strategy (Lages and Montgomery, 2004), since "competitive advantage grows out of the entire system of activities." (Porter, 1996).

Leonidou (2004) classified factors which influence export activities and divided them into internal barriers, associated with organizational resources, capabilities and export approach, and external barriers of environment, which grow out of wider business environment, government regulations and procedures. This classification helped in creation of the questionnaire for SMEs used to conduct the research in this paper, as well as to validate the impact of environmental factors on international competitiveness of SMEs.

In conditions of globalization of business, international competitiveness of the Western Balkans SMEs comes into focus during realization of export activities on the international market. Since SMEs are unable to compete in price with multinationals and large firms, they must construct their competitive advantage differently. The main advantage of the Western Balkans SMEs is favourable geographical position, provided by closeness and connections to other foreign markets. In addition, their second important advantage is right in their simple organizational structure. Large firms are often faced with difficulty when having to readjust to changes in the market because of "corporate policy", while the simple structure of SMEs allows for quick adjustment of business strategies to satisfy ever changing demands of the international market. Production flexibility and favourable geographical position of the Western Balkans SMEs offer export possibilities for products manufactured in small series in accordance with special needs and demands of the international market. Another advantage the Western Balkans SMEs have is high corporate commitment, which is essential in creation of a good relationship with the importer and in gaining better competitive advantage over large firms (Czinkota, 1994). Although SMEs incorporate different internationalization strategies, exporting is the most common entry mode to the foreign market, since it involves minimal business risk

and capital required (Leonidou and Katsikeas, 1996). SMEs mostly enter the foreign market in reaction to a particular event ("trigger"), such as unsolicited order. Their reaction to the opportunities on the foreign market is primarily motivated by possibilities for growth and survival (Wiklund et al., 2009). International "expansion pattern" is staged and it focuses on the countries that are close geographically after domestic growth opportunities have been exhausted. The rate of their international expansion is slow and gradual. Conventional foreign market entry strategies, such as direct sales and the use of agents are most commonly used, while "international strategy" tends to be *ad hoc*, opportunistic and reactive to particular opportunities (Graves and Thomas, 2008). Considering up-to-date market moment, both on micro and macro level, as well as comparative research in this field, the following hypotheses will be tested:

H₁: The Western Balkans SMEs make little account of strategic planning and decision making which limits their international competitiveness.

Research interviews of Lages and Melewara (2000) discovered that SMEs are especially reactive, more than proactive, since they have limited financial resources and their survival depends more on achievement of positive short-term results. Consequently, a significant number of the Western Balkans SMEs enter the so called "*circulus vitiosus*", where they are not able to improve their performance in the long term since they quickly make short term decisions, without observing the impact of their strategy, planning and decision making process in the long term (Lages and Montgomery, 2004).

H₂: The Western Balkans SMEs do not have a work force which is competent enough to bring about significant improvement to their international competitiveness.

One of the main obstacles in decision making regarding business internationalization is the lack of knowledge about foreign markets (Johanson and Vahlne, 1978; Olawale and Garwe, 2010). The amount of knowledge which the decision maker possesses about internationalization is influenced by the decision makers' level of education (Simpson and Kujawa, 1974), foreign market experience, knowledge of foreign languages (Langston and Teas, 1976), and country of origin (Simmonds and Smith, 1968). The Western Balkans SMEs are often managed by the owner himself, who is at the same time the most competent resource in the firm, essential to its survival. Because of the limited financial capabilities and difficult working conditions in transitional economies, there is a problem of finding the competent work force which could improve the firm's business processes.

Firms with limited knowledge and experience of foreign markets seek this knowledge from their distributors and customers (Welch and Luostarinen, 1988). By establishing these relationships the Western Balkans SMEs

improve their international efforts and enhance their success rates (Coviello and McAuley, 1999). As a firm internationalizes it has to develop structures and routines in accordance to its internal resources and competences which will help it acquire experiential knowledge about its foreign markets (Eriksson et al., 1997). The causality and importance of the environmental factors and those of international competitiveness of the Western Balkans SMEs are tested in the following hypothesis:

H₃: Numerous internal and external environmental factors have an impact on international competitiveness of the Western Balkans SMEs, and the most important ones are related to the business conditions in economies in transition.

The Western Balkans SMEs do business in a highly changeable business environment typical for transitional economies. This means doing business in the dynamic business environment characterized by investment problems, "expensive loans", problems with overdue receivables, obsolete technology in manufacturing, unstable exchange rates, high levels of corruption and bureaucracy, as well as political instability. The Western Balkans SMEs have to address attitudinal, structural, operational and other constraints to their international competitiveness (Leonidou, 1995; Morgan and Katsikeas, 1997; Westhead et al., 2002). Hence, small and medium sized enterprises with more limited internal resources may be unable to make calculated judgments in regards to opportunities in their external environments, and viability of selling goods or services abroad.

H₄: Global recession has had and will have a significant impact on the Western Balkans SMEs.

Western Balkan countries are affected to a great extent by negative effects of the world economic crisis, which can be observed through their recession, turbulence on the stock exchange market, deposit withdrawal in banks, deceleration of loan offer by banks towards firms and population, increase in cost of foreign financing, growing pressure on the exchange rate, increased loan risk etc. A decrease in exports is one of the main contributors to economic growth deceleration in the Western Balkan countries during global economic crisis and global recession. This crisis in global economy caused a decrease in import demand of the surrounding countries, affecting negatively the export potential and international competitiveness of the Western Balkans SMEs.

METHODOLOGY

Within applied methodology in the research, the following scientific methods have been used: induction, deduction, analysis, synthesis, statistical-mathematical methods and qualitative-quantitative methods of data processing. The statistical-mathematical part of the research was carried out by using software programs; Microsoft

Excel and Edu Stat. The data on environmental factors which have a determining impact on international competitiveness of the Western Balkans SMEs is collected using a specially designed questionnaire. This method is selected in order to gather relevant information required for testing previously stated hypotheses. The suitability of the finalized version of the questionnaire was pre-tested by eight graduate students working in SMEs. The questionnaire was refined based on interviews with the pre-test subjects, following which it was distributed to the Western Balkans SMEs (ones with an exporting experience and/or potential) in the period from September 2008 to March 2009. The questionnaire was distributed along with a cover letter explaining the purpose and goals of the research. Westhead et al. (2001) detected recently that firms with prior export experience were more likely to be exporting firms. According to the European Union (EU) regulations SMEs have less than 250 employees, annual turnover of less than 40 million euros, and are controlled independently. The initial sample consisted of 300 SMEs from the Western Balkan countries. Due to data availability and possibility of their dynamic processing, the representative sample consists of 138 Western Balkans SMEs (a 46% response rate). The response rate of 46% is satisfactory since people in managerial positions tend to respond less often to such research projects than people in general population (Hunt and Chonko, 1987; Palcic and Lalic, 2009). The representative sample consists of 58 SMEs from Serbia (42.03% of the sample), 34 SMEs from Montenegro (24.64% of the sample), and 46 SMEs from Bosnia and Herzegovina (33.33% of the sample). The questionnaires were completed by firms managers, which was proven by their stamp and signature.

Empirical analysis in the paper is conducted on the entire representative sample of the Western Balkans SMEs, since they all operate in dynamic, changeable market conditions, and their level of development, the phase of transition process and the degree of the EU integrative processes are analogical. For the purposes of adequate data processing, universal scale from 1 to 5 has been used in the questionnaire in order to assess given parameters (1 – the least important, 5 – extremely important). Six parts can be recognized in the questionnaire.

The first part of the questionnaire features general information on the firm, which determines the place, size and basic activity scope of the business. In the second part of the questionnaire the importance and position of the firm on the domestic and international market are taken into consideration. The third part is related to the main barriers in the environment which firms most commonly face. Given are 24 factors which could have a significant impact on the Western Balkans SMEs today. The fourth part of the questionnaire assesses the importance of the international competitiveness factors for the overall success of the Western Balkans SMEs. This part offers 50 factors which include all functions of the firm and all aspects of doing business in the contemporary market environment. The fifth part of the questionnaire gives the SMEs an opportunity to inscribe their suggestions for improvement, which they believe would make their firm more competitive on the foreign market. The last, sixth part of the questionnaire considers effects of the global recession on the Western Balkans SMEs.

Statistical analyses in the paper include the following statistical-mathematical methods: descriptive statistics and method of correlation. The descriptive statistics is implemented first and its result is the average value of the importance of individual environmental factors and factors of international competitiveness of the Western Balkans SMEs., including mode, minimum and maximum values, and ratio of standard deviation. A ranking list of the most important factors is obtained using the average value of the importance of individual environmental factors and factors of international competitiveness of the Western Balkans SMEs. Following that step, the method of correlations was applied (Spearman's rank of correlation), in order to determine the impact of particular environmental factors on the factors of international

competitiveness which are important for the success of the Western Balkans SMEs. For the purposes of the research, environmental factors and factors of international competitiveness of SMEs were paired in order to test the presence of correlation between them.

The goal of Spearman's rank of correlation is to test whether there is a quantitative congruency (correlation) between the ranks of two observed variables, and if so, to which degree. Unlike simple correlation which indicates the presence of linear congruency, rank of correlation tests whether there is a monotonous relationship between two variables (constantly growing or constantly decreasing). Spearman's rank of correlation is non-parametric unlike Pearson's rank of correlation which is parametric.

RESULTS

This part of the paper presents and analyzes the research findings regarding the impact evaluation of the environmental factors to the international competitiveness of the Western Balkans SMEs. Particularly, key environmental factors and those of international competitiveness of the Western Balkans SMEs are identified with an emphasis on their significant correlation. In order to obtain valid research results, representative sample of the Western Balkans SMEs was analyzed. Representative sample includes 138 Western Balkans SMEs. Questionnaire research was conducted on the representative sample of the firms in Serbia, Montenegro, and Bosnia and Herzegovina in the period from September 2008 to March 2009.

Proper identification of the key environmental and international competitiveness factors of the Western Balkans SMEs in this research included the analysis of the reference literature, adequate theoretical backgrounds and research in this field, especially from the international competitiveness aspect. Therefore, the list of environmental factors includes internal and external barriers relevant for the operation and international competitiveness of the Western Balkans SMEs today. Keeping in mind the importance of the totality of factors of international competitiveness, the questionnaire used in the research includes the following modules for the factors of international competitiveness of SMEs:

- i. Management and strategy
- ii. Innovations
- iii. Marketing
- iv. Technologies
- v. Finances
- vi. Environmental awareness
- vii. Control
- viii. Working force
- ix. Fiscal policy

Research results in the paper are presented in the Table 1. Environmental factors of the Western Balkans SMEs are presented and ranked according to their significance in Table 1. Environmental factors relevant for SMEs were ranked according to the average value of the obtained answers from the sample. For each examined individual

environmental factor minimum and maximum value is determined based on the examinees answers. The mode is also calculated in order to obtain the most frequently used value in the set of numbers, that is, the examinees answers. This approach additionally confirms the importance of the particular environmental factor of the Western Balkans SMEs. Analogically, in Table 2, the factors on international competitiveness of the Western Balkans SMEs were presented and ranked according to their importance. The same as in Table 1, factors of international competitiveness were ranked in accordance to the average value of the answers obtained from the sample. Minimum and maximum values and the mode were allocated according to the answers provided by the sample group. Standard deviation coefficient in Tables 1 and 2 portrays the diversity of obtained data in the research. For the environmental factors relevant to the Western Balkans SMEs (Table 1), standard deviation coefficient ranges from 0.725 to 1.389, while for the factors of international competitiveness (Table 2) this range is between 0.355 and 1.248. Values of standard deviation coefficient in Tables 1 and 2 indicate that the measure of deviation is small, meaning that the data is concentrated around the average value. This proves that the average value is a good representative for the given set of data.

Environmental and international competitiveness factors relevant to the Western Balkans SMEs, presented respectively in Tables 1 and 2, were paired with an aim to determine the correlation using the Spearman's rank of correlation. In order to test the presence of correlation using the statistic software program Edu Stat, the relationship between particular environmental factors and those of international competitiveness in the Western Balkans SMEs had to be obtained first, and the most significant eleven pairs analyzed (Table 3). Their significance was determined based on the previous research experience, adequate theoretical background, as well as qualitative data provided by the examinees, who stated their opinion in question number 12 of the questionnaire indicating the key elements which would improve their competitiveness on the international market. Based on that, eleven key factor pairs were formed, whose mutual impact and correlation were later tested. Correlation results presented in Table 3, show that there exists presence of monotonous positive correlations among all suggested pairs. This proves that there is a quantitative congruence, that is, the monotonous positive correlation among the observed pairs of the environmental factors and factors of international competitiveness of the Western Balkans SMEs.

Research results point out to the most significant environmental factors and those of the international competitiveness of the Western Balkans SMEs. Particularly, considering the data from Table 1 it can be concluded that the exchange rate fluctuations, political instability on the domestic market, and problems with overdue receivables are the most significant environmental

Table 1. Significant environmental factors of the Western Balkans SMEs.

Rank	Environmental factors influencing SMEs	Average value	Min. value	Max. value	Mode	Std. dev. coefficient
1.	Exchange rate fluctuations	4.38	2	5	5	0.725
2.	Political instability on the domestic market	3.92	1	5	4	1.085
3.	Problems with overdue receivables	3.82	1	5	4	1.351
4.	Finding the corresponding business partner	3.58	1	5	3	1.144
5.	Inadequate bank support	3.56	1	5	4	1.248
6.	Incompetent work force on the market	3.54	1	5	4	0.994
7.	High level of corruption	3.52	1	5	5	1.389
8.	Juridical efficiency	3.50	1	5	5	1.344
9.	High taxes	3.48	1	5	3	1.054
10.	Complicated procedures during realization of export activities	3.46	1	5	4	1.034
11.	Energy price	3.44	1	5	4	1.248
12.	Implementation of law	3.30	1	5	4	1.147
13.	High transportation costs	3.26	1	5	4	1.065
14.	Failure to comply with contractual obligations	3.16	1	5	3	1.299
15.	Lack of relevant information about the foreign markets	3.12	1	5	3	1.118
16.	Compliance with necessary quality standards	3.12	1	5	4	1.154
17.	Customs barriers	3.04	1	5	4	1.355
18.	Lack of the local government stimulation	3.04	1	5	3	1.212
19.	Inadequate legislation	2.98	1	5	3	1.169
20.	Inadequate infrastructure	2.70	1	5	3	1.055
21.	Lack of raw materials	2.58	1	5	1	1.326
22.	Expensive telecommunication services	2.56	1	5	3 and 2	1.181
23.	Difficulties in purchasing/renting the property	2.12	1	5	1	1.172
24.	Other	1.40	1	5	1	1.125

Source: Authors' calculations.

factors which have an impact on the Western Balkans SMEs. In contrast, the least important environmental factors which have an impact on the Western Balkans SMEs are difficulties in purchasing/renting the property, expensive telecommunication services and the lack of raw materials (Figure 1).

In accordance with the data from Table 2, it can be concluded that financial stability, existing human resources, financial capabilities, as well as financial resources present the most significant factors of international competitiveness of the Western Balkans SMEs. The least significant ones are public relations, relationship with consultants, as well as availability of professional help in matters of negotiation (Figure 2).

Research results in the paper indicate that there is a presence of correlation between the observed pairs of the environmental factors and factors of international competitiveness of the Western Balkans SMEs. Particularly, application of the Spearman's rank of correlation on all observed pairs (Table 3,) determined the presence of the monotonous positive correlation. The most important environmental factors and factors of international competitiveness of the Western Balkans SMEs have moderate monotonous positive correlation, and they are:

- i. Pair I: Lack of the local government stimulation – Relationship with the state government
- ii. Pair II: Inadequate support of the banks to the firms – Financial sources
- iii. Pair III: Juridical efficiency – Firms efficiency of the lawsuit and defence in the court of law
- iv. Pair IV: Implementation of law – Knowledge and expertise in law
- v. Pair V: Exchange rate fluctuations – Financial stability

The analysis of data (Table 3) shows that there is a significant correspondence between the stimulation of local governments and the state government, in regards to functioning of SMEs in the Western Balkans. The European Charter for Small Enterprises is one of the European Unions instruments for EU member states and candidate countries alike, intended to facilitate business environment for the Western Balkans SMEs. It is expected that its implementation will have a strong impact on state policies and influence positive repercussions on the local government stimulation to the Western Balkans SMEs. It is also concluded that bank support has an impact on the Western Balkans SMEs business possibilities, since it is a source of financial availability. In this sense banks directly influence international

Table 2. Significance of the factors of international competitiveness for the Western Balkans SMEs.

Rank	Significance of the factors of international competitiveness for SMEs	Average value	Min. value	Max. value	Mode	Std. Dev. coefficient
1.	Financial stability	4.60	3	5	5	0.355
2.	Available human resources	4.28	3	5	4	0.573
3.	Financial capabilities	4.28	3	5	4	0.607
4.	Financial resources	4.26	3	5	4	0.600
5.	Effective methods of cost control	4.14	2	5	4	0.783
6.	Leader's capability and character	4.12	2	5	4	0.746
7.	Successful strategies in price negotiation	4.12	3	5	4	0.627
8.	Experience in negotiation	4.12	2	5	4	0.746
9.	Technology innovation capabilities	4.10	1	5	4	0.863
10.	Motivation and satisfaction of employees	4.08	1	5	4	0.853
11.	Sustainable development of technology, research and development	4.08	2	5	4	0.752
12.	Effective production management	3.98	2	5	4	0.869
13.	Previous experience of the firm	3.92	1	5	4	0.966
14.	Product and price information availability	3.92	1	5	4	0.804
15.	Effective contracting management	3.84	1	5	4	0.866
16.	Strategic planning	3.82	1	5	4	0.941
17.	Buyer's power of negotiation	3.82	1	5	4	0.919
18.	Industrial branch	3.80	1	5	4	1.030
19.	Sustainable development of human resources	3.80	1	5	4	1.010
20.	Effective interaction between top management and other employees	3.76	1	5	4	0.960
21.	Effective system of safety and health management	3.76	1	5	4	1.001
22.	Capability of agreement dispute resolution	3.76	1	5	4	1.061
23.	Effective system of quality control	3.74	1	5	4	0.965
24.	Implementation of information technologies	3.70	1	5	4	1.055
25.	Effective methods of time control	3.70	1	5	4	1.055
26.	Clear competitive strategy	3.66	1	5	4	0.961
27.	Effective strategic management	3.66	1	5	4	0.895
28.	Proper strategic control and feedback	3.66	1	5	3	0.961
29.	Logistics and distribution	3.66	1	5	4	0.982
30.	Market research and planning	3.62	1	5	4	0.878
31.	Communication and coordination between the functions in the firm	3.58	1	5	4	1.071
32.	Efficiency of lawsuit and defense of the firm in the court of law	3.56	1	5	5 and 4	1.248
33.	Clear definition and division of the firm's functions	3.54	1	5	4	0.952
34.	Aptitude of the organizational structure	3.52	1	5	4	0.886
35.	Organizational culture	3.50	1	5	4	0.974
36.	Proper decision about purchasing or cooperation	3.50	1	5	4	1.055
37.	Supplier's power of negotiation	3.48	1	5	4	0.909
38.	Implementation of competitive strategy	3.46	1	5	3	0.944
39.	Capability of market data collection and processing	3.44	1	5	4	1.013
40.	Knowledge and expertise in law	3.44	1	5	4	0.951
41.	Danger of new competitors	3.40	1	5	4	1.069
42.	Intensity of competition between the existing firms	3.38	1	5	4	1.141
43.	Firm size	3.26	1	5	4	1.026
44.	Effective system of environmental management (ISO 14000 and such)	3.24	1	5	3	1.188
45.	Effective risk management	3.16	1	5	3	1.167
46.	Danger of substitutes	3.10	1	5	3	1.093

Table 2. Contd.

47.	Relationship with the state government	3.00	1	5	3	0.904
48.	Professional help availability in negotiation	2.82	1	5	3	1.004
49.	Relationship with consultants	2.76	1	5	3	1.153
50.	Public relations	2.36	1	5	3	1.120

Source: Authors' calculations.

Table 3. Impact correlation of particular environmental factors on factors of international competitiveness of the Western Balkans SMEs.

No.	Environmental factors of the Western Balkans SMEs	Factors of international competitiveness of the Western Balkans SMEs	Spearman's correlation coefficient r	Statistical inference
1.	Lack of the local government stimulation	Relationship with the state government	0.6116	There is a moderate monotonous positive correlation in the sample.
2.	Inadequate bank support	Financial resources	0.5558	There is a moderate monotonous positive correlation in the sample.
3.	Juridical efficiency	Efficiency of lawsuit and defense of the firm in the court of law	0.4853	There is a moderate monotonous positive correlation in the sample.
4.	Implementation of law	Knowledge and expertise in law	0.4742	There is a moderate monotonous positive correlation in the sample.
5.	Exchange rate fluctuations	Financial stability	0.4958	There is a moderate monotonous positive correlation in the sample.
6.	Inadequate legislation	Knowledge and expertise in law	0.4013	There is a weak monotonous positive correlation in the sample.
7.	Failure to comply with contractual obligations	Capability of agreement dispute resolution	0.3730	There is a weak monotonous positive correlation in the sample.
8.	Failure to comply with contractual obligations	Efficiency of lawsuit and defense of the firm in the court of law	0.3015	There is a weak monotonous positive correlation in the sample.
9.	Lack of relevant information about the foreign markets	Market research and planning	0.2774	There is a weak monotonous positive correlation in the sample.
10.	Inadequate infrastructure	Technology innovation capabilities	0.2100	There is a weak monotonous positive correlation in the sample.
11.	Inadequate infrastructure	Aptitude of the organizational structure	0.1999	There is a weak monotonous positive correlation in the sample.

Source: Authors' calculations.

competitiveness of the Western Balkans SMEs, considering that they are among the most significant elements in determining the export activities of these firms on the international market. The possibility of effective

resolution of judicial processes has positive repercussions on international competitiveness of the Western Balkans SMEs.

Particularly, the recent period has been characterized

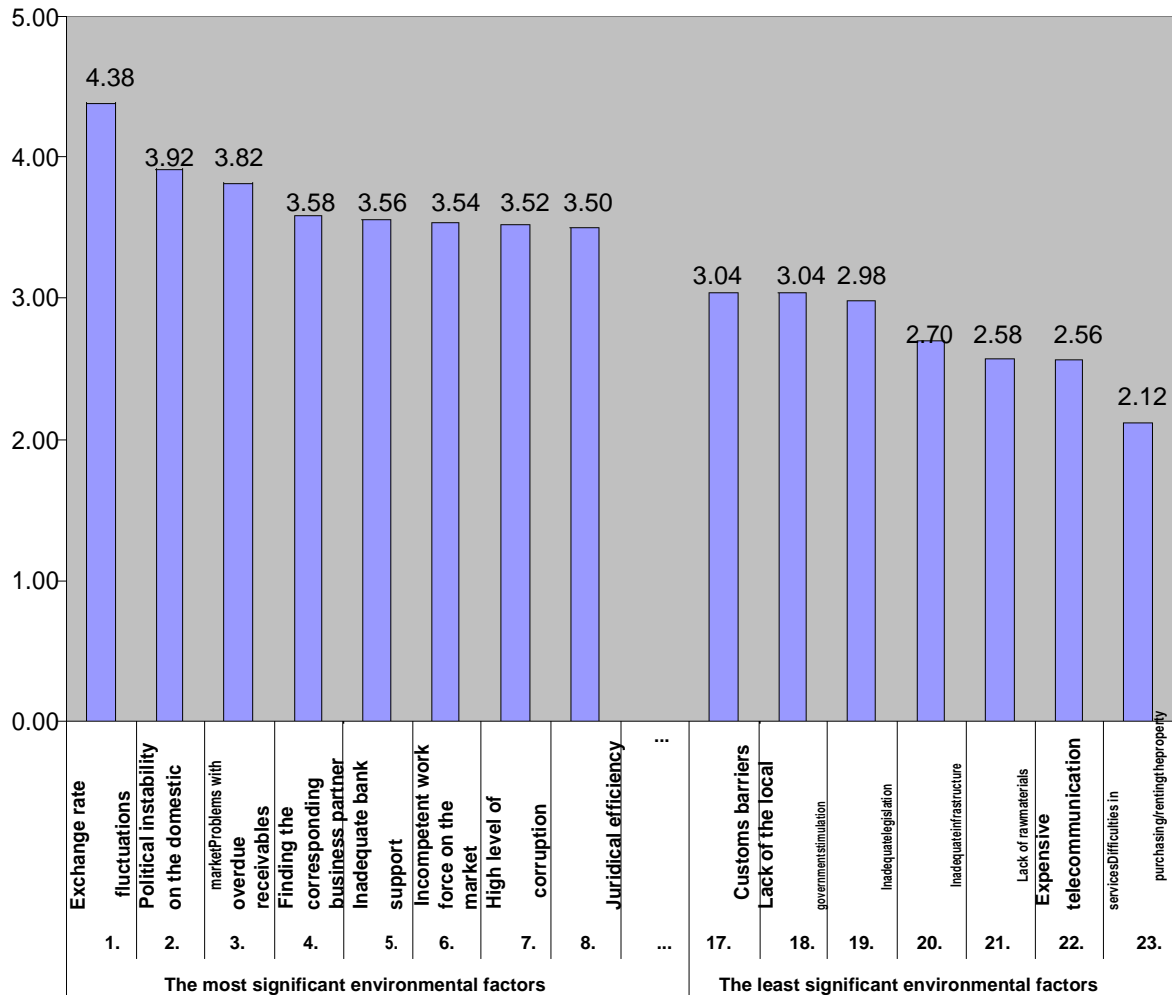


Figure 1. The most significant and the least significant environmental factors relevant for the Western.

by complex and long judicial processes, which is highly inconvenient for the Western Balkans SMEs. Efficiency/inefficiency of the court is in positive correlation with efficiency/inefficiency of law-suit and defense of the Western Balkans SMEs in judicial process, thus having an impact on the international competitiveness of these firms. Research results also indicate that law implementation has an impact on the international competitiveness of the Western Balkans SMEs, that is, the knowledge and expertise in law. In today's dynamic business environment, adequate implementation of law is of great importance for the Western Balkans SMEs, since it creates supportive atmosphere for potential domestic and foreign investors in the region. Also, the exchange rate fluctuations are in correlation with financial stability, which is a significant factor of international competitiveness of the Western Balkans SMEs. The exchange rate fluctuations make it difficult for SMEs to make long term decisions and achieve financial stability, thus focusing only on short term results. Based on this paper's research and in accordance with the described methodology, the

the stated hypotheses are confirmed.

H₁ stated that the Western Balkans SMEs make little account of strategic planning and decision making which limits their international competitiveness. In the part of the questionnaire where the list of factors of international competitiveness relevant for the success of the Western Balkans SMEs is offered, assessment was conducted on the scale from 1 to 5 (1 – the least important, 5 – the most important). Obtained results were ranked from the most significant to the least significant factor in Table 2. From the table it can be seen that financial stability, financial capability, and financial source are priorities for the Western Balkans SMEs, while strategic planning, clear competitive strategy, effective financial management, proper strategic control and feedback are low on the list of priorities. It can also be observed that the Western Balkans SMEs do not consider market research and market data processing a significant component of business success. This confirms the fact that the Western Balkans SMEs place more focus on short term results short term results bringing only the short term profit.

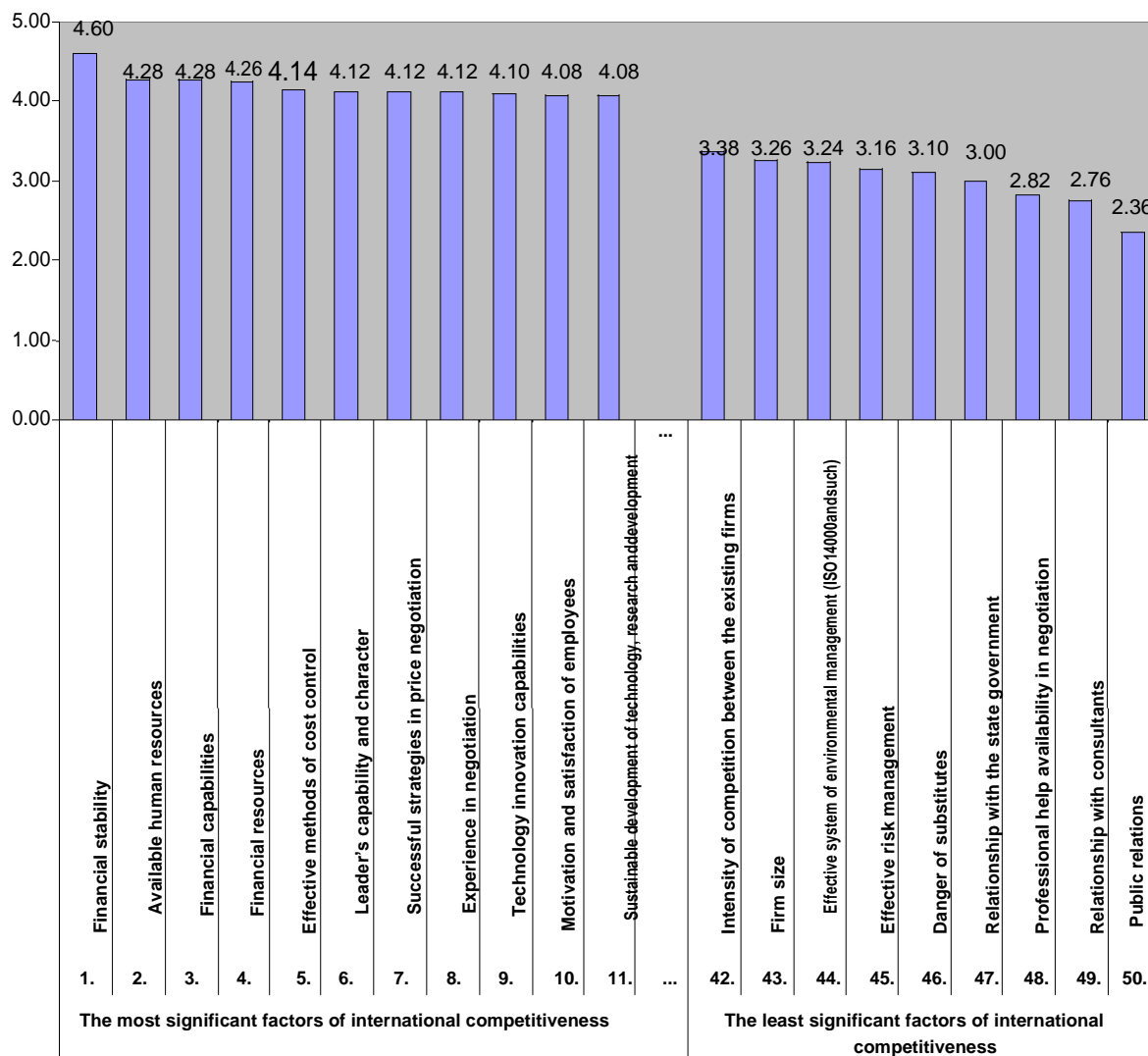


Figure 2. The most significant and the least significant factors of international competitiveness relevant for the Western Balkans SMEs.

Therefore, their strategies are the result of accidental circumstances rather than the strategic planning and decision making.

H₂ stated that the Western Balkans SMEs do not have work force which is competent enough to bring about significant improvement to their international competitiveness. According to the data in Table 2 it can be concluded that the Western Balkans SMEs recognize the significance of the available human resources and technology innovations to their international competitiveness. The lack of the competent work force which could more significantly improve the international competitiveness of the Western Balkans SMEs is one of their greatest barriers on the international market (Table 1).

H₃ stated that numerous internal and external environmental factors have an impact on the international

competitiveness of the Western Balkans SMEs. The most important ones are related to difficult conditions of doing business in economies in transition. The results provided in Table 1 confirm this hypothesis. Internal and external barriers significant for the SMEs were assessed from 1 to 5 according to their importance (1 – the least important, 5 – the most important). The obtained list of ranked environmental factors indicates the most significant issues Western Balkans SMEs deal with today (Table 1). The most significant barriers are exchange rate fluctuations, political instability on the domestic market, problems with overdue receivables, finding the corresponding business partner, inadequate bank support, incompetent work force on the market, high level of corruption, inefficiency of the court of law, high taxes and complicated procedures during the realization of export

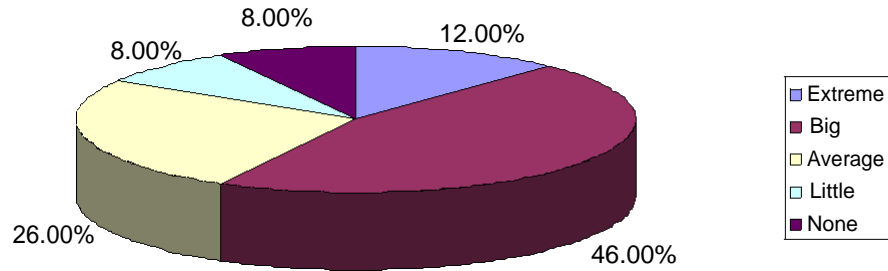


Figure 3. Prediction of the global recession impact on the Western Balkans SMEs.

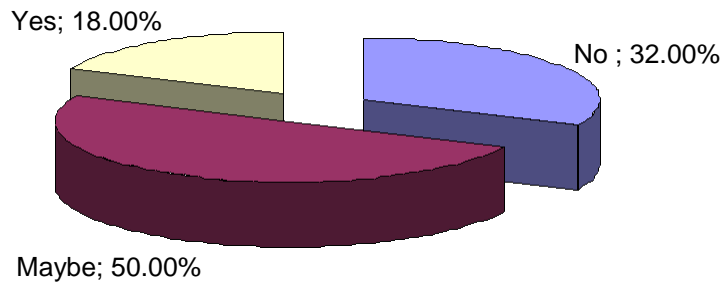


Figure 4. The Western Balkans SMEs' decision to focus on new international markets as a result of global recession.

activities. It can also be concluded that these factors are typical for transitional economies. The stated hypothesis is also confirmed by the established monotonous positive correlation between environmental factors and factors of international competitiveness of the Western Balkans SMEs (Table 3).

H₄ stated that the global recession has had and will have a significant impact on the Western Balkans SMEs. The results from the last part of the questionnaire, which was related to the impact of global recession on the Western Balkans SMEs, confirm the stated hypothesis (Figures 3 and 4).

It is evident that global recession will have a great impact on business of the Western Balkans SMEs, and that one part of these firms will redirect its activities to the new markets, while one half of these SMEs will reconsider their decision about their present activities on the international market and will possibly focus on new international markets.

Conclusion

In the research key environmental factors were identified and their impact on the international competitiveness of the Western Balkans SMEs was evaluated. The findings indicate which key factors in the Western Balkans SMEs greatly influence gaining and maintaining of their international competitive advantage. Particularly, the research results show the significant differentiation of the

observed environmental factors and factors of international competitiveness of the Western Balkans SMEs. The most significant environmental factors which affect SMEs are exchange rate fluctuations, political instability on the domestic market, problems with overdue receivables, finding of the corresponding business partner, inadequate bank support, as well as incompetent work force on the market. Also, the most significant factors in regards to international competitiveness of these firms are financial stability, availability of human resources, financial capabilities, financial resources, as well as effective methods of cost control.

Involvement of the Western Balkans SMEs on the international market includes properly formulated and implemented strategy of internationalization in order to achieve strategic positioning and gaining of the new competitive advantage on the foreign market. Obtained research results point out to the most significant environmental factors and factors of international competitiveness of the Western Balkans SMEs with a special emphasis on their correlation. The research determined that the following environmental and international competitiveness factors of the Western Balkans SMEs are in a moderate monotonous positive correlation: a lack of the local government stimulation and relationship with the state government; the inadequate support of banks to firms and financial resources; the juridical efficiency and the firms lawsuit efficiency and defence in the court of law; the implementation of law and knowledge and expertise in law; as well as the exchange

rate fluctuations and financial stability. The global recession forced Western Balkans SMEs to reconsider their present activities on the international market and will have to focus on new international markets.

The findings in this research should be interpreted with caution since there are certain restrictions. The main source of limitations in the research lies in the questionnaires which were filled out by an individual in the firm in a top management position. Hence, the answers were influenced by subjective perceptions and opinions of that person about the offered questions. Based on the conducted research the significance and correlation of the identified environmental factor on the international competitiveness of the Western Balkans SMEs can be properly observed. In this way, adequate assumptions for strategic positioning of the Western Balkans SMEs on the international market are created by environmental adaptations, that is, by removal of the key barriers in the environment.

The findings in the research represent a significant source, data base and direction to potential domestic and foreign investors, especially when considering the present global recession and dynamic changes on the international market. Hence, these results offer domestic and foreign investors important information based on the empirical and scientifically verified results about the most important environmental and international competitiveness factors which Western Balkans SMEs face, as well as their relationship. This information represents the basis for the decision making process in investing.

In order to further test the correlations presented here, this research should be replicated on the SMEs based in other countries and considering wider region (e.g. Southeastern Europe). Consequently, the focus of further research should be based on the analysis of the environmental factors on the international competitiveness of the SMEs in developed, transitional and post transitional economies, as well as the testing of correlation between the environmental factors and factors of international competitiveness in these countries.

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