

INTERNATIONAL GROWTH STRATEGIES FOR DIGITAL ENTREPRENEURIAL COMPANIES IN DEVELOPING COUNTRIES FROM EU REGION

Alexandru - Ilie Buzatu,
University of Economic Studies Bucharest,
Department of Business Administration, Romania,
e-mail: alexilie.buzatu@gmail.com

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Abstract

The global economy is highly impacted by the new business models, based on a digital framework, combined with the country of origin, will increase the chance for global development. This will bring important changes to how companies will develop strategies for sustainability and competitive advantage in this global market.

Innovative-driven companies, especially from countries in the development stage, are looking continuously for high performance, efficient processes, and cost-reduction through the use of digital tools. They consider IT solutions as a business partner, the central piece of the business, and through that, they will gain speed, efficiency, and agility to gain competitive advantage. These companies don't see the competition on price or even quality; they research for innovative products or services, and use the most advanced methods or tools for sustainable development. For international expansion, companies need to take into consideration the place where they are incubated. Sometimes, general perception puts a barrier for these companies when entering developed markets, product evaluation and success is also based on its country of origin(COO). Because of the country's brand image, the internal business ecosystem must minimize these perceptions that generally are erroneous. To improve them companies, and countries must adopt a strategy for building a trustworthiness image. This research is to determine the current state of the entrepreneurial ecosystem, and collaboration with the local government to boost global recognition and increase the power of internationalization.

Keywords: *International Development, Entrepreneurial Ecosystem, Entrepreneurial Culture, Country of Origin, Digital Business Models, Competitive Advantage, Process Innovation*
JEL Classification: *F23, F44, H11, H21, M13, M16, M38, O11, O14, O32*

Introduction

The entrepreneurial ecosystem is important also for the economic recovery, they are a catalyst for the business world, helping economies to accept the change in the business environment, and to reposition the structure of economies mostly in changing environment, new social and global market conditions. This is why the EU region needs

to invest in developing new entrepreneurial businesses that can help create new ways to strengthen the economies and to increase the chance for sustainable development.

The EU region is directly interested in investing in the entrepreneurial ecosystem, mostly for the chance to develop international businesses. Still, despite the regulations and interest, in order to support the entrepreneurial ecosystem, the main challenge is access to finance. In the economic literature is recognized that EU economies are highly regulated and safety systems in case of failure and with a low appetite for investment risk, which puts important barriers to find financing sources in the development of new, innovative business for international development.

The lifecycle of financial crisis represents another barrier for entrepreneurs financing and business development and is related to innovation and competitiveness. The EU region has many structural weaknesses, and these emphasize the lack of vision and intervention in the economies of this region. The lack of uniformity and effective public policies to support these companies lead to major delays in their sustainable development and their need to develop short-term contingency policies, to the detriment of the development plan.

The economies in the EU region need to develop feasible reforms to help the entrepreneurial ecosystem to achieve sustainability and efficiency in their development; these reforms need to be on smart fiscal consolidation, continuous investment and easy access to financing. The entrepreneurial ecosystem in the EU can bring innovation and integration of new ideas in broader industrial and macro-economic policies.

The EU region understood the need for unified policies and support for each Member States and in the Europe 2020 strategy implemented, to a large extent, policies made at country level to develop instruments that can contribute to the development of international entrepreneurial companies. This policies need to be implemented also by Member States to make reforms for developing innovative systems, and to make structural changes for sustaining local entrepreneurial ecosystem. These are the first steps into a European Innovation Union.

The European Commission (EC) is aiming to develop instruments and financial policies to support entrepreneurs for investment in business development or sustainability at each stage of their life. Such instruments require medium-long term vision on the needs to reform, invest and transform. The future depends on flexibility and agility on having the ability to change the structure of the economy and to invest in research towards more knowledge-intensive and innovative industries and services (EC, 2013a).

The lack of access procedures for special financing systems for entrepreneurial companies can lead to cash flow problems and endanger the company's activity. The entrepreneur needs to have access to several sources of financing to develop his company, invest in new technologies or invest in new companies. The entrepreneurial ecosystem would work much better if the foundations of regional clusters based on the industrial traditions of the respective regions were set up and the development of special programs for those industries would be the main engine of local development.

Entrepreneurial companies are significantly vulnerable than large companies because they are dependent on credit and with fewer options of finance, weaker financial structures for sustaining daily activity and they are not so diversified due to interest in developing fewer products or services but more innovative and efficient than existing one.

Developing innovative processes, products or services are uncertain and have a high risk dose for failure, and innovative entrepreneurs have much difficult access to financing than other companies. For innovative companies it is more difficult because financiers may not understand the nature and characteristics of the product or service and have a lack of innovative-knowledge in any industrial field, the innovations are not tangible and understanding the field is highly important.

For entrepreneurs is important to see the support of local financiers and to help them with the possibility to access alternative financing systems using different markers of creditworthiness. Effective financial policies could have a high impact also and is a necessary complement, with risk investment capital correlated to the activity. For digital natives companies, it could suggest that in the market are new mechanisms to access risk investment capital, and it could be necessary for stress release regarding financing daily activity and support sustainable development.

For entrepreneurs, security is essential and so governance policies for data storage and privacy rules are required. In the Digital Barometer, it is explained that the prevalence of innovative technology, R&D, and quantitative skills, in a local cluster or economy is a driver of efficiency and performance on "digital native skills and entrepreneurial culture education".

When entrepreneurs consider international development, they need to take into consideration the place where they are incubated and the local economy brand image in the international market. Sometimes, general perception of the local economy brand image puts a barrier for these entrepreneurial companies when entering developed markets. The product evaluation and success is also based on its country of origin(COO). Because of the country's brand image, the internal business ecosystem must minimize these perceptions that generally are erroneous.

Consumers or business partners, in general, assess the COO for a given product negatively in relation to its brand name, it often generates the perception and confusion with the country environment: economic, political, cultural or social landscape.

In order to counteract these preconceptions, entrepreneurs need to help the local government to improve brand image, to adopt a medium-long term marketing plan. It is vital that entrepreneurial companies and local economies to create a good image in the business world, to develop the entrepreneurial ecosystem based on innovation and to create such a culture on long term perspective, especially in countries with developing economies. An image based on innovation and entrepreneurial culture will gain speed and good brand image in a short time.

Developing economies need to increase their entrepreneurial ecosystem, diverse industry, increase production capabilities with innovative technology and with these its reputation as a COO will also improve.

The results of these research shed light on opportunities for improvement in developing economies that can translate into an increase in exports of products or services, which would gain credibility to its production and to improve the global image.

Background

IT solutions have accelerated business development and improved processes, helping entrepreneurial companies become more agile and respond quickly to business environment changes, and developing new business models and processes. Developing businesses or software solutions with the use of new technologies, like Cloud computing, is a way of speed up deliverables, scalable IT solutions or services through non-dedicated IT resources over networks (BITKOM, 2010).

The use new technology or IT tools will enable to redistribute capital from investment to operating expenses. IT services may relate to operation platforms, base infrastructure or application development. The paradigm shifts when using tools specific to the new industrial revolution, such as cloud computing, that poses a challenge for companies as a whole. Cloud computing will require new improved processes and a change in business strategies. Cloud computing services have the potential to change the role of key business functions and thus, strategic alignment (BITKOM, 2010).

Growing from a traditional business model, embracing the new digital and market trends, making IT solutions the business partner for sustainable and efficient international development, allowing the business structure to change and adapt, all these elements created the new digital business model.

For international development technologies, financing, processes and people are important challenges for companies. Development of new technologies, different possibilities of international deployment are driving dynamic change in the entrepreneurial digital future. IT-driven solutions are currently changing structure and transforming the global business environment are forcing companies to be agile with new changing business processes and innovative business models. These technologies, represented in the new industrial revolution Industry 4.0 include: cloud computing, collaboration, mobility, big data, networking of all things, agile business approaches and methodologies. In this context and global competition, entrepreneurs always have to adapt and to find innovative solutions and accept much easier changes. Most challenges that an entrepreneur has are in the following areas: cash flow management, marketing strategy, hiring employees, delegating tasks, time management, capital or business growth and implementing new technologies. In order to have a sustainable business, to innovate new business models, all challenges need to be acknowledged, adapted to business context, assimilated and find a solution for them, based on the business strategy and market demand (Tohanean, et al., 2019b).

Society is becoming more aware and knowledgeable, flexible, always connected to the internet and used to look for the best option for them, in the shortest possible time. Consumers and entrepreneurs are more digital natives, people who grew up with the help and discovering new technologies or handle them as new standard. They are curious about technological developments and are embracing digital solutions (Delgado, 2018).

In an interconnected global business world technology is omnipresent and entrepreneurs fundamentally need to change business processes and always to discover new technology. Entrepreneurs need to plan: short-term digital transformation or medium-term evolution to a digital operating model (PwC, 2019).

In this new global business environment, entrepreneurs must aspire to be smarter, stronger, and faster. Only in this context, they enabled by changes across three dimensions: organization and talent, business and customer, and process and technology (PwC, 2017).

In this global environment, entrepreneurs need to use best practices, and profit from the FDI entered in their local economy, especially in developing countries. The FDI can bring for entrepreneurs access to new technology, infusion of capital or development of new knowledge for expanding their business (Buzatu et. al, 2018).

Methods

The present paper was made following a documentation process from the literature, scientific materials and articles published in specialized journals on EU entrepreneurial ecosystem level. A structural analysis on reports, issued by authorized institutions, websites of the main analysis and consulting institutes, statistics at national and European level, were consulted in order to identify and analyze relevant data / indicators related to the level of the entrepreneurial ecosystem in the EU.

This section of the paper presents key concepts and definitions and fundamental concepts of new digital business models and reviews relevant literature reviews, to understand strategies and approaches of a business model development in a global market using the technique of the face-to-face interviews.

This paper shows the importance of the entrepreneurial ecosystem as a catalyst for the business world, the need to develop new business models for helping economies to accept the change in the business environment, and to reposition the structure of economies mostly in changing environment, new social and global business conditions.

Results and discussions, including research limits and advantages

An important pillar for entrepreneurs to innovate and to develop international businesses is a strong national competitive environment that should provide resources needed for companies to compete in the global economy (Tay-Yue, et al., 2019).

Tabel 1. Structure of the competitiveness of developing economies

National Competitiveness	Economic Performance	<ul style="list-style-type: none"> ● Information on the national economy ● Government efficiency ● International commerce ● Finance
	Technological Development	<ul style="list-style-type: none"> ● Basic infrastructure ● Information technology ● Research and development ● Energy ● Management of new technologies ● Technological environment ● Patents and license rights
	Human Resources	<ul style="list-style-type: none"> ● Use of labor force ● Cost of income and employee benefits ● Income ● Labor disputes and union power
	Managerial capabilities	<ul style="list-style-type: none"> ● The ability to innovate ● Financial capacity ● Corporate responsibility ● Managerial competence ● Culture ● Industrial integration ● International operation
	Productivity	<ul style="list-style-type: none"> ● Trade in the field of agriculture ● Extractive industry ● Manufacturing industry ● Construction industry ● Service industry

Source: Developed by authors based on the research of Tay-Yue, et al., 2019, A Research Framework for Evaluating the Competitiveness of Developing Countries

Entrepreneurs in developing economies need more resources for internationalization than any other entrepreneurial company in developed economies and because of lack of investments, mostly only in the basic requirements, will not succeed in evolving internationally. The local economy will not take steps to the next stages of development, and will remain an economy that relies only on the use of human and natural resources.

World Economic Forum defines international business competitiveness and national competitiveness the ability to achieve a high quality of life for people, sustainable development for entrepreneurs with high rates of return or high rates of GDP per capita

for national economies. World Economic Forum developed and index for the help of entrepreneurs and national economies to guide them and achieve high rates of competitiveness, Global Competitiveness Index. GCI is based in 3 categories: basic requirements, efficiency enhancers, and innovation & sophistication factors.

Table 2. The categories analyzed for the drafting of the annual report on national competitiveness, Global Competitive Index

Basic Requirements	Efficiency Enhancers	Innovation & Sophistication Factors
<ul style="list-style-type: none"> ● Institutions ● Infrastructure ● Macroeconomic environment ● Health & Primary education 	<ul style="list-style-type: none"> ● Higher education & Training ● Goods Market efficiency ● Labor Market efficiency ● Financial Market Development ● Technological readiness ● Market size 	<ul style="list-style-type: none"> ● Business sophistication ● Innovation

Source: Made by the author, based on the Global Competitive Index

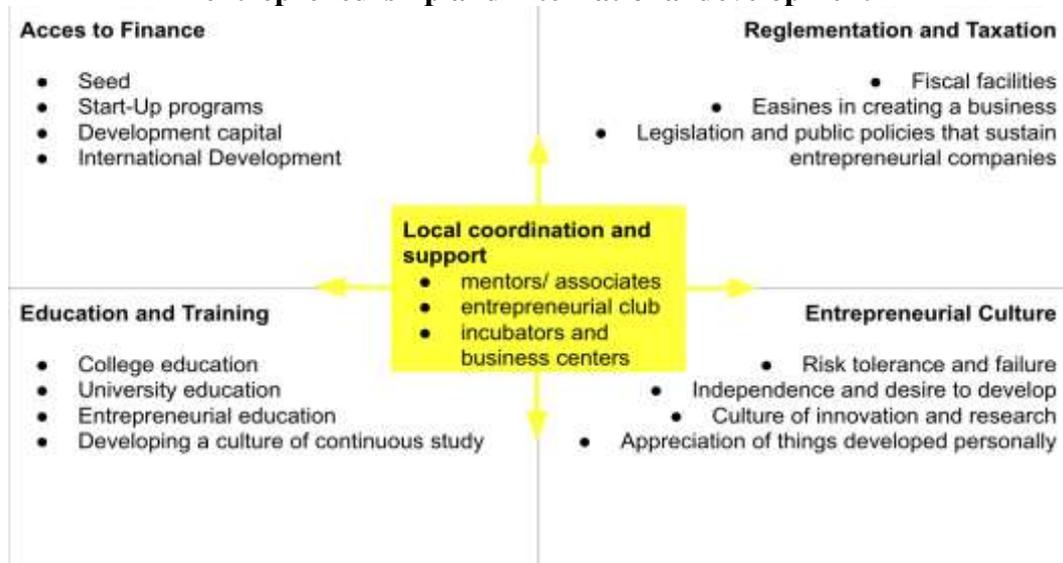
To become more competitive entrepreneurs and national economies, especially from developing economies, must invest in the category of Efficiency Enhancers, to innovate and discover new business and cluster models, based on digital solutions. At this moment, they will move to a new stage of transition, based on efficiency, labor productivity, increase the income level and welfare for the population.

To develop the entrepreneurial culture and to increase their straightness, the business environment and authorities need to establish policies for regional clusters and to invest in their sustainability. The policies need to be based on five pillars: access to finance, reglementation and taxation, education and training, entrepreneurial culture and with all with local coordination and support for clusters and mentoring (please see Figure 1).

According to WEF (World Economic Forum) for the development of international businesses, the local economy, together with the business environment, must evolve into a sophisticated economy, based on efficiency. Business sophistication should be based on: developing a network of local suppliers, competitive market, developing regional clusters based on new technologies, international business development, innovative production processes, a managerial and entrepreneurial culture based on efficiency, innovation and development with the help of new technologies. The application of these principles represents the evolution of an emerging economy and should be at the forefront of any developing economy and especially for increasing the well-being of the population. This can be a powerful engine by developing technological clusters, interconnected with

the entrepreneurial environment and state institutions. This network can drive international innovation and development in a competitive environment.

Figure 1. The entrepreneurial development framework: the 5 pillars that facilitate entrepreneurship and international development



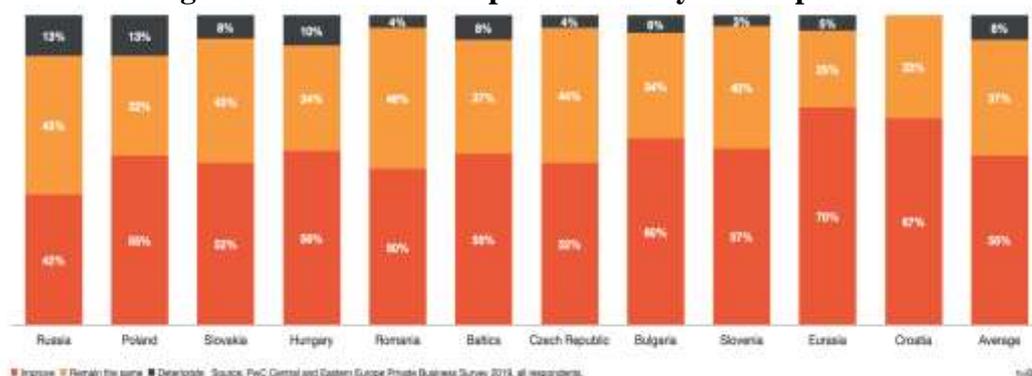
Source: Made by the author, based on the research of PwC, 2019

PricewaterhouseCoopers (PwC) in its Central and Eastern Europe Private Business Survey 2019 explains that the expected country future performance in this moments of uncertainty is the perfect time for developing new policies for new business models. The opportunity is based on technology and creates framework for internationalization, moving from local entrepreneurial business to an international one, with the help digital transformation and use of the most advanced tools in the field of IT&C.

Uncertainty often arises difficulties and creates opportunities, and if entrepreneurs succeed to predict them – and invest for development rather than cutting costs – can exploit benefits on medium and long-term, during difficult times and beyond.

Entrepreneurs need, for sustainable international development, to understand that digital transformation and the use of new technologies are the key to unlocking the next stage of growth, to make the right implementation and to have a fighting chance of growing faster when the next upturn or competitor comes.

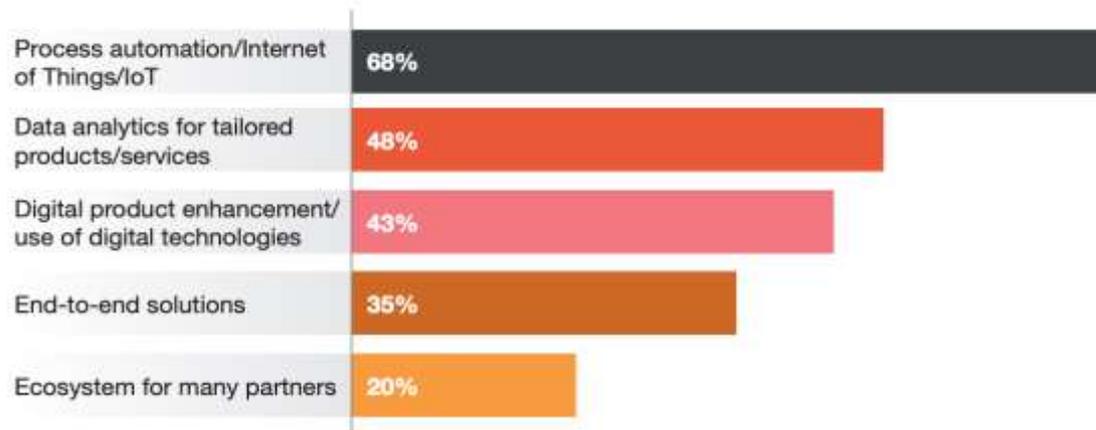
Figure 2. Overview of expected country future performance



Source: Central and Eastern Europe Private Business Survey 2019

The PwC survey suggests that most entrepreneurs leaders invest, for increase efficiency and develop international businesses, in the digital transformation of processes, automation to reduce costs and enhance performances. PwC mentions that entrepreneurs, less than 35% from the survey, acknowledge that for a sophisticated business development solution they need to invest in digital tools for the need to develop innovative products or services, solutions that meet customer needs (see Figure 3).

Figure. 3 Report for the use of digital solutions



Source: Central and Eastern Europe Private Business Survey 2019

For international development the access to financial resources is one of the most important pillars. Digital Barometer report highlights the need for performance to increase the level of risk capital; economies with the highest scores on transparency and access on risk capital and different financiers were typically the strongest overall performers. This also indicates difficulties in developing economies but also for the opportunity for reforms and improvements on access to financing sources, like seed, crowdfunding, angel funding and venture capital.

According to Vasilescu L., 2014, in an interconnected, integrated and interdependent global economy, access to funding and innovation became an essential component of sustainable business development and economic growth process. In this times, entrepreneurs have to look for different ways of funding for their growth, but they face a number of obstacles:

- the informational asymmetries between entrepreneurs and investors;
- the risks associated with entrepreneurial activities;
- the transactions costs in handling finance;
- the lack of collaterals;
- constraints on the entrepreneurial side related to the inability to use financial resources, the quality of research and development, negative attitude towards equity financing (Vasilescu L., 2014).

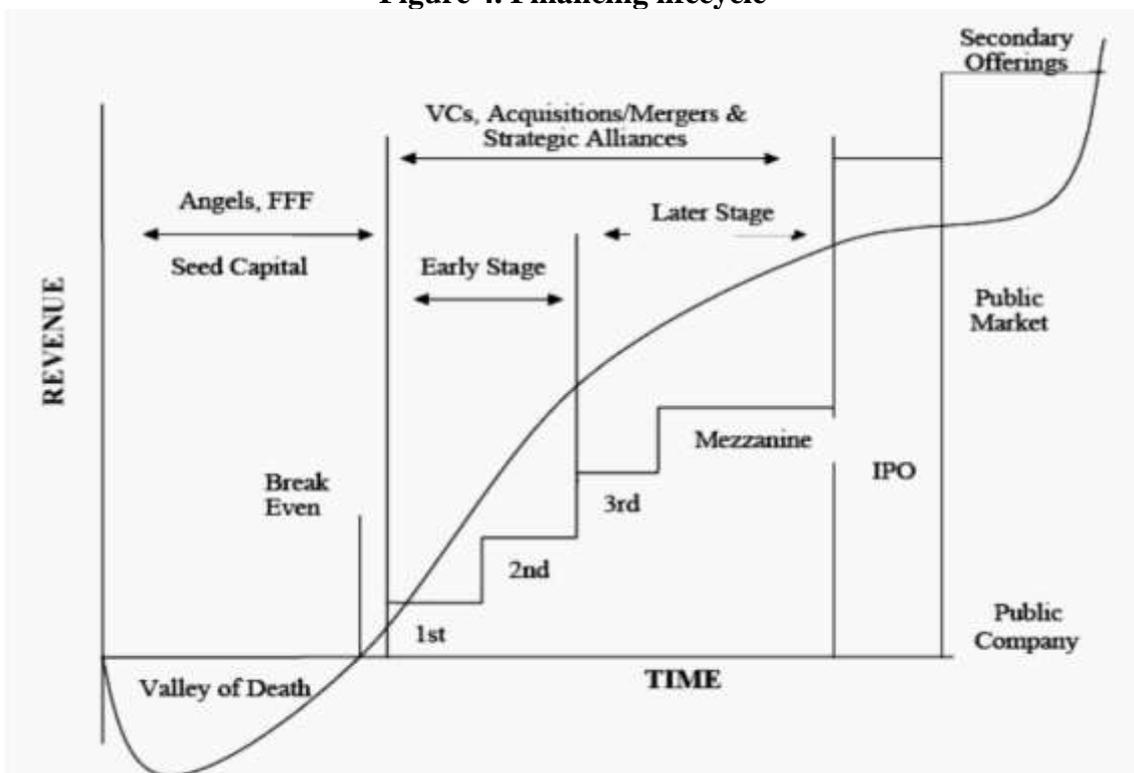
Foreign direct investment (FDI) in recent years show a direct interest for young innovative companies in generating, high return of investment, productivity growth, a possibility for international scaling and competitiveness. Compared with the US economy in the EU region entrepreneurs have a smaller appetite for risk and source of financing, that leads to lower capacity for innovation, and most of them will not survive the first year of development (Santarelli and Vivarelli, 2007).

These young innovative entrepreneurs face internal and external financial constraints, more than other active companies. Other barriers are also the regional dimension, COO (country of origin), business knowledge, business environment and high skilled labour force; these are essential pillars to monitor and to determine the success or failure of young innovative entrepreneurs (EC, 2012).

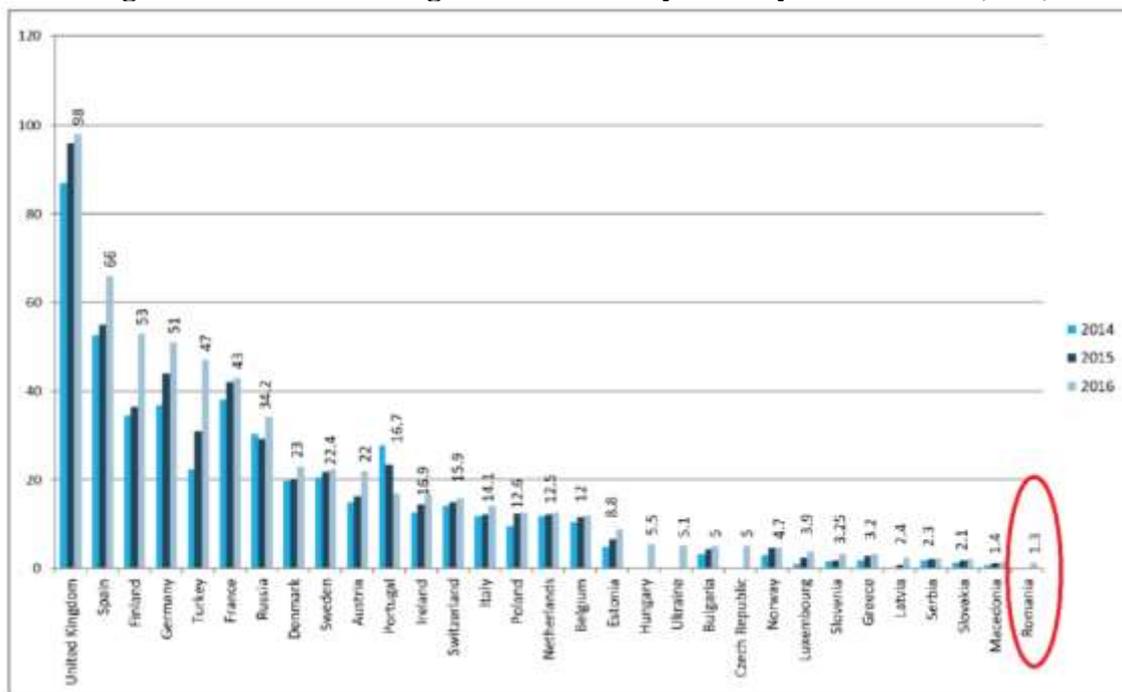
One of the characteristics of innovative entrepreneurial companies is that each growth phase has different financing requirements (Figure 4).

The innovative entrepreneurs and their start-ups have a high dose of risk for investors with perspectives of years of investment with negative earnings and with intangible assets make it extremely difficult to secure a loan from financiers. Recognizing a higher risk associated with financing innovative start-ups, some developing economies have government guarantee schemes to fill possible financing gaps (see Figure 5) (OECD, 2004).

Figure 4. Financing lifecycle



Source: Mario Cardullo, 1999

Figure 5. Amounts of angel investments by country in 2014–2016, €m;

Source: EBAN, 2016: Early stage market statistics

Conclusions

The interviews made for this paper with entrepreneurs in different areas of business reveal some similarities in their international development knowledge and practices. Some of their recommendations are:

- small investments in targeting other markets with the help of local distributors
- websites in the local language with the possibility to generate leads and SEO optimization
- local workshops with the help of local publicity agencies
- marketing and promotions made to highlight problems and create a need, with the help from influencers, podcasts and ebooks
- focus on countries with similar consuming traditions like in the local economy, developing countries, or English speaking countries
- research on lead conversion and the need on the market

For international development, entrepreneurs need to understand the global context regarding competition and the need to innovate new business models and the business environment in their countries. It is important for them to understand that to succeed internationally, local resources need to be planned and used for efficiency and developing regional clusters for strengthen the entrepreneurial businesses. For any business to survive and develop a sustainable international business, need to plan investments for optimization and process automation, especially with the help of digital tools. Competitiveness is not a luxury investment or an ephemeral process, it is a basic

target and needs to be covered by knowledge about competitiveness and international development, competitiveness needs to be a standard business implementation in any entrepreneurial company. Any economy in developing countries needs to be a central pillar for faster progress, to put objectives for increased productivity and increased resistance to the shocks of the global economy. Any developing economy must follow the good practices of the developed economies or regions, and it is necessary to build knowledge, with the help of the education and research institutions, specialized structures in the field of competitiveness, a structure capable of integrating into those existing at EU level. For regional development and clusters are the key to identifying competitive strengths.

The global business environment and open markets bring huge opportunities for development; difficulties arise by globalization that need to be shifted to opportunities and to innovate new efficient processes. It creates a need for investments in scientific research, digital transformation, technological developments, which are developed and implemented by developing economies to move to an efficiency-based economy.

Entrepreneurs need to take into consideration some important pillars for developing a sustainable business in the international market: resource optimization, especially financial and human resources, use and implement digital tools for increase efficiency, developing, with the help of local government. By these it will be developed knowledge about international business, use of new technologies and creating business clusters and incubators for mentoring and supporting entrepreneurs for the development of their business.

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