EXTERNAL DETERMINANTS OF SMEs’ INTERNATIONALIZATION AND PERFORMANCE IN A CHALLENGING INTERNATIONAL ENVIRONMENT

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Abstract

Competitive performance analysis of enterprises is a useful tool for an assessment of the condition and development potential of small and medium-sized enterprises (SMEs) for effective operation in international environment. Dynamics of the global environment creates opportunities for international entrepreneurship, but also requirements for a rapid adaptation to a new situation, and survival in a post-pandemic world. The objective of this paper is to study the external determinants of internationalization and competitive performance in a challenging environment for international entrepreneurship by a broad overview of the literature and an empirical survey on a representative sample of 500 Bulgarian firms, of which 468 are SMEs. It attempts to contribute to existing theories and models explaining the external factors influencing internationalization and their co-dependence with the competitive performance of SMEs under unforeseen circumstances. The findings demonstrate that unexpected events in the global environment might trigger unpredictable and rapid changes provoking a negative response of companies - shrinking costs, reduction of resources for internationalization, termination of operations that will affect future performance, and international activities of SMEs. The findings can serve as a support tool for practitioners, consultants, and researchers in the analysis and assessment of the impact of unforeseen circumstances and crises on the performance of SMEs targeted at occupying competitive positions in international markets.

Keywords: external environment, determinants, internationalization, SMEs, pandemic measures

1. INTRODUCTION

SMEs play an important role in economic development, employment, and regional growth due to two main reasons - their number and flexibility. SMEs account for 99.8% of all enterprises in the EU-28 non-financial business sector, generating 56.4% of value-added and 66.6% of employment (Muller et al., 2019). That is why their performance, including internationally, is of primary concern to entrepreneurs, researchers, and support institutions. The dynamics of the global environment and influence of external factors create opportunities for international entrepreneurship and partnerships with participation of SMEs, such as more accessible and cheaper communication, international distribution and transport, global marketing, inter-firm cooperation, participation in global value-chains and development of digital tools with global reach. At the same time, they face numerous challenges, need to quickly change their course of action to adapt and survive in unexpected unfavorable conditions, such as the recent global pandemic. Moreover, their internationalization is hindered by lower resources and capabilities. Under such circumstances, analysis of the external environment is of primary importance in taking timely and efficient decisions for maintaining the firms’ competitive performance and for assessment of their condition and potential for development in a challenging international environment.

International entrepreneurship research in emerging economies is a timely and rapidly growing stream of the international entrepreneurship domain (Kiss, Danis and Cavusgil, 2012). Strategic management scholars are concerned with the relationship between key determinants – characteristics of the business environment (as well as organizational structures and processes) and performance (Lumpkin and Dess, 1996). Studying the external determinants that impact the international performance of SMEs is a relevant topic in emerging, post-transition Eastern European economies and newer member states due to two more reasons. First, SMEs’ international activities can contribute to better performance in a limited domestic market with a lower purchasing power compared to the western and older member...
states. There is evidence that global orientation improves firm performance (Cerrato and Piva, 2015). Further empirical evidence from 15,648 internationalizing entrepreneurial firms reveals a positive relationship between degree and scope of internationalization and performance (Schwens et al., 2018). To make this process more efficient, practitioners, researchers, and policymakers need to know which external determinants trigger or hinder international involvement and performance of SMEs. Second, in economic recession and downturn, diversification of markets combined with the flexibility of SMEs and niche orientation provides more opportunities to survive and pass through difficult times. In this sense, it is useful to know how various support mechanisms and measures might affect internationalization and performance. Therefore, a study of external determinants that shape the international performance of small enterprises is even more relevant and valid when passing through difficult times for the global economy. Each enterprise operates in a specific environment and identifying its characteristics is important to contextualize the findings, to set the limits and the generalizability potentials (Kalinic, Sarasvathy and Forza, 2013).

Briefly stated, to utilize the benefits of internationalization in a volatile global and local markets is imperative to get familiar with the external environment by studying and analysis of relevant external factors that determine performance, unarguably affected by disruptive events, such as a global pandemic. Therefore, exploring the external determinants that influence international activities and performance is worthwhile. Following this line of argumentation, the objective of this paper is to study the external determinants of internationalization and competitive performance of enterprises (SMEs) in a challenging environment for international entrepreneurship, and thereby to contribute to existing theories and models explaining the internationalization and sources of competitive advantage and their co-dependence with the competitive performance of SMEs under difficult conditions. It is aimed at answering the question of which externally-driven determinants are crucial for SMEs’ internationalization and competitive performance in the context of a global pandemic.

The remainder of the paper is organized as follows. First, it presents a broad theoretical overview of established and newer literature sources such as studies, reports, and other relevant sources of information. Second, comes the method section. To achieve the set objective, applied methods include a literature review, analysis, and synthesis of available research and information sources, an empirical survey on a sample of 500 Bulgarian firms, of which 468 are SMEs, statistical processing, analysis and synthesis of results, available data and expert assessments on the recent developments and measures in an attempt to limit the negative impact of the pandemic and its economic consequences on SMEs. And finally, are presented the results from the statistical processing of empirical data, followed by conclusions.

The study can be considered as novel to the extent that it explores SMEs’ international performance in the context of the recent global pandemic and Covid-19 related imposed restrictions and support instruments introduced to tackle the difficulties faced by the actors in many economic sectors.

2. LITERATURE REVIEW

Among the leading possible ways to deal with current socio-economic challenges are the internationalization of business and the opportunities it presents to improve the competitive performance of companies, measured by a relevant set of indicators. Performance of SMEs in the international environment is crucial in a market economy with a limited number of large enterprises, small domestic market, regional disparities, rapidly changing unemployment patterns under a challenging economic situation due to the global pandemic, combined with intense competition from local and international players and badly hit sectors, as is the case of Bulgaria. International activities of firms have a key role to play in economic development and are viewed as a determinant of economic growth. Export-oriented entrepreneurs are considered as a more important determinant of economic growth and the role of export-oriented entrepreneurship outweighs entrepreneurial activity in general for achieving high economic growth rates (Hessels and van Stel, 2008). Of the internationally active enterprises, the important role of exporting firms is determined not only by their predominant share but also by the importance of exports for competitive performance (Muller et al., 2019). Successful internationalization

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depends on several internal and external factors. Most research on determinants of successful internationalization has focused on export success, as this form of internationalization is relatively easy to measure and can be quantified using factors such as export sales, export sales growth, and market share in the export market (Onkelinx and Sleuwaegen, 2009).

It is beyond doubt that the overall role SMEs play in the economy should not be underestimated due to the important tasks they solve: contribution to economic dynamics and diversification, employment, regional development; development and transfer of innovations and technologies, internationalization of business (Todorov, 2011). Internationalization is a good strategic choice to sustain their competitive position and improve performance by diversifying markets, accessing more customers, innovating, and partnering with other firms and ultimately, contributing to economic development. There is a link between internationalization and performance - internationalization can lead to better performance, which in turn can help to change and develop the internationalization pathways, modes, and internationalization patterns. A meta-analysis integrating the results of 36 studies (41 samples, N = 7,792) provide empirical support for a significant positive relationship between internationalization and performance, which is moderated by the intensity of R&D, product diversification, country of origin and the age and size of the company (Bausch and Krist, 2007).

A classification of the antecedents of international involvement of established SMEs at environmental-level divides between country and sector antecedents. Country antecedents include domestic country/market issues - government programs and other public policies, foreign country/market issues - the distance between countries, tariffs and tax issues, while industry antecedents include competition, sector, industry structure and trends, and technology intensity (Martineau and Pastoriza, 2016). The model of international entrepreneurship summarizes the following environmental factors: competitive forces, opportunities for growth, national culture, the profitability of the sector, institutional environment, economies of scale (Zahra and George, 2002). Another study lists as environmental factors dynamism, munificence, complexity, industry characteristics, while performance is measured by the sales growth, market share, profitability, overall performance, and stakeholder satisfaction (Lumpkin and Dess, 1996).

Outcomes can be divided into two-middle level groups: general outcomes and performance outcomes, which include financial data performance, managerial satisfaction with performance, non-financial quantitative measures, and international performance (Martineau and Pastoriza, 2016).

From an international entrepreneurship perspective, in case of specific types of firms with different internationalization patterns, external determinants are likely to differ. Reducing communication and transport costs leads to skipping some stages of the internationalization process, or to instant internationalization (Oviatt and McDougall, 1994). This means that today there are favorable conditions for smaller companies to achieve competitive performance on the international market in a shorter period or from inception. Several external factors exert a strong influence on whether a company becomes a born global. Location in a region with a strong export tradition in a certain sector creates ‘internationalization culture’ among entrepreneurs and enhances international activities due to interfirm cooperation (e.g., subcontracting or joint product development). The emergence of global value chains, global networks, and enterprise clusters, proximity to research and development centers, technical and other universities and incubation parks can also be a factor, by helping to create a culture of ‘open innovation’, development cooperation and providing highly qualified labor (Eurofound, 2012).

The traditional theory of internationalization emphasizes psychic and physical distance when making decisions about a firm’s international activities. In addition to the physical distance between different countries and regions, the concept of ‘psychic distance’ is explained by the influence of factors such as different language, culture, political system, level of education, economic development, etc. (Johanson and Vahlne, 1977). The concept suggests that the companies will prefer to operate in closer countries with a more similar culture, which is not always the case in practice, especially nowadays. The model has evolved, and the newer model emphasizes networking as an important determinant of internationalization. Networking is essential for internationalization success, as it facilitates privileged access to information and the use of opportunities available only to internal players. The role of psychic distance, emphasized in the original model, has been replaced by the role of the liability of outsidership.
seen as a greater source of uncertainty and an obstacle to internationalization (Johanson and Vahlne, 2009). The network approach views internationalization as an entrepreneurial process embedded in the institutional and social network that supports firms in terms of access to information, human capital, finance, etc. (Bell et al., 2003). Here a clarification should be made that networking is viewed as an organizational determinant, but involvement in international networks depends on a range of external factors – foreign market information, culture, institutions, regulations, restrictions, etc. Among the first authors who emphasized this approach were Coviello and Munro who argue that network relationships are indispensable for SMEs in achieving international growth (Coviello and Munro, 1995). Cooperation networks as a determinant of internationalization are viewed as a mechanism for compensating the size of SMEs (Serrano, Acero and Fernández-Olmos, 2016). This means that the ability to engage in various international inter-firm networks can also be seen as an important determinant of SMEs’ competitive performance in an international business environment. This is because, on the one hand, access to business networks is a way to internationalize the activities, and on the other hand, it can lead to overcoming shortcomings inherent to SMEs (isolation, resource deficiencies, difficult access to promising markets) and the acquisition of important competitive advantages (technological expertise, innovation, and many others). Falize and Coeurderoy (2012) reaffirm the importance of the international network for the internationalization of SMEs by gaining information on international business practices and institutional knowledge, supporting the focus on foreign market opportunities and identifying international partners, ensuring legitimacy and attractiveness of the internationalizing firm, and promoting moral obligation within the network of partners.

A dissertation on the internationalization of Russian SMEs provides empirical evidence for the existence of a positive impact of the transparent and supportive regulatory environment, institutionalized complex of common business knowledge, and collectivist value orientation on the SMEs’ internationalization. Regarding the internationalization success, the dissertation proves the positive impact of factors such as the degree of approval of entrepreneurial initiatives in the country where SMEs are established (Volchek, 2013).

From a market viewpoint external determinants as low labor costs, for example, can stimulate the export of goods (both traditional manufacturing and high-tech – electronics) and services (offshoring outsourcing). In the Bulgarian context, there are still relatively low labor costs in the textiles sector and footwear manufacturing, which acts as a prerequisite for involvement in subcontracting relations with foreign partners often from Western Europe. The country is also recognized as a relatively attractive outsourcing destination for the service sector.

In their study of the determinants of internationalization success and failure of two Portuguese family cork enterprises, the authors refer to Gallo & Pont (1996), according to whom external determinants are the competitive framework of the enterprise, opportunities abroad or in the internal market, and the correspondence between the technological level of the enterprise and foreign competitors, and financial resources. In the same study, special attention is paid to the location of the business (Lopes et al., 2016).

There are also sector-specific determinants of internationalization and performance. In search of the specifics of internationalization of enterprises in the service sector, Castellacci (2010) surveyed 302 Norwegian enterprises and the analysis of the determinants leads to the conclusion that the sectoral specifics are a significant determinant of internationalization (the author groups the services in four separate sectors according to the level of innovation and economic function of the services). A study of the internationalization of Chinese wind turbine plants highlights the existence of several key determinants of internationalization success – the competitive advantages of the leading Chinese companies in the sector, the intense competition in the domestic market, the Chinese government's support for internationalization and the availability of attractive foreign markets. The results of this study confirm Dunning's paradigm and challenge the Uppsala model (Zhang et al., 2015).

The current pandemic has an economic and social impact globally which will last in the future and its development and negative post-impact on the world economy is impossible to be foreseen. These processes inevitably affect SMEs’ performance, especially in some sectors. Initially among the most badly hit were tourism and transport due to a series of lockdowns worldwide in the early spring, including in Europe and Bulgaria in particular.
Another specific of the effects of the global pandemic is that SMEs dominate in the sectors most affected by the crisis, which, according to OECD analysis, include: transport manufacturing, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services (e.g. hairdressing) (OECD, 2020). That’s the main reason why SMEs have become the center of policy attention, unlike the 2008 financial crisis where initial attention in most European countries focused on supporting banks and large construction firms (Juergensen, Guimón and Narula, 2020). Other sectors and activities such as digital trade, information and communication sector, production and trade with agricultural products, food, medical equipment, and supplies remained less affected and even faced some benefits in terms of demand patterns. Important external determinants in this regard are support measures, restrictions, and regulations at the country and regional (EU) level.

The global pandemic and its economic effects represent a major unforeseen determinant of SMEs’ internationalization and performance which put many businesses in a situation of survival, a significant drop in customer demands, temporary closures, or business failures. The crisis caused the largest and fastest decline in international flows in modern history with current forecasts for a 13-32% decline in merchandise trade, a 30-40% reduction in foreign direct investment, and a 44-80% drop in international airline passengers in 2020, which imply a major hit on globalization processes, but yet do not signal for a fundamental collapse of international market integration (Altman, 2020).

A study by Juergensen, Guimón, and Narula distinguishes between supply-side and demand-side effects of this ‘unprecedented external shock’, whose severity is likely to differ depending on whether the firm is a stand-alone, a specialized-supplier or a knowledge-based SME. SMEs’ supply has faced logistical issues due to the disruption of transportation and labor shortages. SMEs’ demand declined substantially due to lockdown measures, a drop in consumer confidence, and the shutting down of some global value chains in affected industries (Juergensen, Guimón and Narula, 2020).

At the beginning of the pandemic, SMEs and entrepreneurs have been extremely worried about the Covid-19 impact on their business survival, while recent business surveys show some improvements, possibly related to the policy efforts to address the SME liquidity gap and the lifting of lockdown measures. In Bulgaria measures of relevance to SMEs are the salary subsidy for workers whose jobs are under threat (the government pays 60% of salaries and employers 40%); the delay in the deadline for submission of taxes and fees due to the government (annual income tax return and payment of the tax assessed), increase in the capital of the Bulgarian bank to support the liquidity of firms, temporary abolishment of penalties for late payments by private entities and support scheme for SMEs by the European Commission of up to 800 000 euro per company (OECD, 2020).

The sector effect of the global pandemic should be analyzed together with macro-level data on GDP composition to get a more comprehensive picture of the impact. In Bulgaria, the total GDP for 2019 equaled to 68 468 $ million, distributed between services - 59%, industry - 37%, and agriculture - 4%. According to the annual projections, 2020 for the international supply chain disruption by COVID-19, the most affected sectors in terms of the expected loss of export of industrial products were machinery, metals (except ferrous and precious), plastics & rubber, mineral products, metal products (International Trade Centre, 2020).

Economic incentives package in Bulgaria equals to 10.7% of GDP. Measures supporting SMEs include the allocation of around EUR 524 million to state-owned Fund of Funds for subsidies to micro-enterprises, self-employed, entrepreneurs from vulnerable groups and eligible SMEs and companies and the allocation of EUR 409 million to a joint initiative between the European Investment Fund and the European Commission for guarantee/credit to SMEs. The country should also receive EUR 812 million of funds from the EU’s newly established Corona Response Investment Initiative (CRII) and could tap EUR 600 million of unused funds from the European Structural and Investment Funds. These initiatives and allocated funds make Bulgaria a high performer in terms of economic measures. Total exports in Bulgaria are 63.6% of GDP, which is above the benchmark value for EU28 – 56.5% (SeeNews, 2020). These export data demonstrate the importance of internationalization and exports, in particular, and the dependence on international trade partners but they should be interpreted together with the structure of exports in terms of share of value-added products to get a more realistic picture of export performance.
The data seem favorable for the situation the economy is in, but having in mind the share of export, the country, and individual export-oriented firms seem to be in a position where they are overdependent on foreign market development – including the demand of imported goods from Bulgaria, along with any newly imposed restrictions, and regulations, such as border and behind-the-border barriers. Thus, any negative trends in imports from Bulgaria, especially in the countries that are among the country’s top trade partners have the potential to induce a great negative impact on exports and performance of relevant economic actors.

3. METHODS

3.1. Methods

Of the measures of international performance, one of the most used basic measures is the amount of revenue from international activities (revenue from sales made on international markets). When studying international performance, a limitation is that majority of studies that use financial performance measures ‘lump the SME’s domestic and international performance together’, making it difficult to differentiate between the real effects of international involvement on performance (Martineau and Pastoriza, 2016, p. 463).

The increase in international sales is measured by sales generated by exports and other international activities (Autio, Sapienza and Almeida, 2000). This measure can be specified according to the type of international activity - for example, revenue from exports of products. A specific measure is FSTS - foreign sales to total sales. Other measures commonly applied in the theory of international entrepreneurship are the geographical scope and speed of internationalization.

The study refers to the external determinants of SMEs’ internationalization as variables out of the control of the enterprise that exert a significant impact on the decision to operate in international markets and its subsequent functioning in those markets and related organizational performance. In defining SMEs the data in this paper is based only on the employment definition – up to 250 employees, since this is the definition used by the Structural Business Statistics database maintained by Eurostat (Muller et al., 2019).

The literature review summarizes and integrates previous research on the internationalization and performance of SMEs and the impact of external determinants, as well as recent sources of information on the impact of the global pandemic on business. Applied methods include analysis and synthesis of available research and information sources, an empirical survey on a representative sample of 500 Bulgarian firms, of which 468 are SMEs, statistical processing, analysis and synthesis of results, available data and expert assessments on the recent developments and measures in an attempt to limit the negative impact of the pandemic and its economic consequences on SMEs.

The applied statistical methods include, among others, cluster analysis. It is a common exploratory tool that plays a vital role in pattern recognition in large samples in various fields of science. This type of analysis is concerned with discontinuous variation in the data set that allows for separating and identifying “types” of objects (Lengyel and Botta-Dukát, 2019).

4. RESULTS AND DISCUSSION

The results of the empirical study show that the most commonly used forms of starting an international activity by SMEs are those that are associated with the lowest levels of risk – imports and exports – 43.8% and 23.29%. Moreover, the most frequently selected countries from which imports began are either the neighboring ones – Romania, Greece and Serbia, or those with which Bulgaria has traditionally good foreign trade relations and built infrastructure for trade activities such as Italy and Germany. Approximately the same is the geography of exports as the beginning of international activity.

These results confirm the assumptions that entrepreneurs strive to minimize the risk and hence that a significant role in the internationalization of SMEs will be played by those determinants that reduce
risks associated with international activities. Only in the second place can they put determinants that are related to the potential of the respective foreign market.

An interesting result of the study is that in each case the first country in which the SME has internationalized its activity remains the most important country in this activity as of the date of the survey.

Among the leading reasons for choosing a specific country for internationalization of activities are most often indicated: 1. good logistics, 2. contacts with consumers and markets, and 3. the business climate created by the government of the respective country. And while contacts with consumers and markets cannot be attributed to external determinants, the main determinants are good logistics (leading to lower international costs and reduced risks) and a business climate that, although too comprehensive in terms of content, once again we could relate it to the level of risk in international activity.

Reasons such as a similar business culture to that in Bulgaria and low staff costs (in the country where the activity takes place) are almost not specified.

Regarding the main opportunities in the international environment for business development in the next 2-3 years, the top answer was growth in turnover, sales, profits, and exports as performance measures. The other two opportunities in the top three as rated by respondents were: larger market, increasing market share, entering the international market and the international market does not provide opportunities and is looking for cheap (low-paid) manufacturers. It is noteworthy that most opportunities are proactive and are related to both international and general performance, such as growth by an increase in sales, profits, export, market share. Still, there is a reactive opportunity of looking for cheap contract manufacturing and even before the crisis among the top three answers was that no opportunities are provided in the international market. The current Covid-19 crisis has a massive global negative impact and the top three answers are logically expected to become rather reactive, especially in the short-term recovery after lockdowns.

To determine how different external determinants group together relative to performance a cluster analysis was used. The silhouette width, s(i) ranges between −1 and 1 with values near 1 indicating that object i is much closer to the other objects in the same cluster than to objects of the other closest cluster, implying a correct classification. If s(i) is near 0, the correct classification of the object is doubtful, suggesting an intermediate position between two clusters, while s(i) near −1 indicates for a misclassification (Lengyel and Botta-Dukát, 2019).
### Table 1. Externally-driven determinants of and outcomes of internationalization and performance – results from cluster analysis, n=500

Two-step cluster, Silhouette with values ranging from 0.2 up to 0.5 is marked as ‘fair’, and values from 0.5 up to 1 are considered as ‘good’. Each cell of the table is based on separate cluster analysis and includes up to three biggest clusters in the sample determined by the number of respondents.

NR=no response

<table>
<thead>
<tr>
<th>Determinants</th>
<th>First country</th>
<th>Most important country (MIC)</th>
<th>Selection of the MIC – reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from international activities (q18)</td>
<td>Greece (154; 38.7) NR (135; 29.3) Italy (116; 43.5) S(i) =0.0</td>
<td>Greece (157; 38.1) Italy (115; 45.2) S(i) =0.0</td>
<td>NR (133; 29.4) Good logistics (101; 42.8) Host country business climate (73; 41.1) S(i) =0.3</td>
</tr>
<tr>
<td>Number of countries (q24)</td>
<td>NR (136; 2.9) Greece (115; 2.6) Germany (59; 11) S(i) =0.2</td>
<td>England (149; 3.1) Italy (94; 7.5) S(i) =0.1</td>
<td>Good logistics (88; 2.4) NR (69; 3) Host country business climate (62; 2.7) S(i) =0.9</td>
</tr>
<tr>
<td>Start of international activities (q15)</td>
<td>NR (213; 2.5) Greece (140; 3) Italy (125; 2.2) S(i) =0.4</td>
<td>Greece (146; 2.5) Germany (120; 2.6) S(i) =0.1</td>
<td>NR (211; 2.5) Good logistics (99; 2.4) Host country business climate (71; 2.5) S(i) =0.8</td>
</tr>
<tr>
<td>Employees (q12.1.1)</td>
<td>NR (220; 58) Greece (138; 175.3) Italy (128; 39.4) S(i) =0.5</td>
<td>Greece (140; 137.5) Italy (127; 41.1) S(i) =0.1</td>
<td>NR (218; 58.2) Good logistics (100; 39.6) Host country business climate (71; 38.3) S(i) =0.9</td>
</tr>
</tbody>
</table>

The results from the conducted cluster analysis show that the model that includes the selection of the first country and the number of employees is valued as good. The biggest cluster in this model is the ‘no response’ category, followed by Greece and Italy. After a complimentary check, it became clear that the majority of respondents with no response for the first foreign country for international activities are mostly engaged in import as an inward mode (112 out of about 200 responses; the rest are scattered among other modes). These results are not surprising, given that Greece and Italy, along with Germany are among the traditional foreign partners of Bulgaria on a country level when it comes to export of goods (National Statistical Institute, 2019). It is noteworthy that the second cluster with the most selected option – ‘Greece’ has a much higher average value for employees – 175.3, compared to only 39.4 for the third cluster with the most selected option ‘Italy’. The most important countries are the same as the first selected countries, with the addition of England. However, the Silhouette values are below the lower
threshold, making the overall model less good. As per the reasons for selection of the most important countries, better performance (in terms of foreign sales as a share in total company’s sales) is greatly dependent on good logistics (the respondents in this cluster have an average value of international sales of 42.8% with a fair quality of the overall model).

There is an extreme value in a cluster grouped by the number of countries (scope) and the most important country represented by nine respondents (it is not listed in the table due to the limitation for the inclusion of up to three biggest clusters determined by the number of respondents in each cluster). The extreme value equals to 56 countries with the main motive for selection being the contacts with customers and markets. In this small cluster of firms with greater internationalization scope, half of the respondents selected the larger Western-European markets of Germany and England as the most important foreign countries.

Analyzing the prospects for the internationalization of SMEs under today's conditions caused by the measures taken by individual countries to oppose the spread of Covid-19, we must take into account the sharp declines in passenger and freight transport in the spring, reduced foreign trade turnover and shrunken consumption. In this context, we could assume that those SMEs whose products are traded internationally and are directly affected by the restrictive measures will be particularly vulnerable. And to the extent that within the European Union (EU) these measures are agreed between individual Member States in a way that least affects trade, this is not the case with non-EU countries. The empirical study shows that for a significant percentage (around 40%) of SMEs, the most important countries in which they operate are outside the EU.

If we look at the number of countries where SMEs do business, it will be seen that the largest share is of those SMEs that operate in two countries (28.5%), followed by those in one (14.5%). There are only a few SMEs operating in more than five countries. This means that, in general, SMEs are unlikely to be able to find compensatory markets in the event of severe country-specific restrictions.

Secondly, those SMEs will be affected for which the main reason for internationalization is the small, limited, internal market. The share of those who define this reason as very significant is 33%, and when we add to them those for whom the reason is significant (28%), we get an alarmingly high share of the affected SMEs. Fortunately, there are SMEs for which the reason for the internationalization of their activity is the availability of a high-tech / unique product, i.e. they have a relatively protected place in foreign markets. Their share is also significant (about 60%), and if the two groups of companies intersect, we see that about 48% of the surveyed companies, although dissatisfied with the size of the local (national) market, have still internationalized their business thanks to possession of high-tech or unique products.

In a different light, it can be assumed that the number and type of customers that an SME has are related to the consequences of the restrictive measures imposed to combat the spread of Covid-19. For example, SMEs with fewer but larger customers will suffer more significant damage, while those relying on a larger number of customers but also those with less bargaining power (smaller companies) will be able to sustain a better balance in a shrinking demand by some customers with the maintained and possibly even increased demand by other customers. The results of the empirical study show that the majority of surveyed SMEs have between two and five foreign clients (46%), while those with more than five clients are only 19.4%. 14% of the surveyed SMEs rely on one client. In any case, according to the type of client, the share of SMEs selling to end customers is the largest (almost 70%), although the next largest share is of those selling to a small number of distributors, wholesalers or other manufacturers. However, the share of SMEs with more than five clients is relatively low – those with between 6 and 20 clients are only 12%, and those with more than 20 clients – 7.5%.
### Table 2. Externally-driven determinants and outcomes of internationalization and performance – results from cluster analysis, n=500

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Involvement in international networks (q57)</th>
<th>Main sector (q13.2)</th>
<th>Institutional support needed - type (q64)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from international activities (q18.1)</td>
<td>No (239; 35,7)</td>
<td>Production (228; 43,1)</td>
<td>Foreign markets information (180; 31,4)</td>
</tr>
<tr>
<td></td>
<td>Yes (153; 40,1)</td>
<td>Services (90; 26,4)</td>
<td>Finding foreign partners (99; 40,8)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade (87; 31,9)</td>
<td>Attending exhibitions and fairs (77; 37,1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>S(i)=0,2</td>
<td></td>
</tr>
<tr>
<td>Number of countries (q24)</td>
<td>No (155; 2,5)</td>
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<td>Yes (141; 2,9)</td>
<td>Services (78; 3,1)</td>
<td>Finding foreign partners (107; 2,2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade (51; 3,6)</td>
<td>Attending exhibitions and fairs (48; 12,3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>S(i)=0,9</td>
<td>S(i)=0,7</td>
</tr>
<tr>
<td>Start of international activities (q15)</td>
<td>No (259; 2,5)</td>
<td>Production (227; 2,5)</td>
<td>Foreign markets information (245; 2,5)</td>
</tr>
<tr>
<td></td>
<td>Yes (204; 2,6)</td>
<td>Services (140; 2,6)</td>
<td>Finding foreign partners (95; 2,4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade (86; 2,4)</td>
<td>Attending exhibitions and fairs (88; 2,7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>S(i)=0,9</td>
<td>S(i)=0,8</td>
</tr>
<tr>
<td>Employees (q12.1.1)</td>
<td>No (266; 49,6)</td>
<td>Production (234; 54,1)</td>
<td>Foreign markets information (247; 47,2)</td>
</tr>
<tr>
<td></td>
<td>Yes (202; 51,3)</td>
<td>Services (140; 38,3)</td>
<td>Finding foreign partners (99; 43,3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade (90; 34,2)</td>
<td>Attending exhibitions and fairs (87; 66,1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>S(i)=1</td>
<td>S(i)=0,9</td>
</tr>
</tbody>
</table>

Two-step cluster, Silhouette with values ranging from 0,2 up to 0,5 is marked as ‘fair’, and values from 0,5 up to 1 are considered as ‘good’. Each cell of the table is based on separate cluster analysis and includes up to three biggest clusters in the sample determined by the number of respondents.

NR=no response

Involvement in networks as a determinant of internationalization degree (revenue from international sales), start and scope, and employees as a measure of general performance have very good Silhouette values ranging from 0,6 to 1. Enterprises involved in international networks have slightly better measures of international and general performance. They have a greater volume of revenue from
international sales, a bigger number of countries for international activities, and a bigger number of employees.

The sector analysis shows a higher share of the revenue from international activities and employees registered by the manufacturing enterprises. On the other hand, the internationalization scope is greater for firms in the trade sector which also experience a quicker start of internationalization.

The support needs also differ by groups of firms. Firms with the lowest revenue from sales on the international market mostly need information about those markets, while those with the highest revenue need support for finding foreign partners. Firms with the lowest number of countries for international activities and the lowest number of employees need to find new international partners, while those with the highest scope and biggest number of employees need support for a greater exposure to international markets by attending exhibitions and fairs.

5. CONCLUSIONS

In the context of globalization and crisis events such as the global pandemic and its economic consequences, SMEs face the need to respond appropriately to the drastically changing market environment and to take further steps to tune their strategies according to external changes in international markets.

It could be concluded that the main external determinants of the internationalization of SMEs are not directly dependent in the short term on the restrictive measures introduced and in this sense cannot be the cause of more significant effects on the international activity of SMEs under today's conditions. Rather, the negative consequences for the internationalization of SMEs can be expected from the inherent internal constraints of SMEs regarding the competitive characteristics of the products offered and the size of their customer base. At the same time, the caution with which the surveyed SMEs approach their activity abroad, the careful and highly rational choice on foreign markets, are an indicator of good chances for maintaining the level of internationalization of their activity even in the unprecedented conditions for foreign trade caused by the emergence of Covid-19. Of course, in the long run, changes are possible that will affect both the logistics opportunities and the business climate in the main countries, as the main external determinants, in directions that are perceived as negative for the continuation of effective international activities. For example, more expensive logistics activities and some protectionist measures in the countries where Bulgarian SMEs export their products.

The findings of the study can serve as a support tool for practitioners, consultants, and researchers in the analysis and assessment of the impact of the external environment and unforeseen circumstances and crises on the internationalization and performance of SMEs, targeted at entering and occupying competitive positions in international markets.

The policy interventions and support need to shift their initial focus from the survival of European SMEs in the short term, towards a more structural and longer-term approach for promoting their renewal and growth through innovation, internationalization and networking by simultaneously being sensitive to the different types of SMEs, instead of applying a one-size-fits-all approach (Juergensen, Guimón and Narula, 2020). Family SMEs, in particular, typically internationalize after consolidating their position in the domestic market and once the necessary resources and capabilities for their growth in the domestic market have been built up, they may leverage it for expansion abroad (Segaro, 2012). The study of the internationalization of small family SMEs under crisis is worthwhile due to their share, distinct nature, and support needs. The research and policy implications are that support at the early stages of internationalization is a critical determinant for the internationalization of family SMEs, especially in unfavorable market conditions.

The findings demonstrate that even in the presence of adequate internal capacities such as management competencies, company’s experience, and resources, unexpected events in the external environment have the potential to trigger unpredictable and rapidly changing demand patterns in the international market, termination of business operations of major international players and negative response of companies in terms of shrinking costs and reduction of resources needed for internationalization that
can affect future performance and international activities of SMEs. This is even more valid for SMEs – network players that are more dependent on their international partners and the actual market changes in their country of operation.

In summary, it is noteworthy that doing business internationally can be much more difficult for smaller companies due to the greater uncertainty of the international business environment, limited potential for comprehensive market analyses, and the influence of numerous external factors. However, such difficulties can be partially compensated by external support - inclusion in business networks, access to available and appropriate external resources - support programs, financing, consulting, etc.

The knowledge about the external determinants, in general, would predetermine the decisions related to international activities, differentiation, and choice of specific approaches, modes, and tools in the internationalization process. The implications for management suggest crafting and involvement in specialized tailored-made programs for the improvement of management competencies, restructuring, and survival of SMEs in difficult conditions and unexpected unfavorable changes in the external environment. Such strategic actions are of primary importance for their international activities and overall competitive performance.

ACKNOWLEDGMENTS

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