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# An Analysis of the Internal Barriers Hindering Croatian Export Companies

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## Abstract

Export represents the ultimate strategic necessity that ensures a positive impact on long-term sustainable development and the acquisition of international experience. Export strategy is created by the top management and largely depends on business policy. Each enterprise defines its own competitive strategy based on acquired resources. According to statistical data, Croatian companies are at a low level of internationalization and are not competitive on the global market. Therefore, this paper summarizes initial export barriers (so-called internal barriers), which arise within Croatian companies. These obstacles incorporate informational, functional and marketing features. Survey questionnaire revealed that major problems are reliability and the absence of exchange of information, as well as insufficient quality and availability of managerial personnel, especially those recruited for export activities. Consequently, companies have neither a representative nor mediator for the targeted foreign market. On the other hand, innovating and developing new products for export, especially providing after-sales services, have considerably risen.

**Keywords:** Internal barriers, Croatian companies, market, export, information, organizational capacity, innovation

**JEL classification:** D21, D80, O31

## Introduction

According to the available resources, organization defines its unique export strategy seeking modes for enhancing competitiveness. Management creates a strategic plan for internationalization which largely depends on human resources and the level of technological development. With quality inputs, company can much easier accomplish differentiation and competitive, but reasonable, price of final products and/or services in the international market. Internationalization enables companies to achieve a lesser degree of dependence on circumstances on the domestic market. International business expansion is proportional to the risk dispersion (Tarczynski et al., 2013). Additionally, by economies of scale, enterprises improve the technological quality and reach the set standards; they take advantages of inactive working capacities, generate more revenues and assets for further growth and attract qualified employees and shareholders through a quality-profit basis (Czinkota et al., 2001).

Export obstacles can be classified into two main categories: internal and external export barriers (Korsakienė et al., 2011). Internal barriers depend on available resources and "skills" that company has developed successfully and which directly affect the attitude of the company concerning the export. On the other hand, external barriers depend on procedural, administrative, legal and legislative framework as well as environment circumstances in the domestic and foreign markets (Leonidou, 2004).

However, since the obstacles to the realization of international trade largely dependent on entrepreneurial, organizational and historical background of the

company and intensely affect business behavior when export activities are concerned, internal export barriers were placed in the focus of this research. Based on the analysis of the subject matter the lack of studies is observed. There have been no sufficiently detailed analyses of internal barriers faced by companies in Croatia which significantly impede the business internationalization.

Therefore, the aims of this paper are: (i) to highlight the importance of internationalization for companies' subsistence as well as export for the benefit of national economy, (ii) to analyze the export performance of Croatia and (iii) to point out the initial and key obstacles preventing Croatian companies to achieve international exchange.

## Croatian Export in numbers

Generally, Croatian economy has always attempted to be built on the well thought export strategy. But, in terms of internationalization, the greatest problem of Croatian economy has remained the absence of clear, long-term development economic strategy causing the substantial aversion towards risk and evasion of entrepreneurship. Though, bolder Croatian companies have mostly been focused on geographically close markets providing lower value-added products and services. Consequently, the status and trends of Croatian international exchange have generally indicative of a growing trade deficit. The development of Croatian economy was based on the growth of domestic consumption. Furthermore, funds obtained by external borrowing and foreign direct investments were used for higher consumption based on imports. Still, the crux of the problem was in the lack of education and therefore unqualified work force that had been developing non-competitive products and services. Because of that, every eight entrepreneur in Croatia generates revenue from foreign markets (Croatian Chamber of Economy).

However, exports significance is reflected in the statistical data of international trade in Croatia according to which only 13% of Croatian companies are engaged in exporting, but they also employ half of the employees in all companies and generate 65% of total revenues (Ministry of Foreign and European Affairs):. Based on these data, it can be concluded that Croatian exporters empower Croatian economy.

The European Union (EU) represent the most important Croatian trade partner on whose market Croatia placed each year about 60% of its own goods and services for export. Besides the EU, the dominant is export to CEFTA countries (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova and Serbia) in which the average export is about 20% of total exported goods and services. Individually, the most important export partners have not changed in recent years. The top five export markets are Italy, Bosnia and Herzegovina, Germany, Slovenia and Austria. In addition, increasing significance of Serbia, Russia, USA, Hungary, France and the UK is discernible (Croatian bureau of statistics).

Frequently, states achieve the most intensive cooperation with neighboring countries as a competitive advantage can be easily attained. The share of Croatian exports to the neighboring countries makes more than 30%, both in merchandise exports and the export of services. However, observing the bilateral cooperation of Croatia with neighboring countries, it is easy to perceive presence of the pressing problem – the value of imports is much higher than the value of exports to all countries except to Bosnia and Herzegovina, Serbia and Montenegro.

According to the National Classification of Activities, the export is dominated by the processing industry with a share of almost 90%. The data has not significantly changed since the establishment of Croatia to the present day. According to the

Standard International Trade Classification the greatest exports value is consist of machinery and transport vehicles what is logical because of their high market value. In exports, different finished products, mineral fuels and lubricants underline as well.

## Internal Barriers in Export Activities

The impossibility of identifying, selecting and implementing business into foreign market of interest may be the result of inadequate information (Paunović et al., 2010). The lack of useful information is a complex export barrier which includes problems in analyzing markets and establishing contacts with potential foreign clients. Timeliness, high-quality and accurate information is the key to reduction of the risks due to initial uncertainties (Pinho et al., 2010).

Sophistication, turbulence and heterogeneity of business environment hinder companies in the process of internationalization (Kahiya, 2013). An additional aggravating circumstance often represents the lack of access to foreign databases or problems related to quality, authentication and usability of available information (Czinkota et al., 2001). On the other hand, collecting and analyzing certain data may require significant financial costs that companies are not willing to pay (Kumar, 2012). Consequently, the risk is significantly increased because export activities are mostly confined by intuition and personal experience of management instead of being done according to the systematically conducted research of unknown export market. Detecting market opportunities abroad can also make a strong (negative) pressure on the readiness of companies to start, but also to expand export activities (Acedo et al., 2011). In addition, identification of business clients is a serious obstacle. Faced with the difficulties of effective and timely identification of business opportunities and customers due to limited information, export activities are brought into question.

Functional barriers include the inefficiency of various business entities and functions such as human resources, manufacturing and finance, which directly affect the export activities (Frynas et al., 2015). They are divided according to four basic features that include: restrictions on managerial time, organizational personnel responsible for exports, production capacity and available working capital (Leonidou, 2000).

Management plays a key role in export planning. However, management, as an organizational unit, often is represented by only one person. Therefore, in the absence of time and workload unwinding exclusively on the domestic market, export is pushed into the background. That is why, it is necessary to provide qualified human resources in order to utilize opportunities and benefits that foreign markets provide. This is supported by the fact that the percentage of employees who deal with exports is usually much lower than the contribution of exports to total sales of the company (Albaum et al., 2008).

The lack of working capital is a disincentive for export activities. Export, as peripheral business activity, is carried out only in a case of available resources existence. Since the engagement in the exports often requires additional financial expenditure, whether for providing necessary information, researching foreign markets or transport and other regular business expenses, lack of working capital acts as an export barrier.

Created business policy represents all the activities of the company's business in its macro and micro environment. It includes a product portfolio, pricing policy, distribution and logistics as well as promotional activities (Dileep, 2012). Due to the complexity, broad scope and significant causal link of all elements of business policy,

precisely it represents a major problem for exporters and those who would like to become ones.

Faced with strong pressure from the environment, companies are forced to adjust all elements of their business to legal regulations on foreign markets. Therefore, they are often compelled to improve existing or develop a completely new product that will meet the standards of foreign markets despite the financial, empirical, research and development constraints (Terpstra et al., 2000).

Severe problem is also the pressure on the pricing policy since it is necessary to comply with the much larger number of competitors and to provide a satisfactory price to customers (regardless of higher start-up costs). Distinguishing criteria in complex distribution and logistics channels also act as barriers to the export companies.

## Internal barriers faced by companies in Croatia

According to the survey, conducted on 130 export enterprises in Croatia, it was shown that internal barriers represent a significant problem for Croatian exporters. Internal aspects, in particular, make it difficult to export for small businesses (companies with up to 50 employees). The reason mainly lies in the lack of staff, lack of resources and the absence of business experience. Therefore, exports to them represent a minor activity that takes a cautious approach. Mainly, they perform on foreign markets in the role of passive or reactive participants. Consequently, their revenues from abroad are small as well as the share of exports in total revenues.

On the basis of questionnaire, important internal barrier is the problem of reliability and the absence of exchange of information. Croatian companies usually do not have timely, exact and quality information in dynamic business environment in which they are located. The degree of dynamic happenings increases proportionally with the complexity of the market. When aversion towards risk is added, Croatian companies often miss opportunities on the international market. Additionally, enterprises, especially small and medium ones, are not able to allocate significant financial resources for market research and provide information about foreign markets and potential customers. Moreover, their access to certain quality databases is limited.

Survey questionnaire revealed that, apart from the lack of personnel, a significant problem in all Croatian companies, regardless of size, is the lack of initiative. Employees at all levels have not expressed interest in generating new ideas and functions in the company. The conventional wisdom is that employees in small and medium-sized enterprises are struggling with assigned business tasks. Shortage of time usually restricts them in expanding business ideas. However, despite the apparent stimulated business climate, in the state-owned companies employees are expected to strictly follow standard procedures and perform business tasks in accordance with the usual practice. In other words, their creativity seeks to suppress and is not appreciated.

Observing business policy, it is often dirigisted by the previous two barriers. As Croatian companies mainly do not possess information, the risk is enhanced. Hence, risk-averse companies are enabled to rapidly and effectively adapt business policy according to the needs of foreign markets. Their assortment of products is narrow, prices are quite uncompetitive and promotional activities are conditioned by limited budget. Simple logistics and distribution channels are a reflection of their globally uncompetitive business that is largely oriented on the domestic market.

Though, Croatian companies are trying to overcome imposed limited innovation business in activities they are dealing with. Despite the fact that most companies run

away from large financial costs for innovation with questionable effectiveness, they are trying to develop new products and services for export. Emphasis is placed on services, especially on providing after-sales services which have considerably risen in recent years.

## Conclusion

Croatia is small post-transition country with restricted resources. Though, the importance of international trade in the long-term sustainability of the overall national economy and of each business is beyond doubt. Internationalization is indispensable in spite of the risks and uncertainties inherent in the micro and macro environment. Croatian companies are faced with numerous export barriers. Impact of barriers depends on situation inside the company and circumstances on domestic and foreign market. Still, internal barriers represent a significant obstacle to the internationalization of business compared to the external impediments. That is, in order to face the external obstacles, the company must minimize internal weaknesses to a significant extent.

As the most significant problems, Croatian companies perceive: reliability and the absence of exchange of information, as well as insufficient quality and availability of managerial personnel, especially those recruited for export activities. Consequently, companies have neither a representative nor mediator for the targeted foreign market. For smaller-sized companies specified problems are even more predominant. Small companies have fewer resources available and due to lack of experience they are recorded with a deficiency of capabilities.

Croatian companies are at a lower, unsatisfactory, level of internationalization and still don't achieve significant business results on the international market where better competitors dominate. The role of market leader is an exception for Croatian company. Namely, to them, it is easier and more efficient to be market follower. However, aware of the intense competition, they strive to incorporate innovative activities in their business. According to the research, innovating and developing new products for export, especially providing after-sales services, have considerably risen. The risk of transformation certain idea into an innovation always exists. Although one incorrectly implemented or wrongful innovation can stand the entire business enterprise, companies are forced to explore new ways and opportunities of work in order to remain on the market.

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## About the author

Helena Miloloža was born December 27th, 1987 in Zagreb, Croatia. She had been working in Croatian Bank for Reconstruction and Development, in Export Credit Insurance Department, for two years, after which she got the job at the Faculty of Economics and Business Zagreb. She is a senior research and teaching assistant at Department of Trade. She received her Ph.D. with the dissertation thesis "Determinants of export activities of Croatian companies in the Eastern Europe countries". She has published several scientific papers in international journals and participated in many scientific international conferences. The author can be contacted at [hmiloloza@efzg.hr](mailto:hmiloloza@efzg.hr).