

## **Barriers faced by Romanian SMEs in exporting**

Dana BOŞCOR<sup>1</sup>

**Abstract:** *This study aims to identify the most important barriers faced by Romanians SMEs in the process of exporting. The research was based on a focus group including 12 managers from different exporting companies from Brasov. The most important barriers encountered by companies were linked to currency fluctuations, methods of payment, lack of specialized staff, lack of financial resources and a low level of government support. Results from the study revealed that companies should have access at financing in order to invest in new technologies and to create higher quality products that could meet the requirements of the foreign buyers. In order to reduce the export barriers, small and medium sized exporters should create partnerships for reducing the costs of promotion in foreign markets. The government should also increase its support by offering exporters access at financing and market information at lower costs.*

**Key-words:** *export barriers, product adaptation, financial and human resources*

### **1. Introduction**

One of the most attractive entry modes for SMEs is exporting because the exporter depends less on the home market, has a lower risk in comparison with other entry options, has the opportunity to test the market and the ability to withdraw from risky markets with minimum losses.

In the process of exporting, companies face a lot of barriers. Shaw and Darroch (2004) found that the most important obstacles faced by exporters in different markets were linked to limited access to capital, limited financial resources, limited market knowledge and lack of government incentives and support. (Martins and Pinho, 2010, p.256).

The studies made by Leonidou (2004) show that the lack of qualified export staff and the lack of knowledge of potential customer markets are important barriers in exporting. The product barriers linked to quality and technical suitability require product adaptation for different markets (Tefom and Lutz, 2006, p.259).

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<sup>1</sup> Transilvania University of Braşov, dana.boscor@unitbv.ro

The host country market barriers include: cultural differences, tariff and administrative barriers, foreign currency exchange risk and slow payment or risk of non-payment by foreign buyers. (Martins and Pinho, 2010, p.260).

The home country export barriers include: lack of financial assistance, lack of market information, lack of qualified staff, lack of information technology platforms. (Martins and Pinho, 2010, p.260).

Other studies divide the export barriers in internal and external. Internal export barriers are linked to the company and product features and external export barriers include customers' preferences, unfamiliar business protocols and practices, tariff and nontariff barriers, competition and exchange rate fluctuations (Siringoringo, et al., 2009, p.51). The external barriers include procedural, governmental and environmental barriers. Procedural barriers include unfamiliar techniques or procedures, communication barriers and slow collection of payments in the market abroad (Leonidou, 2004, p.292).

Regarding the products, the exporter might face very different quality and technical requirements, the product adaptation being compulsory. With more intense competition in the global market, without quality assessment and continuous improvement, companies will not be able to meet the increasing demands of consumers (Madar, 2014, p. 71). At the same time, quality management is an organizational strategy based on the idea that higher performance is achieved only by involving the perseverance of the entire organization in continuous improvement processes (Neacşu, 2015, p. 105).

The lack of working capital can endanger the entire production operation and the lack of trained and experienced export staff could be an important barrier in exporting.

Another barrier in exporting could be linked to the exporter's country of origin and the brand familiarity (Siringoringo et al., 2009, p.54).

The procedural barriers include red tape and documentation, tariffs and non-tariff barriers, transportation and distribution problems and the difficulty to develop trust with intermediaries in foreign countries (Ortega, 2003, p.405).

In order to overcome governmental and environmental barriers, SMEs need the support of the government and the policy makers (Narayanan, 2015, p.116).

The most important export barriers found in the research conducted by Radojevic are included in factors of firm internal environment, factors of domestic business environment and factors of foreign markets. Regarding the internal environment, the most important barriers are export price competitiveness, lack of capital for export financing, promotion abroad, adaptation of products for foreign customers' requirements. Related to the domestic business environment, the Serbian companies have mentioned the following export barriers: difficult procedures and high expenditures linked to export financing, currency fluctuations, lack of a national export branding policy, bureaucracy in exporting procedures and nonexistence of exporters associations. Regarding the factors of foreign markets,

competition was considered one of the most important barriers in exporting. Small Serbian firms have a higher capacity to cope with the challenges of price competitiveness and to adjust their products to standards of foreign markets, and they have fewer problems to cooperate with foreign partners (Radojevic et al., 2014, p.442).

## **2. The research method**

In order to identify the opinions of managers from different Small and Medium Sized Enterprises of Brasov, involved in exporting, regarding the barriers faced by exporters in different foreign markets, a focus group with 12 persons was conducted. Focus group is a qualitative research that implies getting answers from a small number of respondents and the results of qualitative nature (Brătucu, Brătucu 2006) . The most important objectives of the research were the identification of the most important barriers faced by exporters in different foreign markets, barriers that were linked to the host market and home market.

The interview guide used was conceived on separate discussion topics depending on the objectives set out in order to facilitate the identification of participants' opinion at the focus group.

## **3. Results**

The Small and Medium Sized Enterprises, not having a high production volume, face difficulties in negotiating prices of raw materials, which determines a higher export price with a negative influence on competitiveness.

For a small company, the period between purchase of raw materials-production-delivery to the customer and the receipt of payment for exports is very long, that is why the exporter will have to obtain financing, having a negative influence on the export price.

The currency fluctuations can also have a negative impact on SMEs. These fluctuations can be reduced by including a margin in the selling price but, most of the time, the market does not allow the higher price and the currency risk remains uncovered.

In many cases small companies cannot afford to work with the letter of credit as a payment method, which offers the exporter a lot of guarantees for receiving payment, but with very high costs. The SMEs usually work with lower value exports and the letter of credit is efficient for higher values. Therefore, the risk of non-payment appears for the option bank transfer.

The SMEs cannot make enough investments in new equipment and technologies to ensure a very good quality of products offered and hence the issue of

guarantees on a foreign market. Securing the guarantee means the replacement of defective products and supporting expenditures with the delivery of new products.

The lack of specialized export personnel can affect the company. For example, the wrong use in the contract of the delivery terms or the payment currency or the methods of payment can bring big losses to the exporter.

Climate might be a factor to be considered by the exporter and requires adaptations of the products at special conditions, with implications on upgrading more resistant parts. For example, one of the companies participating at the focus group mentioned that it was obliged to change some parts made of plastic, rubber which did not resist at the hot climate of the Asian markets. The impact on the company was negative, due to the need to replace some parts.

A barrier linked to financial resources and specialized staff is mentioned by the respondents as being very important for the service activities carried out on foreign markets, from the point of view of the costs involved.

Another barrier highlighted by the respondents is linked to the risk of product counterfeiting. The foreign partner, under the guise of quality checks, copies technical information and uses them to produce its own product. Another risk is linked to the takeover of the product and its sale under the foreign company's brand name when the product is not protected because it involves high costs and adaptation at the laws of the foreign country.

Developing and increasing the reputation of a brand on a foreign market might be difficult for SMEs due to limited financial resources and the lack of information from that market.

An important disadvantage of SMEs is linked to the limited access at production certification. For example, a small company in the tourism field will have a limited access to the Eco-label certification due to the high annual costs involved. In Romania there is currently a reduced number of eco-certified accommodation units, this situation being explained also by the reluctance of owners to introduce environmental management practices and specific green marketing tools, and, also, by the lack of tourists' interest to consume green accommodation services (Băltescu, 2017, p. 26).

If large companies have the advantage to use direct export from the financial resources point of view, small companies are forced to work in many foreign markets with several intermediaries, thus increasing the price of the product at the final customer. The image of the company might also be affected if the intermediary is not very loyal and will charge very high prices. In order to increase loyalty, intermediaries require exclusive agreements, the exporter being limited through these agreements to find other intermediaries who could perform better. The termination of the agreement determines high expenditures for the exporter.

In many foreign markets, the exporter is obliged to offer credit to the importer for long periods of time, meaning additional costs of refinancing.

Another barrier is the lower negotiating power of SMEs, with negative effects on prices, delivery terms, methods of payment.

Among the barriers encountered by Romanian SMEs at export, cultural barriers and the ease of finding trustful partners are very important. The participants at the focus group have mentioned the prejudices and distrust in Romanian companies, although Romanians are very open minded to do business with foreign companies.

#### **4. Conclusions**

In order to overcome several export barriers, Romanian SMEs should create partnerships between them. In this way, they could better face the power of multinational companies, they would increase their negotiating and purchasing power and they would reduce different costs linked to production and distribution. Associations between exporters in different fields might help them to reduce the costs of promotion in foreign markets and to improve the country's image.

The Romanian SMEs should obtain support from the government to obtain financing for investments in new technologies which could help them to improve the quality of the products offered on international markets. The access of the small companies to financing from European funds is limited and the support of the government should be improved in this field. In the same time Romanian SMEs need consulting services in marketing and management for establishing their strategies (Tecău, Chițu, 2012).

The SMEs should be offered more support in terms of access at export information, should receive help to conduct research in foreign markets, to find business partners and to create national brands. The development of local brands should be correlated with the promotion of a national branding strategy. A first step was made with the Guide for Exporters published online by the Ministry of Industry and which contains useful information for exporters.

The development of an Institute for International Business would help local brands to be promoted abroad and would offer training for specialists in export projects.

The model developed by the Romanian Business Exchange who offers the Romanian producers and exporters opportunities to promote their products on foreign markets by participating at fairs and exhibitions in different international markets and through the digital platform of business matchmaking – RBE Connect, should be expanded and part of the costs for consultancy for SMEs should be covered by the government.

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