Difficulties and advantages of internationalization in the Hungarian SME sector

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With globalization and the technological advancements of the 21st century, more and more organizations are utilizing the advantages of cross-border operations and global value chains. However, despite the fact that the SME sector forms the backbone of the Hungarian economy, the sector often faces difficulties of survival as smaller, only locally operating business are outperformed by large multinational companies flooding the market with more optimal, highly cost-effective supply chains. Research conducted within the Hungarian SME sector shows that internationalized small and medium sized businesses also outperform the only locally operating SMEs. Their performance and employment growth are, on average, higher, and they tend to be more resilient toward environmental difficulties as well. Despite the presumed advantages of internationalization, SMEs are facing critical challenges when it comes to cross-border activities. The aim of this study is to synthesize, on a comprehensive level, the available literature on the Hungarian SME sector and to provide a clear picture on the advantages and difficulties small and medium sized businesses are facing when it comes to foreign operations. The results of the synthetization provide a base for future research aiming to assist small and medium sized enterprises to improve their supply chains and to search for opportunities to easier access foreign markets.

Keywords: SME; internationalization; Hungary; efficiency

1. Introduction

Small and medium sized enterprises (SME) around the world are widely apparent and are contributing to the economy significantly (Chikán, 2008; Johanson, 1990; Kovács et al., 2017). Accelerating technological advancements and globalization pose a great challenge for smaller businesses as multinational organizations appear on the markets with highly optimized supply chains and lower production costs. Foreign market expansion is a lengthy, risky process that requires a prominent level of orientation. During this cross-border process the business tries to enter a previously completely unknown market, with an unfamiliar customer base, and a different culture (Éltető–Antalóczy, 2002a). Conquering a foreign market is a difficult, challenging process, which only a very small percentage of operating companies embark on. Despite the difficulties and apparent risks, the available literature claims that foreign activities of small and medium sized enterprises are leading to positive factors such as better performance and overall faster development compared to only locally operating SMEs. The experience gained on foreign markets provides higher experience which also leads to better, more thoughtful management, and higher resiliency during recession periods (Antalóczy et al., 2000). Therefore, considering these positive aspects proves to be relevant to research the constraining factors which can hold back smaller and medium sized enterprises from entering foreign markets. Highlighting these limiting factors could later lead to critical information in determining the exact requirements of SMEs to help them access cross-border activities, increase their efficiency and possibly further develop the Hungarian economy.

The aim of this study is to perform an extensive literature review of the already existing research on the Hungarian SME sector in order to discover how small and medium-sized enterprises are thinking about possible cross-border activities. The goal of the study is to understand the difficulties, risks and restraining forces of internationalization in the Hungarian SME sector while also exploring the achievable positive aspects of foreign activities as well. The study aims to synthesize the factors which argue for and against international operation and to conclude the aspects in which the Hungarian smaller business sector would need more help to be able to execute foreign activities more confidently. The main research question of the paper, therefore, is what the main difficulties are which are holding back smaller and medium sized enterprises from entering foreign markets.

2. Literature review

The empirical literature review aims to discover and highlight the unique attributes of SMEs in Hungary, searching for evidence that would provide sufficient information towards highlighting the positive and constraining aspects of stepping out to a foreign market while understanding and synthetizing the difficulties and fears SMEs are experiencing towards foreign activities.

2.1. Methodology and constraints

The construction of the chosen research methodology is approached based on Mark Sunders' Research Onion (2009). The study utilizes the view of the research philosophy of interpretivism. The aim of the study is to draw synthesizing conclusions based on small samples, in-depth investigations, and qualitative measures. The study focuses on details of given situations and aims to explore the root causes of given constraining factors. The field in this article is viewed from a deductive point of view. The territory is processed based on a comprehensive literature review and synthetization of previously performed in-depth data gatherings of researchers highlighted through the text (Saunders et al., 2009).

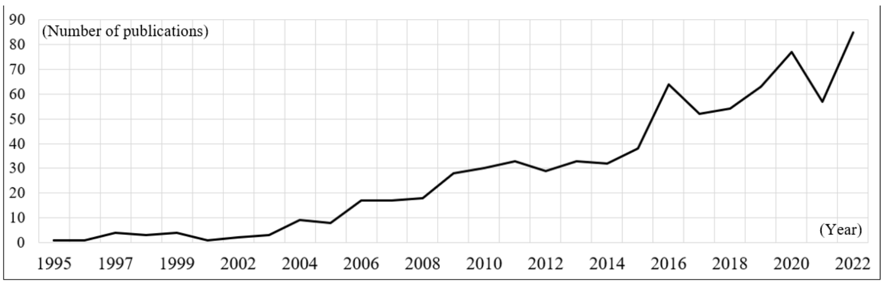
The comprehensive, systematic literature review is performed by the utilization of the prism literature reviewing technique. The approach was chosen to ensure an extensive overview of the high-quality literature available on the researched field both in English and Hungarian. During the literature review Elsevier's Scopus was utilized as a baseline. Keywords of "SME" and "Internationalization" searched in article title, abstract, and keywords provides a base number of 779 publications published between 1990 and 2022. While the common literature on internationalization is rather broad, the search could be further limited to publications highlighting positive and constraining factors especially for SMEs in regards of stepping out to foreign markets. Following the steps of the prism model, removing the duplicates, performing keyword, title, and abstract screening the number of strictly connecting articles could be reduced to 13 publications in Scopus.

The constraints of the literature review are the accessibility of the Hungarian literature on the researched field. Utilizing Google Scholar with a snowball technique from the first 250 most matching publications, 18 were chosen to be contributing to the research question in Hungarian language. While the snowball methodology outlines the most common, overall conclusions of the researched field, it cannot be claimed that the totality of the publications on the field were successfully accessed and synthesized.

Therefore the following sections provide a synthetization of the international literature accessed from Scopus and results of Hungarian researchers performed especially amongst the Hungarian SME sector. The literature review briefly highlights the most common concerns regarding internationalization and cross-border activities followed by the review of difficulties of stepping out to foreign markets based on experience gathered from the Hungarian SME sector.

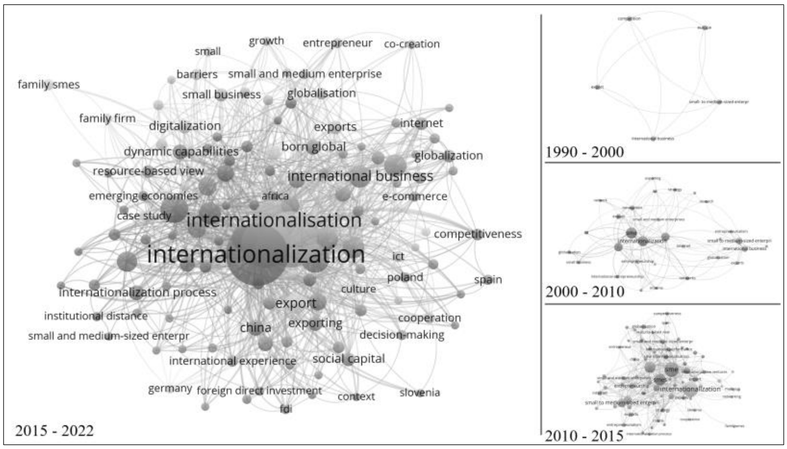
The given positive opportunities provided by the possible exploration and utilization of international value chains is a more and more commonly researched field which can be highly important for the SME sector as well. The relevance of the researched topic is also showcased by the increasing number of publications apparent in the field in the recent years. Figures 1 and 2 show analytics of the database of Scopus highlighting the growing number of researches and the connection system between keywords used in publications on the field of internationalization of the SME sector.

Figure 1. Number of articles published on the field of SME internationalization between 1990 – 2022



Source: own construction based on Scopus database

Figure 2. Development of key words used on the field of SME internationalization between 1990 – 2022 (Scopus)



Source: own construction by VOS viewer based on Scopus

2.2. Common approaches to internationalization

The Ansoff matrix is commonly used to determine the four possible ways of approaching a given market with a product or a service. Based on the Ansoff matrix, a company can expand in four ways. It is possible to tap into the existing market with the product they already sell. They can develop a new product, which then they sell to an already existing client base. Or, in addition to all this, it is possible to aim for a new, previously unconquered market with the goal of reaching a wider customer base. Market expansion is fundamentally a riskier and more challenging activity for companies, since the organization must convince a previously unknown group of customers to buy its products and services. Market development and diversification beyond one's own ordinary territory may present previously unexperienced challenges, and companies must make an extremely well-considered decision when they plan to internationalize (Chikán, 2008).

Organizations can therefore decide to target a new segment of customers with their activities beyond the borders of their own foundation country. In this case, the company must develop a strategy for entering the international market, which in any case requires extensive research work and analysis of the target area. In the future, the organization may have to operate in a completely new environment, under completely new rules, competing against previously unknown competitors, along with different customer market habits. It is important to realize that the targeted international market may be far from the company not only geographically, but also in terms of cultural values (Hofstede–Minkov, 1991). Organizations may decide to expand beyond the borders of their own nation for several reasons. These objectives can greatly influence the research activity that the company must carry out before entering the foreign market (Twarowska–Kąkol, 2013).

2.2.1. Environmental analysis

The basic conditions for successful operation, long-term survival, and development of companies in the right direction especially on a foreign market are the monitoring of the corporate environment, its familiarization, mapping and executing the right changes. In many cases, however, for only regional operating companies, knowledge of certain customer behaviors, national values, mindsets, political, economic, technological, legal environments, and many other factors may seem self-evident. The owner, employees and customers basically believe in similar values, the entrepreneur has lived their whole life in a well-accustomed environment, in which they know the competitors, market rules and customers very well. Therefore, unexpected surprises usually do not occur. That is why the critical importance of environmental analysis should be emphasized when the structure of the company's international strategy is discussed. The organization is planning to enter a completely unknown environment that it does not know. During the market and environmental analysis even the smallest deviations must come to light in order for the expanding company to be able to stand its ground later on (Chikán, 2008).

Companies have countless analytical methods at their disposal to assess the characteristics of the market they want to conquer. By following the simplest, most widely used Pestel, Porter's 5 forces, Porter-diamond model, Strategic group, Stakeholder, SWOT and risk analyses, the organization can already get an idea of which markets may be worth expanding into, and which are the market expectations that must be met (Dunning, 1993; Kotter, 2012).

Within the framework of the Pestel analysis, the company must be able to explore in detail the political and legal environment that may affect the organization by entering the given market: what are the legislation, laws, standards that limit the company's operation, and what is the attitude of the political system towards the company's industry? The organization must map the economic situation of the targeted area, the rate of inflation, the speed of economic development. Social factors are one of the most important areas that the company needs to examine if it wants to operate successfully in the future. This may include the qualifications of the employable workforce, expected wage demands, the average standard of living, age, social expectations, national characteristics, and foreign languages. The expanding company practically must get to know the habits, expectations, traditions and brand loyalty of the population of the selected country and especially the targeted segment. The company wants to appear as a foreign competitor on the domestic market of the selected nation, and thus it will presumably have a much more difficult task in gaining the trust of potential customers. In the same way, knowledge of the expected behavior, communication and negotiation traditions with negotiating parties can also be classified under the social category. In this case, the incoming company must adapt and meet social expectations in all areas (Johanson–Vahlne, 1977). It is important for the company's management to be aware of the technological development and the built infrastructure of the selected area.

Porter's 5 forces and strategic group analysis helps organizations to learn about its future partners, competitors, customers, bargaining position, expectations, and market strength from a structured point of view. Porter's diamond model points out that the company must also be aware of the availability of production factors in the given area, how well the company's current strategy can work in a new, completely different type of environment, how well the company can compete with its current strategy, and the extent to which industries related to and supporting the company's operation are present in the area set as the goal of expansion.

By following the principles of the SWOT analysis the organization must be able to explore the internal and external company strengths and advantages that can help the organization perform on a foreign market. Also, the understanding of potential weaknesses is key so the company can prepare for challenges that it may not have had to face previously, in a solely local environment (Child, 1997).

It can be clearly seen that it is rather difficult to summarize all the aspects that the organizational leaders must be able to know in detail before the management begins to develop the expansion strategy and calculate the expected profitability. In summary, the organization must be able to ignore the environmental and national factors that are considered to be fundamentally true in its own working environment, and assuming that these may differ on the international market, it must carry out an analysis starting from the most elementary level, to ensure that the company can successfully understand the environment in which it operates. While the organizations have a clear repertoire of techniques and mindsets to analyze a targeted foreign market, it is mentioned a great number of times in the processed literature that this task is often easier said than done. Understanding a completely different environment and gaining knowledge of all the necessary nuances from the outside proves to be a greatly challenging step of internationalization. The fact is also concluded that smaller companies unfortunately often overestimate the potential of market expansion due to the difficulties of extensive data gathering (Török–Gray, 2003).

2.2.2. The goal of expansion

Enterprises can have different goals when deciding on cross-border activities. These reasons can vary considerably in terms of the size and form of expansion, so it is important for the company to carry out its environmental analysis and search for potential countries for expansion, depending on the exact objective.

The most commonly utilized reason for expansion is market acquisition. The company hopes to enter a new cross-border market in the hope of a larger customer base. In this case, the company plans to sell its products and services in the designated region. As a result, getting to know the company's potential customer market and competitors is essential. The understanding of foreign traditions and the ability to win customers from other nations play a huge role. The organization has the opportunity to execute the expansion in several forms, but it is clear that the company hopes for a higher profit from the expansion. It is therefore important to carry out calculations related to profitability, sales, and possible production after the environmental assessment, which already considers local regulations, taxes and accounting laws. The organization must be able to carefully determine the forms of costs that may appear in connection with expansion abroad (Dunning, 1993).

The next two reasons for expansion can be the acquisition of resources and the increase of efficiency. In these special cases, the company does not necessarily wish to sell its products or services in the selected area. This situation of expansion can be made relevant by the presence of cheaper, more easily available resources, a more favorable tax or operating environment, or even a cheaper, more precise, more qualified workforce. From this point of view, we also call corporate expansion the precedent in which the organization carries out its production or the extraction of its raw materials necessary for its production in a country other than the parent company. Nowadays, in 2023, more and more multinational companies are moving their factories and office hubs to countries in which tax conditions are more favorable for them, and in which labor is cheaper and less restricted. In these cases, too, the organization must take into account the environmental challenges associated with the expansion. At this point it is worth mentioning the company's prestige as well. In many cases, consumers now separate the country of origin of large companies from their production centers. The production, its physical location and the living conditions of the workforce used for production can leave a mark on the organization's reputation.

The fourth and last reason can be defined as strategic motivation. In this case, the company expands the sale of its products and services, starts the production process in the territory of another country, in order to keep up with its competitors or to gain a market advantage over its strategic adversaries. An example of this can be the expansion as a result of a cost efficiency competition, or the appearance in a market with the company's products after the appearance of a competing organization. Strategic motivation includes all three previously mentioned forms as a possibility of expansion. In this case, it is very important that the company should not make hasty decisions but realistically perform an environmental analysis and financial calculations, also possibly taking into consideration the expected presence of competitors that have entered the targeted market which is fought over. Another reason for the company's strategic expansion can be the globalization of its customers. If the company's target group is for some reason spread over several countries or travels a lot, it can be an advantage for the organization if its products or services are available in obvious, high-priority nodes, at several key locations (Twarowska–Kąkol, 2013).

2.2.3. Common approaches to entering foreign markets

Organizations can approach cross-border activities with several types of highly differing strategies. Weighing these options is crucial, as they may differ in both investment and long-term costs, as well as risk (Roque et al., 2019).

The organization can implement the expansion strategy in the form of exports or franchises. In this case, the company does not need foreign investment. It ships its products from the founding country to the selected territory, where the product is then sold. Production still takes place in the mother country. In the case of a franchise, the company sells its brand, reputation and the right to provide the services it offers. In this case, it is not necessary for the company to invest abroad. It is the responsibility of the company or person buying the franchise to create the conditions required by the founding organization. Export activity can be beneficial for the company, as it can continue its production in a well-known environment. Successful expansion in the target market can only be achieved by shipping. However, it is possible that in the future, the high logistics costs can already be replaced by the creation of a local production facility, if the circumstances are right.

The second solution for companies to enter the international market is the formation of a strategic alliance. The company selects an institution already operating in a similar category in the target market, which is capable of manufacturing the organization's product, and entrusts this third, external party with the production of the product. This can be beneficial for the company, since it can produce its products in a factory that already operates in the selected area and complies with political and environmental requirements, saving on logistics costs. However, as a disadvantage, it is important to mention that in this case the costs of producing the product will be clearly higher than if the company were to carry out production in its own facility, and commissioning parties outside the company appears as a risk to the successful operation of the organization. The performance of the employed third party organization is more difficult to review, the quality of their production and the guidelines of their operation are questionable. When choosing this strategy, the organization becomes more dependent (Kaynak, 2014).

The company's third option is to establish a subsidiary in the target destination. This requires the largest amount of investment on the part of the founding organization. However, the company can set up and distribute its products and services using its own branch office, operating entirely in the environment of the target area. This is a long-term solution for entering the international market. In most cases, for large companies, this is not the first step they take to enter a market. It is worth considering as an advantage that the company can better integrate into the cycle of the country it wants to conquer through the local facility, the possibly appointed local management can manage the company's subsidiary much more successfully, meeting social expectations. The company's prestige can increase if it provides work for the local population and carries out appropriately emphasized CSR activities. The subsidiary company can be founded Green field, i.e. entirely along the lines of new investment or through acquisition (Roque et al., 2019).

A clear consequence of globalization, the disappearance of borders, and the acceleration of transportation is that organizations can increasingly optimize their production and sales processes around the world. Organizations can have a clear advantage in optimizing their supply chains on an international scale, but building a highly effective system proves to be a greatly difficult task requiring great knowledge, determination, and preparedness (Chikán, 2008).

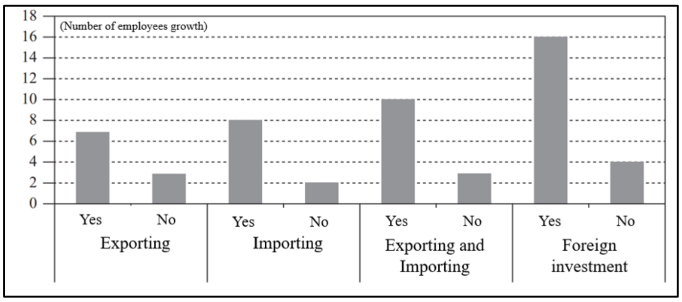
According to the Uppsala model, which is often mentioned in the literature, companies go through the process of exporting, building international alliances and subsidiaries during their entry into the international market. However, thanks to globalization and technological development, it is now easier for organizations to realize their opportunities for expansion (Johanson–Vahlne, 1977). In many cases, the availability of modern technology leads to the possibility of skipping the steps of internationalization considered to be classical. An increasing wide spread of "Born Global" organizations is apparent which already operate specifically on the international market at the moment of their foundation (Almor, 2000).

2.3. Internationalization in the Hungarian SME sector

Based on the results of the Hungarian Central Statistics Office from the year 2018, the Hungarian SME sector is the backbone of the country's economy. Overall, 99.1% of the operating businesses fall in the category of small and medium sized enterprises. SMEs contribute 46% to the overall GDP and employ 64.9% of the working population (Kincses et al., 2022; Mikesy, 2013). The Hungarian SME sector is a heterogeneous sector with two well distinguishable groups that evolve fast, the so-called gazelle organizations and stuck businesses that only aim to survive. Overall, the Hungarian SME sector is undercapitalized, lacks digitalization and falls behind the European average of both GDP contribution and foreign activities (Berko–Gueullette, 2003; Major, 2003; Mikesy, 2013).

The literature review highlights that the number of companies present on the international market increased significantly after the 20th century in Hungary (Kincses et al., 2022). Driven by globalization and activities of multinational companies, capital flows between countries have increased and market expansion has become easier. It can be stated that businesses that appear and expand on international markets are more successful, flexible in their growth and innovative compared to their competitors that do not participate in cross-border activities (Török–Gray, 2003). Figure 3 also shows the employee growth of SMEs between 2007 and 2008. The difference in work force expansion is significant between SMEs performing and not performing cross-border activities. After 1997, the appearance of capital investments aimed at foreign markets also began to increase in Hungary, as a result of which the country became a significant investor in the Central and Eastern European region. It is important to emphasize, however, that the vast majority of these fast-growing businesses were already operating successfully even before the regime change, had free capital for investment and many years of operational experience. In Hungary, it is therefore very important to examine the internationalization opportunities of the SME sector separated from the expansion of capital-intensive, often foreign-owned larger companies. The available skillsets, capital, and opportunities are often very different in the case of a small organization (Éltető–Antalóczy, 2002b).

Figure 3. Effects of entering a foreign market on the number of employee growth between 2007 and 2008



Source: own construction based on EC (2010)

> In-depth interviews conducted by Antalóczy and Éltető, with 51 successfully operating companies with strong capital concluded that, of the studied businesses, 34 operated subsidiaries in Romania, Germany, Ukraine, Slovakia, and Russia. Half of the surveyed companies established their subsidiaries for sales purposes, while the other half expanded with the goal of more optimal production in the indicated neighboring countries. 67% of the products produced by the established branches were sold in the given region. The answers revealed that in the case of foreign investments, a significant reason for motivation (82%) was the acquisition of the given market or the expansion of the already existing market. Cross-border activities in Hungary were not triggered with the goal of exploiting cheaper labor or resources (Éltető–Sass, 1998). According to the findings of empirical research conducted in the field, Hungarian companies typically chose the gradual path of internationalization, first utilizing the additional opportunities of importing or exporting products (Ács et al., 2010). 64% of the organizations participating in the interviews stated that the intensification of regional competition formed a strong basis for their expansion (Éltető–Antalóczy, 2002a).

A key aspect of international expansion is the determination for growth and the completion of appropriate environmental analyses. The importance of personal relationships building on the foreign market during the pre-phase of internationalization is highlighted by all the interviewed business owners. It is also highlighted that already existing connections, relationships, or family members living in foreign countries can greatly accelerate the implementation of cross-border activities and provide crucial data on the foreign market, often having a greatly motivating role for the expansion (Csákné, 2012). The need for personal, first-hand information for successful strategic planning of cross-border activities appears to be crucial. The asked business owners did not find the information provided by governments, ministries, and banks sufficient. The real attributes of a foreign market cannot be explored solely from officially posted data (Welch–Luostarinen, 1993). Inquiring about the company's experiences and the knowledge needed for expansion, organizations mostly felt their high-level marketing knowledge and managerial know-how to be highly useful and needed during expanding periods (Antalóczy et al., 2000).

The companies participating in the interview study were able to report on the overall success of the expansion. In the case of 72% of them, their market share increased, and in the case of 60% of them, the company's income increased significantly after the installation of a subsidiary. Only one of the asked organizations reported negative experiences and the failure of the subsidiary. The managers of the surveyed large organizations mostly mentioned the difficulties of obtaining relevant, life-like information, the lack of political support and of lobbying assistance as factors limiting expansion. Financial difficulties of the parent company, inappropriate selection of the target country, an overly optimistic assessment of the target market, and the instability of the political environment are common risks that were highlighted by the interviewed business owners (Holicza, 2016).

In the study by Gubik and Karajz (2014), the problem arises pointing out that the examination of companies cannot be separated from the analysis of the people who lead the company or are authorized to make decisions. The professional knowledge, experience, and mindset of the business owner and managers are highly decisive in the success of internationalization (Gubik–Karajz, 2014). The conducted and analyzed survey contains the answers of 104 companies, of which 74 are already present in some form on the international market. The survey fundamentally differs from the in-depth interview research by Antalóczy and Éltető, as 77% of the surveyed companies operate in the SME sector in this case. 51% of the companies participating in the survey cross the country's borders with imports, 25% with exports and 12.5% with abroad cooperation. Gubik and Karajz's research sheds light on two previously unexplored relationships. Based on their survey, a significant relationship can be found between corporate environmental awareness and the choice of time to enter a foreign market. In addition, it is important to emphasize again that the attitude of owners, managers, and employees can fundamentally limit the company's openness towards change and expansion. The literature highlights that the achievement of a correct mindset (i.e. a change in the attitude of the managers) will be always a critical condition for the successful expansion of the organization (Gubik–Karajz, 2014; Kotter, 2012).

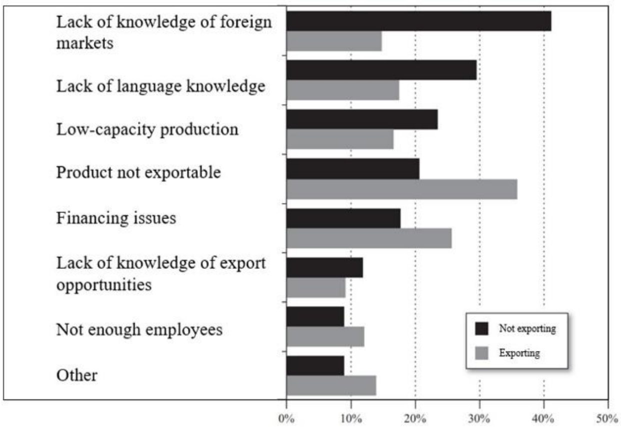
The study by (Kozma–Sass, 2019) concludes that the Hungarian small and medium-sized business sector, which serves as the backbone of the Hungarian economy, is much less present on the international market. Previously highlighted research showed that in Hungary, mostly larger companies with years of experience and successful operation history, owned by foreign investors have took the opportunity of stepping on the path of foreign activities. However, from this point of view, Hungary does not differ from the neighboring European countries examined in the analyses. Small and medium-sized businesses are facing difficulties regarding cross-border activities across all European countries (Johanson–Vahlne, 1977).Therefore, it is important to examine what are the inhibiting factors that arise in the SME sector and prevent companies from expanding on the international market (Mikesy, 2015).

Mikesy's 2013 study, performed on the Hungarian SME sector, concludes that SMEs with cross-border activities like exporting are tend be more successful, faster growing and more resilient towards recession periods with the acquired experience in decision making from foreign markets as well (Mikesy, 2013). Németh's 2017 research results display that from a 200+ SME interview sample, family businesses tend to look more for exporting opportunities than non-family-owned SMEs. Difficulties, however, can be presented with the lack of trust towards external experts, lack of knowledge of foreign markets and language, fear from losing family control, and the lack of digitalization. However, it was concluded that family members living in foreign countries are a great motivational aspect of cross-border operations and can be a great advantage for family owned businesses (Czakó et al., 2016; Németh, 2017; Wąsowska, 2017).

2.4. Difficulties of entering foreign markets

The first step in the relevance of international expansion is to examine its potential positive impact. It is clear that if a company could not gain additional value during its entry into the international market, it would certainly reject this form of expansion. However, companies performing cross-border activities surveyed in previously performed studies show a faster increase in the overall profit and the number of employees. Based on surveys carried out in four rounds in 2010, profit before taxes of SMEs that performed foreign activities was on average 8% higher compared to businesses that only operated within the boundaries of Hungary (Mikesy, 2013). Of the companies participating in the survey, 40.8% import, 32.5% export, and 3.4% are present in the international environment (Mikesy, 2015). According to previously conducted studies in Hungary, SMEs therefore have an interest in striving for cross-border expansion, but despite this opportunity small and medium sized businesses often face difficulties to step out of their well-known environment. The lack of planning is a fundamental difficulty of the SME sector that appears in many cases. The basis of the problem is the management's workload, limited capacity, and circle of acquaintances, on the basis of which they do not have the time or knowledge to plan the entry into a new, unknown market realistically and with adequate quality (Hofstede–Minkov, 1991). The owners of the company need foreign language skills and comprehensive knowledge of the target market in order to be successful. In many cases, the catalyst for entering the international market can be a rare opportunity, which, however, requires up-to-date knowledge of the economic and market developments of the given area. Figure 4 displays the most common difficulties and restraining factors of internationalization which SME leaders mention during a qualitative research published by the MFB-Indikátor in 2012.

Figure 4. Difficulties of utilizing the opportunities of exporting – Comparison between exporting and non exporting SMEs



Source: own construction based on MFB-INDIKÁTOR (2012), Mikesy (2013)

The impossibility of exporting the manufactured product abroad due to additional expenses or lack of production capacity was often mentioned by the interviewed companies. The additional expenses would often lead to uncompetitive prices on foreign markets (Török–Gray, 2003). Based on the 2009 OECD survey, SMEs often consider the company's internal factors, like capacities, and competences to be a bigger obstacle when entering a foreign market than the external, environmental elements affecting the expansion. Naturally, as the expansion progresses, the emphasis on external constraints also increases, but initial steps towards cross-border activities are limited mostly by factors found in the company's internal structure. The lack of experience and the fear of unknown risks are often the root problems of avoiding the idea of foreign activities. Many small and medium-sized enterprises have never operated in a foreign market before, so the fear of company managers is understandable (Éltető–Antalóczy, 2002a).

Encouraging the internationalization of Hungarian SMEs could greatly help the profitability of small businesses. Based on the highlighted research more foreign activities would further increase the employment and would lead to an overall higher GDP contribution rate of SMEs in Hungary. It is clear that small and medium-sized businesses require assistance in taking steps towards activities connected to foreign markets (Losoncz–Nagy, 2020).

2.5. Discussion

The performed literature review concludes that the more rapid technological advancements and globalization created a fiercer and faster paced environment for small and medium sized organizations to operate in. Internationalization became apparent in Hungary as well at the end of the 20st century, however, the literature review highlighted that mostly already well performing, larger, foreign owned companies could step out on the foreign markets. Organizations with cross-border activities show faster growth in profitability and the number of employees. Businesses stepping out to foreign markets tend to perform better overall, acquire additional managerial skills, relationships and show better resiliency during recession periods. However, it is clear that small and medium sized enterprises, despite the possible advantages, are afraid of cross-border activities and often lack the necessary knowledge and optimal supply chains to perform well outside of their local market. It is also clear that performing the necessary market analysis on a previously unknow environment proves to be a greatly difficult challenge. The most commonly mentioned constraints businesses must face are the lack of language and strategic knowledge, the difficulties of understanding and exploring foreign markets, optimizing transport costs, and increasing production quantity. The below conclusive summary shows a brief synthetization of the most common motivating and constraining factors of internationalization based on the processed literature and qualitative studies performed previously on the researched field.

Motivating aspects of internationalization

- Average 8.0% revenue growth development in exporting SMEs compared to locally operating SMEs from 2010 to 2012 (Mikesy, 2013).
- Average 10.1% employee number growth development in exporting SMEs compared to locally operating SMEs from 2010 to 2012 (Mikesy, 2013).
- Average 7.1% investment growth development in exporting SMEs compared to locally operating SMEs from 2010 to 2012 (Mikesy, 2013).

- International entrepreneurial experience gathering on foreign markets (Győri–Czakó, 2019)
- Better resiliency towards challenging environmental events (Antalóczy et al., 2000).
- Further development of the Hungarian economy (Losoncz–Nagy, 2020).

Constraining factors of internationalization

- Difficulties of reliable information gathering on the target market (Antalóczy et al., 2000).
- Overestimation of the foreign potential target segment (Török–Gray, 2003).
- Lack of entrepreneurial skills and knowledge (Éltető–Antalóczy, 2002a).
- Language and cultural barrier (Czakó et al., 2016).
- Lack of trust towards previously unknown foreign connections (Németh, 2017).
- Production capacity restrictions (Mikesy, 2013).
- Not exportable product (Mikesy, 2013).
- Financing issues, high logistics cost (Holicza, 2016).

The study demonstrates overall the advantages of cross-border activities and highlights the difficulties that holds back SMEs from stepping out to foreign markets, but also opens up questions for further exploration, how SMEs could be assisted in achieving the right mindset, the necessary knowledge and optimizing their supply chains so they have better and realistic chances of expanding.

3. Conclusion

Overall, the study concludes that globalization led to a wide range of opportunities which allowed companies to expand their activities beyond their regional market more and more easily. Although globalization and the unification of the world can be beneficial, its spread is also criticized from other angles. Today, entering the international market is increasingly a base requirement of maintaining market competition for large companies. Thanks to technological, infrastructural, and informational development, companies can even decide to expand internationally for the purpose of optimizing their operations, accessing hard-to-reach resources, and employing cheaper labor.

Assessing the situation in Hungary, it has become clear that a relatively small number of small and medium sized organizations enter the foreign market. Hungary's internationalized businesses are mostly larger, long operating, successful organizations which are foreign owned. These companies are mostly interested in selling their products on cross-border markets and establishing subsidiaries in the target country. From this point of view, the parent companies operating in Hungary are not motivated to exploit resources or to expand to reach cheaper labor. Looking at the SME sector, Hungary is not lagging behind in entering the international market, considering the neighboring countries. In contrast, it can be stated that only a small percentage of SMEs extend their activities beyond the border. The reviewed in-depth interview surveys show that the lack of language proficiency, professional and experiential knowledge often holds small and medium-sized businesses back from internationalization. In many cases, their product is either not exportable, or due to the costs calculated after delivery, the manufactured price would no longer be competitive in the potentially targeted markets.

At the end of the study, it is important to point out that proper information about the target market and the collection of relevant data play a significant role in the success of entering an international market. In many cases, SMEs indicated that it is impossible to realistically assess a market they are completely unfamiliar with without personal experience. Even in the case of large companies, it appeared without exception that expansion could only take place with the help of international acquaintances.

Overall, the research highlights that SMEs stepping out to foreign markets tend to perform better and to show greater resilience during recession periods. SMEs are the backbone of the Hungarian economy significantly contributing to the overall GDP and employment. SMEs entering foreign markets could further increase their potential, however, it is clear that small and medium sized businesses are often facing both local and global difficulties. The researched field provides further possibilities to explore and opens up new questions such as how these SMEs could be efficiently assisted, and whether it would be possible to further optimize their supply chains to enable competitiveness on cross-border markets as well. These open questions can be assessed with future exploration in the researched area.

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