

Pro-export strategies of the Czech Republic with the focus on born globals

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Abstract

Purpose of the article The aim of this article is to define SME in CZ which excel at innovations, rapid technological progress, high level of specialization and increasing added value so they are predetermined to be successful in the new age, also called as 'digital age'. 'Born globals' possess these prerequisites. The possibility of goods and services export to the foreign market is the most crucial for these enterprises. Hence this article is focusing on strengthening the export within the internationalization process and on the study of Czech pro-export strategy and the results of balance payments of the Czech Republic which support the prerequisite that the Czech Republic is an export country.

Methodology/methods The methods of secondary data analysis, synthesis, induction and deduction were used in this article. Secondary data were gained by structured data collection to make the scientific literature clear and these data were gained from electronic sources, academic theses, scientific articles and statistic pieces of information. This also helped to make the internationalization of SME, born globals in CZ and export strategy in CZ issues clear.

Scientific aim This article is focused on macroeconomic indicators of CZ research which support the prerequisite that CZ is an export country.

Findings The results show that the Czech Republic is an export country in the long term which is followed by currency depreciation, decrease of the nominal effective exchange rate, increase of competitiveness of the country, decrease of the real effective exchange rate, increase of export and decrease of import, so the conditions for 'born globals' and other Czech enterprises that would decide to expand and sell their products or services on foreign markets are set to be in accordance with pro-export strategy.

Conclusions One of the specific aims – 'double the number of highly innovative exporters (born globals) by 2020' - follows from the Export Strategy of the Czech Republic 2012 – 2020 (Ministry of Industry and Trade, 2012). The solved issue has several limits such as lack of methodology for measuring born globals companies in CZ, lack of methodology for support of born globals entry into the foreign market and others, which follows from the research of literature and analysis. The scientific work proved that the Czech Republic is a country with pro-export policy and thus opens other scientific questions that future works can focus on such as currency of born globals in the Czech Republic, observing indicators and fulfilling the indicators from above mentioned specific aim of the Export Strategy of the Czech Republic.

Keywords: Born Globals, the Czech Republic, Export, Management, SME, Internationalization

JEL Classification: M15, M21

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Introduction

More and more authors deal with the issue of internationalization of SME in the Czech environment (Pollard, Šimberová, 2002; Benáček, 2006; Kubičková, Peprný, 2006; Pollard, Jemicz, 2010; Starzyczna, 2010; Kubičková, 2012; Richter, 2015; Břečková, Havlíček, 2015; Zapletalová, 2015; Toulová, 2015; Šťastná, 2011 and others) and together with increasing dynamics of change in the environment other and other possibilities of the internationalization process research open, such as born globals.

Mejstřík (2013), based on OECD estimates, calculated the number of born globals companies in the Czech Republic to 6% of the total enterprises but they are rapidly developing, innovative, have high added value and high level of internationalization.

These types of enterprises are predetermined to succeed in the new phase which is often called 'digital age'. According to the dictionary (www.yourdictionary.com, 2017) it is: 'The digital age, also called the information age, is defined as the time period starting in the 1970s with the introduction of the personal computer with subsequent technology introduced providing the ability to transfer information freely and quickly.' Or: 'The time period in which we live now where Internet and email are available is an example of the digital age.'

The possibility of goods and services export to the foreign market is the most crucial for enterprises born global, so 'born for globalization'. Thus the article is focused on strengthening the export within the internationalization process, on study of Czech pro-export strategy and results of balance payments of the Czech Republic which support the prerequisite that the Czech Republic is an export country.

1 Internationalization Theory

According to Jurek (2012), the term internationalization means to adapt the products or services to more nations. *Nový akademický slovník cizích slov* (2008) defines the internationalization as making something international. This terminology has been used since the 1920s to describe cross-border relations among economics. Starzyczna (2010) supports this description by claiming that internationalization represents expansion enterprise activities from homeland abroad. Ruzzier et al., (2006) agrees and extends this description of the concept of process, so he says that internationalization is a cumulative process including activities of companies that chose to expand their entrepreneurial activities to foreign markets to make a profit.

Lopez et al., (2008) distinguishes the approach of companies towards internationalization into two categories: evolutionary approach – companies start to make business on domestic market where they are located and subsequently expand to the foreign market and the second approach – companies are already established to export to the foreign market. This group is called as born globals even though they are very rare. The internationalization issue covers the topic of export and import and also international cooperation, participation on beneficial cooperation networks, searching for competitive entries, new technologies and study of mutually supportive approaches (European Commission, 2008).

1.1 Internationalization Theory Born Globals

Considering the fast pace of international expansion of enterprises, it is a new phenomenon and 'born globals' type of companies are defined as 'born to be global'. Many authors deal with this issue such as Fan, Phan (2007), Knight (1997), Madsen, Servai., (1997) or e.g. Kandasami (1998), Hashai, Almor (2004), Sharma, Blomstermo (2003).

The traditional theory of international trade claims that enterprises firstly establish their good position in the home trade and enter the international trade in later stages of their life (Bilkey, Tesar, 1977; Cavusgil, 1980; Johanson, Vahlne, 1977; Luostarinen, 1979).

This opinion is doubted by a research showing that some companies enter the international field quickly after their foundation - so called born globals. These companies are supposed to be strongly focused on innovation and growth, so they can contribute very well to the renewal of economy and labour market that Europe is pursuing after global financial crisis (Eurofound, 2012).

The term 'enterprise born globals' was firstly used in the 1990s in connection with a study of the McKinsey and CO company for the Australian Manufacturing Council company (Rennie, 1993) and it has not had a united definition in the world yet. Certainly, they are different from other exporting enterprises in several main characteristics. According to Varma (2009), internationalization and geographic effects belong among them. He agrees with authors such as Rialp et al. (2005), Freeman et al. (2013) and Gabrielson, Kirpalani (2012) that the time between foundation of the enterprise and its entry into the foreign trade should not exceed three years. Kubičková (2012) studied the period of time between foundation of the enterprise and its entry into the foreign trade in her work that was focused on 724 Czech SME doing business in the ICT field (40 questionnaires were answered in total). She asked about the period of time between their foundation and entry into the foreign trades.

The results were surprising and can bring another scientific question, so how the entrepreneurial focus of companies affects the speed of entry into the foreign market. According to Kubičková's research, 64% of enterprises entered the foreign market within 1 year of their foundation, 21% within 5 years from their foundation and only 15% started the internationalization process within 5 – 10 years of their foundation.

Ferreira, Santos and Serra (2010) define 'born globals' as enterprises that offer their products and services globally so there is another sign confirming geographic effect that is defined as an influence of at least two countries, in homeland and abroad.

Some authors would like to also include the share of foreign trade on the total revenue into the evaluating criteria of 'born globals' companies. However, the authors are not even unified in this criterion and some of them describe this share as 10% on total revenues (Kandasaami, Huang, 2010) while other authors (Madsen, Servais, 2000) 25%.

Professor Michal Mejstřík (2013), the Chairman of International Chamber of Commerce in CZ, the director of EEIP a.s. and the Chairman of the Supervisory Board of Czech Aeroholding defines the 'born globals' companies as enterprises that are developing quickly, enter the foreign trades and have a high level of internationalization, which corresponds with the definition used in this work: 'Born globals' which means 'born to be global' is a term for companies that soon after their foundation (usually within 3 years) expand into the foreign trade where they sell their products or services corresponding at least 25% of total revenues of the company. This definition was expressed by the authors Knight et al. (2004), includes also the opinions of other above mentioned authors and is extensively quoted in this form (Gabrielsson et al., 2008; Daszkiewicz, Wach, 2014; Knight et al., 2004; Mejstřík, 2013).

2 Focus on export

To be involved in the international trades is very important for the Czech Republic that represents only a small part of the world economy. Involvement in the world economy ensures long-term sustainability, prosperity and economic growth because it represents the growth potential of domestic companies, the possibility of increasing domestic sales production, improvement of quality of products and services with respect to the competitive environment (Calof, Beamish, 1995). Export and import of goods and services are one of the disciplines of internationalization. Comparing the export of goods and services to the total gross domestic product (GDP), the Czech Republic belongs among the countries with the highest ratio. The data of the Czech Statistical Office show that export was equal 79% of total GDP in 2010, in comparison with e.g. Germany where the ratio was only 50%. The influence of foreign trade on GDP still has a growing tendency (CSZO, 2013).

As follows from the export analysis made by the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic between 2014 and 2015, exports of SME in the Czech Republic grew by more than 13%, SME increase export activities outside of the EU, while in 2012, 30% of SME exported outside of the EU, in 2015, it is already 49%. Dominant position is held by crucial neighbouring countries such as Germany, Slovakia and Poland where 48% of our export are headed.

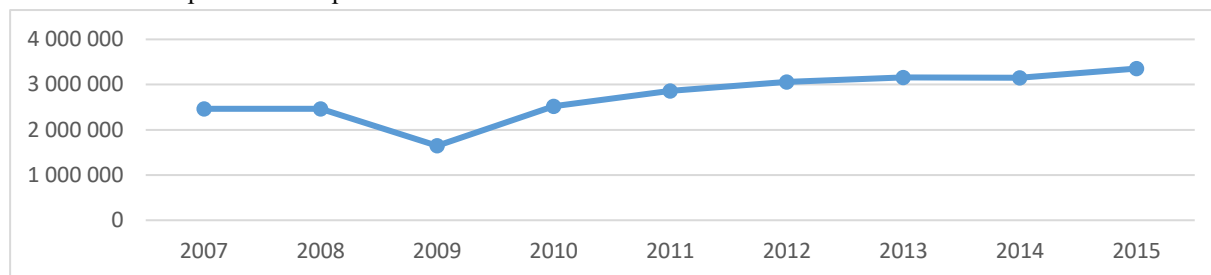
One of the initial documents dealing with the CZ issue is the Export Strategy of CZ 2012 – 2020 published by the Ministry of Industry and Trade (MIT, 2012). A strong pro-active policy focused on support of Czech enterprises export and one of the specific aims 'double the number of highly innovative exporters (born globals) by 2020'.

According to Čásnochová (2013), export is crucial for small and open economies. Čásnochová deals with Czech export strategy and compares it with the Slovak one. Her work highlights the meaning of state support in both countries, mainly in the form of preferential bank credits provided by the Export Guarantee and Insurance Corporation, Czech Export Bank and by Eximbank in Slovakia. The research that evaluated the period 2000 – 2011 showed that this state support is still low in comparison with other European countries e.g. only 10% of total state support were provided to SME. Šudřichová (2011) refers to the fact that the state support for SME started to develop with the arrival of economic crisis in the Czech Republic in 2008 and 2009.

The scientific work dealing with export in the Czech Republic (Janda, Michalíková, Skuhrovec, 2013) shows the importance of export loans that positively influence the total export of Czech enterprises. They verified the hypothesis that the higher GDP, the shorter the distance and the lower the political risk is, the higher the Czech export is. Křístková's work (2013) is focused on similar topic and confirms the initial thought of pro-export policy of the Czech Republic, so that the stimulation of export of significant industrial sectors is advantageous for the Czech Republic as a small and export-oriented economy.

The Figure 1 shows the development of foreign trade in the Czech Republic in the field of export of goods and services. It is clear that export, converted to mil. CZK is steadily increasing, except 2009 which, due to the economic crisis of previous year, reflects a worldwide decrease of foreign trade. Despite that, it still has reserves

and that needs to be supported. According to qualified estimates of the European Commission from 2008, only one fifth of European SME export abroad.



Source: Author's own adaptation based on data from Kurzy.cz, 2017

Figure 1 Foreign trade in CZ – export [mil. CZK]

2.1 Export Strategy of the Czech Republic

The Government of the Czech Republic defined three basic pillars that include export news, export development and business opportunity support. Every each of them has its sub-programs, so there are totally 12 projects supporting export. The Export Strategy of the Czech Republic defines also priority trades that the Czech exporters should focus on. These trades are identified on the basis of growth potential, absorption ability and compatibility in relation to Czech economy. Even though the European Union trades are still the most important selling market of Czech export, it is necessary to diversify the activities into other trades. Thus the MIT defines 12 priority countries such as Brazil, India or Russian Federation and other 25 exporting countries of interest such as Australia, Egypt or Norway. The annual report also describes the irreplaceable role of the subsidy agency CzechInvest that financially supports foreign cooperation and its clients represented fifteen of twenty largest exporters in CZ in 2012 – 2013 (Vláda ČR, 2016).

3 Balance of Payments of CZ

The Government of the Czech Republic tries to support the export activities of Czech SME and lower the barriers of the entry into the trade by several measures.

A significant role in economic development of the country plays its internal and external economic balance. While the internal balance is characterized mainly by the price stability, full employment in the economic point of view and by balanced growth of GDP, the external balance is mainly characterized by balance of payment of the country. (Businessinfo 2016)

Export is, of course, reflected in the balance of payments of the state both in the horizontal and vertical structure and we can find this item in credit, so called plus items, and within the goods and services export in the items of current account.

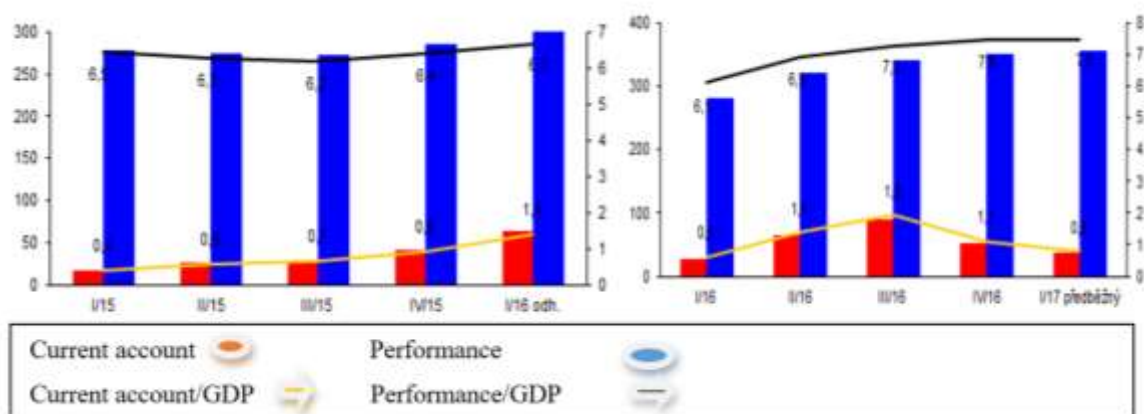
3.1 Balance of Payments of CZ

1) Current account of balance of payments for the 1. quarter of 2016 and 2017

The current account of balance of payments finished in the first quarter of 2016 with the asset of 113.8 bil. CZK. There was funds outflow abroad in the financial account (net foreign loans) of 109.1 bil. CZK due to faster asset increase before the liabilities increase. Reserve assets increased by 150.9 bil. CZK due to their own transactions (foreign exchange intervention) and transactions for clients of the Czech National Bank (CNB). The current account balance surplus on an annual basis to GDP is 1.4% due to the balance of goods and services assets (6.7% of GDP) (ČNB, 2017).

The balance of current account balance of payments finished in the first quarter of 2017 by surplus 94.5 bil. CZK. There was funds outflow abroad in the financial account (net foreign loans) of 39.8 bil. CZK due to faster asset increase before the liabilities increase. Reserve assets increased by 119.2 bil. CZK due to their own transactions (foreign exchange intervention) and transactions for clients of the Czech National Bank (CNB). Current account balance surplus on an annual basis to GDP decreased on 0.8 % due to the negative balance of secondary incomes. The surplus of goods and services balance is unchanged and is 7.5% of GDP (ČNB, 2017).

Figure 2 shows the data in bil. CZK and the right axis in %. The left graph from the 1. quarter of 2016, the right one for the same period of time 2017.



Source: ČNB, 2017

Figure 2 Current account and output balance ratio to GDP in the 1. quarter of 2016 and 2017

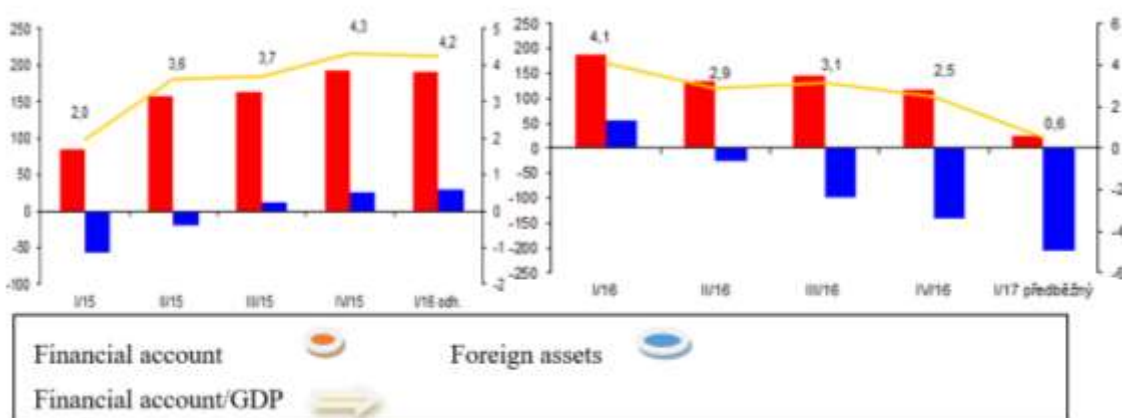
2) Capital account for the 1. quarter of 2016 and 2017

The surplus of capital account was 18.4 bil. CZK in the 1. quarter of 2016. The inter annual decline of 12.3 bil. CZK was associated with the decline of net incomes in the EU budget showed in the capital account. In 2017, the capital account was active in the first quarter of 0.9 bil. CZK. The inter annual decline of assets by 17.6 bil. CZK influences the decrease of net incomes in the EU budget included in the capital account (ČNB, 2017).

3) Financial account of balance of payments for the 1. quarter of 2016 and 2017

The net funds outflow (net foreign loans) of 109.1 bil. CZK due to faster asset increase before the increase of liabilities during the 1. quarter of 2016 was shown in the financial account of balance of payments (including changes of the reserve assets of CNB). In 2017, the net funds outflow (net foreign loans) of 39.8 bil. CZK due to faster foreign assets increase before the foreign liabilities increase which was shown in the financial account of the balance of payments (including changes of the reserve assets of CNB) (ČNB, 2017).

Figure 3 shows the data in bil. CZK and the right axis in %. The left graph is for the 1st quarter 2016, the right one then for the same period of time 2017.



Source: ČNB, 2017

Figure 3 Financial account ratio to GDP for the 1. quarter of 2016 and 2017

3.2 Macroeconomic indicators of foreign trade in CZ

Below mentioned terms of trade show the share of export prices indexes and import prices indexes. The effective exchange rate (EER) of crown expressed by the index shows the appreciation (index over 100) or depreciation (index under 100) of national currency towards the currencies basket for a specific period of time contrary to the basic period of time.

Table 1 Currency indicators CZ 2008-2016

Currency indicators	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016
CZK/EUR	ratio	26,445	25,29	24,58	25,14	25,97	27,53	27,2	26,44	27,033
CZK/USD	ratio	19,05	19,11	17,68	19,58	19,56	20,74	24,7	19,05	24,432
Effective exchange rate	%	97,8	100,0	103,0	99,3	97,0	91,9	91,0	97,8	102,4
Real effective exchange rate	%	99,7	100,0	102,9	99,5	97,8	94,2	92,2	99,7	100,01
Current account balance of payments	bil. CZK	-75,3	-89,2	-141,8	-84,8	-63,3	-21,8	7,5	11,3	
Financial account balance of payments	bil. CZK	-43,2	-72,3	-122,3	-74,8	11,7	68,3	63,1	175,8	

Source: own work

Real effective exchange rate (REER) of crown is one of the indicators of international competitiveness of the country and it is generally understood as different relative prices or expenses rates expressed in particular currency. Thus the index of REER over 100 shows the tendency towards decreasing the competitiveness of the country in comparison with the basic period of time.

4 Discussion

Export of goods and services of small and middle-sized Czech enterprises is significantly reflected in the foreign trade balance of payments of the Czech Republic. Within the survey of the balance of payments after the 1. quarter of 2016, published by the Czech National Bank, we can state that the balance of goods and services was active of 110.3 bil. CZK, which is the interannual increase by 15.5 bil. CZK. This is the result of an improvement in the trade balance of goods due to the export increase and import stagnation.

The balance of goods and services (outputs balance) was active of 111.8 bil CZK in the 1. quarter of 2017. The interannual increase by 3.6 bil. CZK was associated with improvement of balance of services assets by 3.5 bil. CZK, the trade balance of goods assets remained unchanged. The incomes from processing goods for foreign owners and transport incomes increased within the balance of services.

Within the vertical structure of balance of payments, we can find export in credit, so called plus items, within the goods export and services export. Within the horizontal structure of balance of payments, the items in the current account, so the trade balance and services balance, are directly related to export.

Not even export is an one sided issue. If e.g. a Czech car maker exports a car to Poland, the transaction is in the balance of payments as a credit item in the form of export of the current account but at the same time, it is a debit item in the financial account because the domestic car factory assets are increasing abroad (the deposit at a Polish bank). Thus, the balance of payments is always balanced but the accounting balance does not have to mean the external balance of economy. This can be achieved if the balance of current account is equalized by the balance of the financial account.

The balance of trade balance in the Czech Republic is active, considering that export exceed import. The current account surplus of balance of payments on the annual bases to GDP is 1.4 % due to goods and services balance assets (6.7 % GDP) (ČNB, 2017). According to preliminary data in the cross-border concept, ex-port increased by 5.8 % and import by 2.8 % (Kurzy.cz, 2016).

'The national concept of foreign trade reflects export and import productivity of Czech economy as well as the foreign trade balance of Czech economy. It observes the real trade with goods performed among Czech and foreign subjects, i.e. the change of ownership among residents and non-residents. In contrary, the cross-boarder concept of foreign trade reflects primarily physical movement of goods across the borders without regard to the fact if the trade is among Czech and foreign subjects. These data are internationally comparable and can serve as indicators of the trade value development.' (CSZO, 2016).

Export has a direct connection to the currency rate. If the foreign price level is in the domestic currency expressed higher than the domestic price level, the depreciation of currency occurs so the depreciation of the real rate, which leads to export increase and import decrease. If the foreign price level is expressed in the domestic currency lower than the domestic price level, domestic goods is less competitive and due to currency appreciation the import increases and export decreases.

Table 1: Currency indicators CZ 2008 – 2016 – it clearly shows that in 2011 – 2015 depreciation of effective exchange rate occurred (level under 100) and appreciation occurred in 2017. Data for 2017 are just preliminary.

This assumption is confirmed by the Czech National Bank or by the statistic office which show export increase which is a direct consequence of depreciation. The table also shows that according to the real effective exchange rate in 2011 – 2015 the increase of competitiveness of the country occurred, which also reflects currency depreciation and export support. There were opposite tendencies in 2009 and 2010 due to the economy crisis which occurred in the Czech Republic in 2008.

Conclusion

This article is focused on SME in the Czech Republic which excel at innovations, rapid technological progress, high level of specialization and increasing added value. 'Born globals' possess these prerequisites so they are established in the purpose of globalization on foreign trade. Their identification is determined by several factors, the factors of time and place play a significant role among them. So that they can enter the foreign trade, it is important to understand the term of export and its position in a broad concept of internationalization.

The internal and external economic balance plays a significant role in the economic development of the country. While the internal balance is mainly characterized by the price stability, full employment in the economic point of view and a balanced increase pace of GDP, the external balance is mainly characterized by balance of payment of the state. (Businessinfo, 2016). This issue was analysed in detail in this work. The result is the statement that the Czech Republic is a pro-export country in the long term which is reflected in depreciation of currency, decrease of effective exchange rate, increase of the country competitiveness, decrease of real effective exchange rate, increase of export and decrease of import, so the condition for 'born globals', and other Czech enterprises which would choose to expand and sell their products or services on foreign trades are set in accordance to pro-export strategy.

Acknowledgment

Specifické faktory úspěchu podniků v České republice, FP-J-17-4254.

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