

"The International Expansion of SMEs of Leather Industry in European Context: The case of a Greek Company"

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Abstract

Leather Industry is one of the most popular and the largest sector especially in Europe and in the Mediterranean Area. (European Commission, 2003) In leather industry's operations and products belong many considerable and famous companies, providing some valuable elements even in the academic research.

This study has the purpose to provide evidence of the successful Internationalisation of Greek Leather SME through the analysis of successful international moves, in terms of international expansion, free trade and European market.

The two schools of thought (U-Model & I-Model) along with the Yip et al, 2000 models illustrate the companies' forces and the stages of the internationalisation that every company adopted according to the sector that belongs to.

Furthermore, the purpose of the authors is to examine separately the manufacturing sector and service sector via the internationalisation lenses. The contrast recommendation analysis will measure the performance and show how strong the company's foundations are, revealing the core corporate goal. In addition, the specific analysis provides a picture of what constructive lessons the Greek manufacturing SME could adopt from the service sector highlighting its weaknesses and supplying solutions for the future.

Key words: international management, marketing, internationalisation, international market, manufacturing and service sector

1. The Internationalisation of Small-Medium Sized Enterprises

Over the past decade small businesses attracted the interest of the government, economist, academics and journalists. Worldwide small and medium sized enterprises (SMEs) generally appear to be an important supplier of new jobs, contributing to the unemployment reduction; not only in the ever-growing services sector but also in the manufacturing industries, which were traditionally large-scale and other areas subject to major structural changes.

SMEs also seem to be more responsive to market needs, more adaptable to change and more innovative in their ability to meet customers' demands (Rothwell & Dodgson, 1994). Particularly significant is the part played by SMEs in providing indigenous sub-contracting facilities to the larger high-technology firms competing in world markets. As such, SMEs play a critical role in the competitive structure of the European Community in relation to other major trading areas of the world.

Job-generation, organisational and productive flexibility, adaptability to a changing environment, are all key-elements attached to small business activity (Lumpkin & Dess, 1996).

The presence of a dynamic small business sector becomes an important factor for economic and social cohesion in Europe, integration of European and world markets, and indeed for social stability in the Central and Eastern European countries facing traumatic upheavals as they move from one established economic pattern to another (Commission of the European Communities, 1992).

2. The Internationalisation of a firm

Since the middle of 20th century, growth rates in International Trade and Investment have exceeded those of local economies (Czinkota et al, 1998).

This trend in world "business" has been paralleled by growth investigating International marketing. A vivacious and evolving area of research in this field concerns the Internationalisation of a firm. (Aulakh & Kotabe, 1993).

"Internationalisation" is described as the increasing participation in outward and inward operations across borders. (Welch & Luostarinen, 1988)

Current Internationalisation theories have been challenged as the impact of technological, social and economic changes (Chetty & Campell-Hunt, 2004) which the author will explain in depth later in the "L.E.P.E.S.T Analysis", boosting firms into Internationalisation markets very soon. (Oviat & McDougall, 1997). Several studies (McDougal, Shane, Oviatt, 1994) and (Moen & Servais, 2002), confirm that firms are internationalising rapidly and many are doing so soon after they founded.

3. The Process of Internationalisation

The process of internationalisation has been the subject of widespread theoretical and empirical study (for example: Johanson & Wiedersheim-Paul, 1975, Johanson & Valhne, 1977, Bilkey, 1978, Cavusgil, 1980, Turnbull, 1987, Welch & Luostarinen, 1988) uncovering

a general acceptance in the literature (Bradley, 1991, Buckley & Gauri, 1993, Leonidou & Katsikeas, 1996). The internationalisation process is described as an ongoing progress taking place in distinct stages (Melin, 1992)

Two major schools of thought can be identified:

- The models initially developed by Johanson & Valhne 1977 referred to as the Uppsala Models (U-Models)
- The Innovation related Internationalisation Models (I - Models) , the central concentration is SMEs involvement in foreign markets

Johanson & Valhne (1977)'s U- model describes the process as "a gradual acquisition, integration and use of knowledge about foreign markets and operations and a successively increasing commitment to foreign markets."(Johanson & Valhne, 1997, pp: 36) (See Appendix 1) The model illustrates the process as one of organisational learning and focuses on experience (Nordstrom, 1991)

However, the operationalisation of the U- model is organised around strategic choices and organisational focus, which are influenced by many other factors as well. These factors including forces facilitating or inhibiting exporting, information needs and the acquisition of information, foreign market selection and entry (together with the effects of cultural distance), expansion and marketing strategies (Leonidou & Katsikeas, 1996)

The other view is Innovation-related (I - Models) internationalisation model. Bilkey & Tesar (1977), Cavusgil (1980), Reid (1981) and Czinkota (1982) believe that the internationalisation of SMEs to be procedure analogous to the stages of the product adoption. (Rogers, 1962) based on Vernon's (1966) product life cycle model, the innovation -related models of internationalisation consider each successive stage as an innovation for the SMEs. As mentioned before, the various stages of I-model are usually operationalised through the ratio of the export sales to total sales. This ratio symbolizes the extent to which an SME is involved to exporting and generally to internationalisation. (Jolly, Alahunta & Jeannet, 1992)

Moreover, in particular because the report deals with the small medium-sized enterprises (SMEs), it would be very constructive to mention the four different models of Internationalisation process in terms of SMEs. The table below will help the reader to comprehend better what the author would like to say with the assistance of Yip et al, 2000.

4. SMEs Internationalisation Motives (Forces)

Prior to the globalisation of markets and industries, national markets were divided, big enterprises competed typically in international markets, while smaller business stayed local or regional. (Etemad, 1999)

But the global competitive environment has gradually transformed. Globalisation has taken out the obstacles. (Levit, 1983), that segmented the national and international markets, and separated the small and large firms competitive space in the recent past. (Fraser & Oppenheim, 1997)

It is turned into increasingly difficult, if not practically impossible, for autonomous small firms to flourish by taking protection in their traditionally protected markets. (Etemad, 1999). According to Poutziouris, Snufani & Michaelas, 2003, the high-speed technological obsolescence and the increased competitiveness (McNaughton & Bell, 2000 and Etemad, 1999) comprise influential

factors for SMEs to think international in order to survive and to support their competition. They must develop their own distinct competencies (e.g.: assets, capabilities, competencies and especially relations) to become able to compete its opponents such as Multi National Enterprises (MNEs)(Mathew, 2003 and Eisenhardt & Martin, 2000)

Therefore, according to Mathew (2003) and Eisenhardt & Martin, (2000) who attempts to organise the complex dynamics of the above in the small number of theoretical constructs in the face of the exceeding complexities of internationalisation process in a rapidly evolving environment, while not abstracting from the competitive reality facing SMEs. (Etemad, 1999).

Continuing, the three constructs are termed "The Pushing forces of Internationalisation", for simply, the push factors, the "Attractive Pulling Incentives of Internationalisation" or the pull factors and the "Mediating Forces of Internationalisation" (Etemad, 1999).

Naturally, the united impact of these forces is intermediated by the firm's assessment of : a) the external environment b) its own competitive position, objectives and aspiration c) internal resources and capabilities in relation to the exerted influences and market requirements d) the possible impact of exerted forces on a variety of strategic options available to the enterprise e) the ease of formulation and implementation of the consequent strategies (Etemad, 1999).

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e) the ease of formulation and implementation of the consequent strategies

(Etemad, 1999).

4.1 The "Push" factors

The theoretical erection consists of a set of forces (or drivers) that are frequently internal to the firm (Tayeb, 2000), and exert pressure on the firm from the inside to internationalise (e.g.: drive/push the firms' strategy along the internationalisation process). The push factors are entrepreneurial in nature and track the Schumpeterian quest for "creating" openings especially when the firm has "innovative combinations" (e.g.: innovative products, services and processes) and it is set to become conscious of them. The practical terms, the manifestation of push factors may, for example, be pushing or fasten , SMEs internationalisation process to exploit international chances , mainly when domestic market inertia (Bloodgood, Sapienza & Almeida, 1996) may have been encumbering SMEs endeavors.

The existing theory, going back to Cantilon 1755, Schumpeter 1917/1911/1934, Say 1803/1830, 1815 and Ely & Hess 1893. (Etemad, 1999), lends direct support to the overall framework in general and also to its push factors in particular. A taxonomical list of the

components organised in logical categories and their associated citations are stressed in table 1.

Table 1: Factors Pushing SMEs Internationalise Faster: Components of Push Factors

<p><u>Founder/ Manager Characteristics</u></p> <ul style="list-style-type: none"> • International/ Global vision • International experience • Education & exposure
<p><u>Economies of Operations</u></p> <ul style="list-style-type: none"> • Achieving economies (E) of scale • Achieving E of scope • Achieving lower costs & prices • Attaining added E of higher quality at lower prices • Avoiding dis-economies of small domestic market
<p><u>Characteristics of Competition & Strategy</u></p> <ul style="list-style-type: none"> • Rapid response to competitor's initiatives worldwide • Rapid response to customer needs worldwide • Set standard & preempt competition in certain industries • Achieve lower competition in narrowly defined segments • Avoid domestic market inertia
<p><u>Economics of R&D, Innovation & Technological Change</u></p> <ul style="list-style-type: none"> • Higher R&D costs require large international markets (IM) • Front-end loaded R&D accentuates faster returns • Faster technological obsolescence compels presence in large IMs • Continuous innovation requires larger IMs & vice versa
<p><u>Characteristics of High Technology Products & Markets</u></p> <ul style="list-style-type: none"> • Larger fixed costs dictate larger sales volumes of IMs • Faster pace of change requires faster & larger returns from IMs • Shorter product life cycle (PLC) requires larger IMs
<p><u>Strategies Logic of International Operations</u></p> <ul style="list-style-type: none"> • Constrained resources at home forces SMEs to access others; resources • International partners provide additional resources • Interdependent operations leverage networks' strengths against others

Source: Etemad, 2004, pp: 7

The ultimate potency of formulated strategies against competitors would, however, diverge in relation to the firm's internal resources and assessment of differing competitive and environmental forces. All the six drivers of rapid internationalisation identified originally by McDougal & Oviatt, 1991.

4.2 The "pull" Factors

The theoretical construct consists of a set of forces (or drivers), usually in the environment and external to the firm, which enhance the firm's competitiveness or grant attractive inducements for it to internationalise (Hill, 2003)

These for example, attract the firm by providing incentives or pull the firm by signifying the benefits of a larger and richer international market (Deakins, 1999).

The pull factors include views of entrepreneurs (or entrepreneurial firms) responding to the attraction of "International Opportunities", i.e.: unfulfilled market demands in an international market or segment. This view is reinforced by the firms' perception that it may possess the capability of matching its supplies (or capabilities) to the market demands (or requirements) in light of its enhanced perception of abilities due to favorable contribution from the both push and pull factors. (Buckley & Ghauri, 1999)

In particular, pull factors may also manifest in terms of providing motivations that entice, if not enable the firm to internationalise. (Chaston & Mangles, 2002)

They may also make the process cheaper, easier and/or faster (Kirzner, 1997)

Furthermore, international markets may also signal "chances" to the alert Kirzner, 1997)

Actually they alert the internationalising firm to see through the mountain of ordinary data, (e.g.: range of various market prices) and to extract valuable information about the opportunity (i.e.: the higher price on one side of the street with little to no associated cost differential on the other) and to respond to the opportunity by a simple arbitrage across the "street" by simply buying on one side (domestic market) and then selling to the other side (international market). (Etemad, 1999).

4.3 The Mediating Factors

As in any real world process, the true manifestation of the above forces impacting firm processes depends on the basic characteristics of the firm, the orientation of its entrepreneur or managers, as well as circumstances, under which these forces exert pressure on or interact with the firm. (Etemad, 1999)

The influences of the above forces are intermediated by the enterprise's own interior dynamics, comprising the firm's propensity to internationalise in terms of its entrepreneurial orientation and the company's administrative heritage and routine processes (Lieberman & Montgomery, 1998)

These interactions, supports Nonaka 1995, act as a lens through which the firm sees internal and external forces magnified, or as a filter that lessens the true impact of such "pressures".

The intention of the three sets of influential forces is:

- To avoid clutter
- Are provisions for continual learning
- Natural evolution
- Self-initial renewal

- Among other dynamic processes

(Nonaka & Takeuchi, 1995)

After the study of the motives of internationalisation, a considerable amount of research effort by Czinkota & Ronkainen, 1994 concluded that SMEs initiate and increase their international activities, mainly in the form of exporting by selling the products outside the domestic market, small medium-sized enterprises could more rapidly gain experience and reduce unit costs in competition with bigger companies in other market segments (Czinkota & Ronkainen, 1994).

Because this study will deal with the export behaviour of SMEs more analytically later, the next section is about the export and generally the behaviour of SMEs and internationalisation process.

5. Successful International Expansion: Four Steps

The author before the end of that chapter, studied to present the "4 Steps of Successful International Expansion" from a valuable investigation which conducted by Freek Velmeulen, 2001, following by the Footholds for International Expansion.

To develop international activities without aspiring to success and expansion of firm's profits and reputation is worthless. The only thing that you could achieve in that case is the defamation of your firm, your country and your ineffective contribution in the industry that your company operates in. For that reason the author mentions the below footholds and the figure in order to prepare the reader of what about the following SMEs have implemented to be successful out of their country.

Figure 1: Four Steps for Successful International Expansion

Integrate carefully, but quickly,
then move on to the next venture



Do not persist in applying old,
domestic models



transfer your competitive advantage:

complementary

- 1) Through Greenfield,
- 2) via acquisition, if they have knowledge



Choose an expansion that maximize the extend that you can apply the existing knowledge

Source: Freek Velmeulen, 2001, pp: 30

6. International Activities & Greek Leather SME: Empirical Evidence

6.1 International activities followed by Greek Leather Company

According to Miesenbeck 1988, the majority of SMEs develops exporting strategies because is considered less risky. So, the CEO of the Greek leather company said that the first movement towards internationalisation was imports and a few exports with Italy, Turkey, Bulgaria and Spain.

That entry method, simple exports and imports, was preferred by CEO of the Greek leather Company because in his eyes was less risky and demands little experience in foreign markets. Though all those countries are vicinal, Mr. CEO of the Greek leather Company at first stage was not aware of the foreign market behavior, disposable rates and tastes. Because the company was in the first steps of internationalisation process and had no money to invest, that method approved helpful giving the opportunity to assess and "control" the foreign market. After years as it will be obvious later, the market entry changes because of the experience and the financial support that the company takes from the European Union through funds. (CEO of the Greek leather Company)

For informative and academic reasons the CEO revealed how his counterparts started to internationalised and which method is more prevalent in the leather industry and the methods are displayed in Table 2.

Table 2: Internationalisation Methods

Imports-Exports	70%
Visits to international Fairs	40%
Use of Agents	60%
Franchise	11%
Licensing	4%

Source: CEO of the Greek leather Company

Therefore, the most important methods for the Greek leather SMEs are: imports-exports and visits to international fairs, sometimes it is common the use of agents especially the past 5 years (CEO of the Greek leather Company)

In particular, the company and its owner claimed that the method of simple exports and imports as initial step for internationalisation is very helpful because assists the firm to import what exactly wants and export almost what the foreign market demands, avoiding the costly mistakes. Mr. CEO of the Greek leather Company insisted and suggested that that being a simple exporter - importer in leathers, hides & skins, is almost "the best" step to develop international activities at the first stage successfully if you take into account some basic elements (success factors). That makes clear that the enterprise of the report follows the Uppsala school of thought U-based, making gradually steps and dividing the steps into stages.

The respondent (Mr. CEO of the Greek leather Company) supported that to make it successful from the start, is to select the countries that are able to provide the company with raw materials or final products in competitive prices & good quality, in modern designs. For that reason the firm selected to cooperate with vicinal countries saving money from the transportation and do business with relatively similar business, because according to Freek Velmeulen, 2001, doing business with business which resembles you and in the same sector is an additional advantage for the company which puts the latter one step forward making possible the competition with other bigger and stronger companies. In specific case, and according to Mr. CEO of the Greek leather Company, four are the countries that play an important role in the internationalisation process in his company in that year: Turkey, Italy, Bulgaria, Spain and lately Portugal.

Table 3: Imports of products and raw material

Turkey	49%
Bulgaria	30%
Spain	10%
Italy	6%
Portugal	3%
Other countries	2%

Source: CEO of the Greek leather Company

Another essential element that the empirical study revealed for successful international activities is the financial support. The European Union supplies many countries and sectors with funds to support them. One of the assisted sectors is the European leather & tanning industry that CEO of the Greek leather Company' Company belongs to.

The author will provide a study that represents how and why the European funds through community programs affect the marketing mix which is one of the vital parts of the success factors in internationalisation according to the literature review.

The European program that the company participates is "MEDA" & "MEDEA+".

According to (European Commission, 2001), MEDEA supplies the participants with financial support through funds for the development of modernization and the Euro-Mediterranean partnership. Likewise, MEDEA+ as one of the largest pan-European R&D programs, assists SMEs and puts forward SMEs in the international & global market (Josifovska, 2004)

The interviewee has not given the exact amount of the funds that receives from the European Union for personal reasons, but mentioned typically that the funds were the determining factors that contributed to internationalise and more intensively and more successfully, providing the company with confidence and the "power" to approach countries that could not before. For example, Spain was a country far away from the

orientations of CEO of the Greek leather Company' Company, but with "MEDEA+" starts developing commercial relations not only for imports but also for exports. (CEO of the Greek leather Company)

The participant gave one by one the explanations of each "P" and what happens now, in order to offer a round view to the reader of how and why is structured the current situation.

To begin with "price", which is the pivotal "issue" of each commercial negotiation and corporate relation, the owner of the company receiving the funds of the MEDEA and MEDEA+ , which enables according to his saying to buy raw materials (hides & skins) in large volumes and better quality, in lower price. That permits the Greek leather SME to produce greater volumes of higher quality, in lower cost. Furthermore,

Having more products in your "collection" the possibility to attract more exporters and generally to expand your clients' field is bigger, increasing the rates of profitability.

According to the owner the benefit is twofold:

- The company received the funds and invests them in the production and know-how and technological infrastructure that adopted for collaboration with Spain. So, at the end of the day, the Greek company acquires some new techniques and adopts new technology for more ecological, long lasting and qualitative products, as well as new chemicals that reduce the time of tanning and the environmental pollution rectifying the quality of the products. (CEO of the Greek leather Company)
- Acquiring the know-how, the techniques and the demanding technological infrastructure, keep some production domestically and plenty of that goes to Bulgaria, with lower labour costs. In that point the author would like to make clear something that the owner of the company requested: the production that goes to Bulgaria does not go to a random factory but to a specific factory that has been assessed by the owner of the company and the technique of seaming is controlled regularly. The "director" of the Bulgarian factory visits Greece before the production process begins, in order to discuss the last details and receive the "ok" from the owner, displaying a sample of what really wants. The trim details will be finished by the Greek hands and techniques because the company does not want to notify some profession's secrets. (CEO of the Greek leather Company)

The most important advantages that the interviewee (CEO of the Greek leather Company,) highlighted are:

- 24 hour availability
- immediate access
- monitorship of every new collection
- elimination of the differences such as: habits, corporate-culture, time-zone etc

And is like a presence as Miller's model suggests in the last stage because it can be everywhere anytime any minute.

7. Lessons from Elsewhere- The Successful Internationalisation of Service SME

It is commonly known that all the companies regardless the sector, they trying to maximize its profits with many different methods proportionately to their managers, owners, the executives and the market they operate in apart from international activities or not. Actually, in that report it can be observed that because of the different sector and the personalities of the owners, each firm reacts differently even in the same theories.

In the case of THE GREEK SERVICE COMPANY, the success derived from the good exploitation of the market research that the Piraeus Bank had made and the standardization of the product abroad. That help the company not disappoint its customers making known that the service is one and the policy of the company stable.

The expenses of the company were not increased because of the standardization and permit the company to invest that money to other company's sector to make it more competitive such as a better building in the city centre to be found by everybody.

Noticeable is the fact that the courier company is not a pioneer in Greece but is in the second position after a bigger company, which is not international, namely THE GREEK SERVICE COMPANY has not the national advantage that Porter's theory suggests in order to expand successfully the limits abroad. The only thing that the service firm exploited was the good name and the reliability that the Piraeus bank has and as a "child" of the group automatically emerged in the domestic and international market successfully.

That indicates that all the above that the author discussed above about the qualified personnel, pricing quality etc, are necessary resources for international success for service sector. The following table shows the importance.

Table 3: Resources Necessary for Success

<u>Resources necessary</u>	%
Qualified personnel	93.75%
Competitive pricing	88.75%
Networks	37.5%
Good quality product	12.5%
Local agent	7.3%

Match product to customer's requirements	6.3%
Advertising	5.3%
Expertise	6.3%

Source: CEO of the Greek service Company

That is a very good example that CEO of the Greek leather Company can imitate and exploit. To be an active member of a big international company of the same sector which its products are of good quality and reliable in the market. That will protect the small medium sized enterprise from a false market research and reaction, saving money and effort to do something else, remaining the administration of the company in the "hands" of the owner.

Of course SMEs can gain support from EU as well, which till 2007 will give funds to many sectors in many different countries.

It is obvious that in the particular study, the structure and the size of the company play

a fundamental role for the success of internationalisation. The sector, for example the leather and tanning industry is in favourable position in EU and is recognised as assisted zone from the European Union especially its SMEs. So, the international steps can be better established and organised, thus competitive. In the other side the service sector is not recognised as assisted by the EU and the international steps for partnerships and ventures are not funded like leather's.

If is taken into account the internationalisation process and especially the Miller's model it can be observed that it is not applicable in the particular service sector. Services are relatively difficult to be adjusted totally as the author interprets and the director of the service company supports.

It usually helpful for the sector which spreads its "glory" with the same "ingredients": knowledge, customers service, management policy etc and cost-effective because operates in different countries changing only the factor "price" as the owner of THE GREEK SERVICE COMPANY claimed. (CEO of the Greek service Company)

Yet, maybe it is not very understandable but the cultural awareness must be more intensive like in the manufacturing sector, for the customers' attitudes to the colors and labels. Conclusion? = the adaptation is inevitable or in bigger extent like in manufacturing sector.

8. Conclusion and recommendations

This research involves an empirical examination of the successful internationalisation of manufacturing small medium enterprise with the assistance of the service sector which plays a complementary role in that report, providing methods and lessons that the sector of manufacturing can learn to be successful internationally.

Overall, the finding showed that the internationalisation of SMEs and especially manufacturing is influenced by several key internal & external factors from the domestic and international market respectively. (Nikole et al, 1999)

The particular characteristics of an SME and the current structure of the manufacturing sector reflect the pure components of leather and tanning industry. The findings also show that none of the four internationalisation models of Yip et al, 2000

in the literature review fully explains the successful internationalisation of this type of SME in its own right.

Thus, the study offers some "support" which stems from the successful internationalisation of Greek service SME. When the results of the study concentrated many similarities and many differences were found. The sector, the age, the owner, the culture, the domestic market, the degree of internationalisation and the future aspirations shape a picture of the curriculum vitae and the potential progress in the future of the SME.

The participation in a financially strong company is a good idea for successful internationalisation activities which can be riskier and in depth, providing more profits.

The expansion to developing countries such as Bulgaria for THE GREEK SERVICE COMPANY and Turkey for CEO of the Greek service Company leathers is the next step for many countries, because gives them the opportunity to manipulate and "guide" the foreign market to be complied with the firm's policy, making the most of the low cost labor and to get used the people to their products and services from the beginning.

THE GREEK SERVICE COMPANY's and CEO of the Greek service Company policy of doing business abroad creating "latest objects" for the company, which was based on the almost common statement that says "company's success domestically & internationally is the result of a lot of effort, dedication, high quality products & services with high standards of production with competitive well educated personnel." (CEO of the Greek service Company, & CEO of the Greek service Company)

In the priorities of SMEs, is not to be left behind of its rivals and especially by multinational enterprises. All the seminars that the workforce attends, the participation in E.C programs and the adoption of updated technology betray the attention that pay in the international competition and the effort that put to be successful and absorptive abroad doing its best considering every minor detail that counts for the customer, supplier, collaborator & government's satisfaction.

Still, same changes within the company (CEO of the Greek service Company) must be done in terms of the management & products in order to provide exactly what the market requires, increasing in that way the profit rates.

Concluding, to expand the views of the company without "sticking" in the value creation (profits) is a good formula to be successful, without loosing the rules of the international "game".

A proverb it will be put to close the report for successful Small Medium Enterprises Internationalisation: "being on the hunt for the tree, you loose the forest" (Konstadinoudes, 2002)

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