

Internationalization of Georgian Companies

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Abstract

Nowdays, people are interested in internationalization of markets and business. There are new companies on the market which from the start-up have the aim to internationalize. In general, they have not enough resources for internationalization. In this topic we will discuss particular resources which should be internationalized and be part of international business. There are some types of such businesses, such as international entrepreneurial organization or born global companies. Of course, study of such companies should be started based on traditional strategies of market penetration, such as export strategy, licensing, etc. Afterwards, we will discuss new trends which help new-born companies to penetrate from the start-up into new markets and increase their sales based on export. Such trend can be learning process established in companies or experience of the managers who have operated in international markets. There is one type of research which indicates such trends. This type of research is empirical analysis. There are good examples of such business. For example in Australia or Lithuania there are many businesses internationalized from the start. We will present results and factors from research which have been conducted in these countries. And finally, we will discuss Georgian market and companies which have already been internationalized.

Keywords: International Markets; Market Penetration; Export Strategy; Business Competitiveness

Introduction

Certain processes, including globalization has become more intense in the 21st century. Globalization has been caused by the number of different factors. Well developed and easy communications are among the factors leading to globalization. People can exchange information in a few seconds and distribute any desirable information throughout the world. Naturally, business is also changing in such changing environment. The companies using old methods cannot survive in the new circumstances. There are

advanced companies on the market able to acquire modern approaches. Such companies have appropriate skills to use their resources fully and enter international markets. On its turn, entering international markets gives them new opportunities.

Companies of the above mentioned type have not been fully studied. Their success formula linked with various factors has not been known yet. We can say for sure that such companies have not lost their importance, on the contrary, more and more organizations try to share their experience and many researchers study the way of their success. For today, many international companies are operating on the markets, respectively, many companies are trying to share their experience. Apart from the above, easy channels of communication enabled the companies to export their output outside their countries and become international players. Internationalization of the companies still remains very significant; moreover, the topic is being developed, improved and enriched with new components. Because the theme of internationalization is quite wide, we tried to identify several topics in order to give thorough analysis.

Small and medium enterprises and international entrepreneurs are paid great attention nowadays. Such small firms accumulate economic knowledge and experience that is further acquired by large companies. Business strategy and attitude to the markets of the small and medium enterprises conditions their penetrating into international markets and fast coverage. It is interesting that this phenomenon is observed not only in developed countries, but also in relatively less developed countries. For example, in Bangalore, India, IT industry has developed very fast. There are many companies in China exporting their output from their start-up. It is interesting that such perception of the market has not been caused by either technological or human resources. Even in case when the company has no exclusive human resources and technologies, it may become international entrepreneurial unit. There are certain cases when small and medium enterprises enter international markets while many far larger companies are unable to do so. This issue has always been under research. Despite the fact that large consortiums and conglomerates cover large part of international markets, small and medium enterprises also play an important role. Such small and medium companies can be regarded to be backbone of the economy while they are providing larger organizations with numerous spare parts and other items. There are number of questions or issues regarding such type of companies; for example, importance of the company's strategy for entering international markets. Experience and connections are very important factors for SMEs and international entrepreneurs. They have no material assets and experience is their main asset. We can see later that the

process of learning practiced by these companies and experience accumulated from both top managers and business environment is the most important factor for success. According to one viewpoint, success of SMEs on international markets from their start-up is linked to unification of three categories of resources: innovation, activity and healthy approach to the risk. Integration of these resources ensures their penetration into the market. Continued process of creativity, orientation on experience and learning on mistakes are important factors for the success of such companies.

Globalization is very important factor for development and innovations. Globalization equally changes and renews business strategies in all fields, such as production, marketing, finances, research and development. Increased globalization has significantly affected global trading and investments. Fast technological changes in transport and communications, as well as decreased level of regulation of entry the markets in many countries have importantly affected both the structure of the industry and business competitiveness. Globalization created opportunities for the companies to enter such markets where they could have become not only providers, but also consumers. Accessibility to such markets was the most important instrument to cut expenses and respectively take advantage in competition. All the above led to the appearance of the new players and competitors on the markets, especially in such countries where labor expenses had been particularly high, for example, in Australia.

From the early 1990-ies, appearance of growing and attractive markets in central and eastern European countries has given very good opportunities to the number of companies to enlarge their international activities. However, because of undue competitiveness and experience only small number of eastern European companies was interested to enter foreign markets. For today, such a situation has entirely changed. Many companies registered in these countries have been involved in the export and the flow of foreign investments increased for the last years. It is expected that the process of companies' internationalization in the countries of transition economy will be different from the traditional model of internationalization observed by Scandinavian researchers. For example, dimension of local market and low level of purchasing power may trigger companies to accelerate internationalization process. At the same time, in relatively small countries the average scale of the companies is smaller than it is in larger countries. Their expenses of research and development are relatively low and respectively their production looks primitive.

Assessment of international opportunities deals with entrepreneurs or individuals who can demonstrate new abilities on the market and turn them into the products or services. The process involves revelation, assessment and use of these abilities. This process requires involvement of individuals at

any stage, as well as basic knowledge, skills, and desire. Connections and private contacts are very important as well. Entrepreneur should have opportunity to get information and process it respectively. All these happen when the world is changing everyday and is affected by numerous factors. The skill of information processing is very important while assessing the abilities. Experience enabling entrepreneurs to raise their awareness plays an important role nowadays. Experience ensures due involvement in international processes, understanding of opportunities and resolution of business problems. Sources of information, social networks and private contacts are very important as well. They give entrepreneurs opportunities to check correctness of information and improve business model. International creative efforts are the first steps in the model of international entrepreneurship that include utilization of abilities. Thinking like international entrepreneur and implementing operations likewise enables companies to multiply and separate business operations in different countries as desired. Use of individuals and organizations on the one hand and the skills to assess abilities on the other are the first stage of explanatory model of international entrepreneurship. Mobilization of international resources – the companies can take several ways for resources' mobilization:

- Acquisition/attraction of external resources;
- Internal development of resources;
- Partnership with other companies and sharing various resources.

Internationalization of small and medium companies has become urgent in recent years. Such kinds of companies accumulate knowledge and experience that leads to internationalization. From the very start-up they are oriented on international market. They know that the world market is the one market for them. For example, as a result of technological advancement strategies for penetrating into foreign markets have been totally changed for such industries. Wine market in Australia is a good example of international entrepreneurship. The study of this market showed how the family business had turned into the international company. This study differs from traditional empiric researches because of three reasons. The first one is that other studies have been usually oriented only on one issue (for example, family business, export, etc.); this study reviews these questions in complex. The second reason is that the author reviews such companies in the context of small and medium enterprises. And the third, the study is focused on common and distinctive factors for family business and international entrepreneurship unit. Until collection of information, it is necessary to formulate concept and elaborate hypotheses. The concept actually defines the subject of the research or the field of interest, while hypotheses are drawn based on assumptions. Hypothesis may be certain viewpoint related to the results of the research that may be rejected or accepted based on the

information collected. Naturally, such approval or rejection will be proved by certain data that is related to the sampling volume. *Strategic parameters of SMEs are the factors causing internationalization.*

While taking decision on internationalization, apart from geographical and psychological distance among the countries, companies also take into consideration dimension of targeted markets. For example, as a result of the analysis of Spanish companies Galan, Galende and Gonzalez-Benoto made conclusion that in selection of targeted market its size and growing potential had been the major determinants. The company may begin international operations both in large and smaller countries. There is no standard rule for taking such a decision. However, taking into account the example of Sweden, Jonson and Wiedersheim-Paul conclude that the companies operating on relatively small markets might prefer to operate on small foreign markets because of similarity to local markets, less competitiveness of local players and need of relatively fewer resources (Johanson 1975). While making decision on internationalization, such attitude may be profitable for Estonian companies.

Johanson & Vahlne presume that decisions have to be taken step by step, in consideration of enough finances in order to insure the risks of internationalization. The company also has to take into account market homogeneity and its previous experience in operating on similar markets (Jonson 1975). Stray, Bridgewater and Murray claim that decrease of the barriers among markets will facilitate penetrating concurrently into several foreign markets and initiate the necessity of “international birth” (Stray 2001). Mascarenas says that if targeted markets are small, the company should enter several foreign markets at the same time in order to use scale economy. This approach to international enlargement is especially convenient for industrial products and homogeneous international demands (Mascarenas 1992). Similar tendency can be identified in the process of internationalization of Estonian companies since several targeted markets (for example Lithuania, Latvia) are relatively smaller. Oviatt & McDougal define international company as “business company trying from the very start-up to achieve important competitive advantage in many countries at the expense of the use of resources and sale of products” (Oviatt 1994). Taking into consideration the number of the countries involved in the value chain activities, they defined four types of international companies.

Naturally, there are also companies in Georgia which have entered international markets and increased their export share. For the first, internationalization of Georgian companies was caused by due legislative bases and quality of the products. Soft and alcoholic drinks, such as wine and lemonade, are the main export products. The companies producing these

output have not been operating on the market for the long time, however, they already managed internationalization.

Teliani Valley JSC, top wine producing company, was founded in 1997 on the bases of "Teliani Winery of Vintage Wines", which had been built in Tsinandali in 1954, in the neighborhood of Teliani's vineyards. Share of Teliani Valley on internal bottled wine market equals 48% (according to 2007 data), and the share of export is approximately 12% (2007 data) that is 65% of the total output produced by the company, which is exported in foreign countries. In 2007, the company produced 1.4 million bottles while its repository had 4.5 million liters capacity (www.telianivalley.com). With the help of LG, the company entered and traded on the Georgian Stock Exchange (GSE: WINE). Currently, 48% of shares are in free trading. In 2007, as a result of LG investments in Teliani Valley all assets of the company were consolidated in one holding company - JSC Teliani Valley. This company is the largest wine producing organization in the field and apart from the company itself includes "Teliani Trading" and "Teliani Trading Ukraine". 100% of shares of both affiliates, carryings out distribution of output produced by Teliani Valley and third persons in Georgia and Ukraine, are owned by the Holding. Teliani Valley also owns 100% of shares of "Le Caucase LLC" (brandy producer) and 70% of shares of "Cupa LLC" (oak barrel producer). All the above enables Teliani Valley to be horizontally and vertically integrated business and cover the development of vineyards ("Teliani Valley"), oak barrel production ("Cupa"), production of wine and chacha ("Teliani Valley"), production of brandy ("Le Caucase), distribution networks ("Teliani Trading" and "Teliani Trading Ukraine"); as well as import of bear Heineken, vodkas of SV, Medoff and Granini, and juices ("Teliani Trading"). Teliani Valley (owns 85 ha of vineyards and lands for growing up wine trees) strategy is directed to the bottled wine market of Georgia. The company tries to strengthen its position on this market and enlarge its activates outside the country. Teliani Valley production is diverse and innovative and involves both full spectrum of Georgian traditional wines and production got through the mixture of juices from Georgian and foreign grape species. Mr. Giorgi Dakishvili, acknowledged to be the best and most creative wine maker in Georgia in his generation, is responsible for production development.

Georgian company Lomisi JSC, known in Georgia as Natakhtari Company, has also attracted attention. Natakhtari was set up in 2005 through Georgian and foreign investments. Only in a few years the company became the leader on the market and overtook Castel and Kazbegi, prominent beer producing companies. In two years Natakhtari covered 60% of the market. International giant beer producing company Efes took interest in the success of Natakhtari and acquired 10% of its shares. Now Natakhtari is managed by

Efes. Internationalization of Natakhtari was accelerated by this acquisition, however, beer and lemonade had been exported before Efes entered Natakhtari. Naturally, popularity and efforts of Efes played an important role in the increase of export. For today, beer is exported in neighboring countries of Georgia and lemonade is exported in 16 countries of the world. In this case, the main factor of internationalization is the unique features of lemonade and international management. Team of managers having contacts on international markets brought certain experience in the company. In view of this case, importance of mobilization of knowledge and experience for internationalization is clear.

Conclusion

Nowadays, internationalization of markets and businesses is paid great attention. Companies oriented on internationalization from their start-up have appeared on the market. At the first glance they have no enough resources for internationalization. This paper reviews those resources through which the companies enter international markets in several years from their start-up and local market become less important for them. Such organizations include international business units, for example, international entrepreneurial organization. For the first, such companies were studied through the analysis of those strategies based on which these companies had penetrated international markets. Secondly, new trends according to which newly created companies had become international units were identified. For example, company's focus on learning or experience of managers on international market can be regarded to be such trend. Those countries (such as Lithuania and Australia) in which internationalization of the companies has been successful, are the good cases for the research.

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