SMEs AND THE GLOBAL MARKET PLACE

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ABSTRACT

Internationalisation and international entrepreneurship among small and medium-sized enterprises (SMEs) has remained a topic of considerable contemporary relevance, principally owing to the observed growth effects of cross-border venturing, and the demonstrated capacity of SMEs to drive economic development at national, regional, and global levels (European Commission, 2007). This realisation was at the heart of the 2006 OECD-APEC study on Removing Barriers to SME Access to International Markets, which provided general findings on the major barriers to SME internationalisation as perceived by SMEs and policymakers in OECD and APEC member economies. This paper seeks to: (i) analyse in-depth the most significant barriers to SME internationalisation identified from the 2006 OECD-APEC research with a view to uncovering new insights into the nature of these top barriers; (ii) review recent work pertaining to factors that drive or motivate the internationalisation of SMEs; and (iii) develop a deeper understanding of the current programmes for SME internationalisation, particularly the specific measures aimed at addressing the top barriers identified.

1. SME internationalisation barriers

Shortage of working capital to finance exports. Limitations in finance and related physical resources have continued to be highlighted as a leading barrier to the internationalization of SMEs. The pertinent evidence include the observed disadvantages faced by Canadian international new ventures or early-stage SME exporters, relative to their more established counterparts, in regard to accessing operating and term loans and the terms thereof.

Limited information to locate/analyze markets. Inadequate knowledge of overseas market also emerged as a top barrier in a recent study of Australian firms (EFIC, 2008). This factor was highlighted as the most cited internationalization barrier among the responding firms, suggesting that information gaps remain a critical challenge to SMEs even in the current era of extensive information availability.

Inability to contact potential overseas customers. Recent surveys also reinforce the importance of this barrier. Among the studies reporting relevant evidence are separate UK research by Crick (2007), Barnes and colleagues (2006), and Kneller and Pisu (2007). Crick (2007) highlighted the difficulty of locating/obtaining adequate representation in target export markets while the other two studies identified finding an appropriate foreign market partner as a key impediment to the internationalization of the SMEs studied.

Lack of managerial time, skills and knowledge. Difficulties arising from limited managerial knowledge base emerged as a top barrier to SME internationalization in several recent surveys. A study of American and Canadian firms, for example, reported that managerial risk perceptions and lack of knowledge about international markets were major reasons for not engaging in international trade (UPS, 2007). Limitations in managers' internationalization knowledge similarly emerged as a leading obstacle to export initiation among the Russian and South African SMEs studied by IBF International Consulting (2008) and AMSCO (2006) respectively.

The foregoing analysis points to the continuing criticality of barriers such as limited firm resources, managers' misperceptions and lack of international market-related knowledge in impacting SME internationalisation. These barriers are largely internal as they mainly reflect the limitations of the investigated firms in regard to the key resources and capabilities they need to internationalise or further their activities thereof. This conclusion on the primacy of firm-specific resource barriers appears to have validity across sectors – from traditional industries like knitwear apparel to high-technology sectors such as software design (see Box 1, below). This highlights the continuing importance of appropriate interventions to support international SMEs (European Commission, 2007).

2. Motivations for SME internationalization

Growth Motives. Growth opportunities associated with international markets were identified as a key driver of firm internationalisation in several recent studies. Orser *et al.* (2008), for example, reported that after allowing for the impacts of firm size and sector, Canadian firms whose owners had expressed growth intentions were more than twice as likely to export than those whose owners did not indicate growth ambitions. The possibility of growth in other markets and increased profit opportunities from international expansion were highlighted as key stimuli for exporting among the Australian, British, Spanish, Swedish, and US firms investigated in recent studies.

Knowledge-related Motives. Recent research findings suggest that knowledge assets both push and pull SMEs into international markets. The 'push' dimension pertains to the importance of managers' previous international experience and related management capacity factors, as observed in studies among Canadian firms, Spanish firms, and Swedish firms. There are also related findings from a number of OECD countries (Canada, Ireland, and Sweden) and non-OECD economies (Chile, India and Indonesia) on the internationalisation triggering effects of knowledge aspects, including R&D investment, innovation capabilities, unique product or technology, and language skills; and firm resource base, as indicated by such proxies as size, age, and experience.

Network/Social Ties and Supply Chain Links. A number of recent studies have highlighted the importance of network/social ties and supply chain links in triggering SMEs' first internationalisation step and extending internationalisation processes. These include research among American, Australian, Canadian and Portuguese businesses. Both North American studies particularly reported the stimulating effect on export activity of firms' soft assets, including social and network capital, some of which may have accrued through managers' immigrant background and associated links.

Domestic/Regional Market Drivers. There is also support from recent relevant research on the push effects of firms' limited or stagnating domestic market on internationalisation behaviour. For example, both Rundh and Orser and colleagues found this to be the case based on their respective studies of Swedish and Canadian firms. A regional, or sub-national, dimension was reported by Lopez, who found that Spanish firms from different regions differed significantly in their export tendency, with export propensity increasing in regions with less favourable domestic conditions, local incentives to export and good export infrastructure. Recent evidence from Chile and Indonesia further suggests a greater tendency to export among firms from sectors characterised by high levels of export intensity and presence of foreign buyers. The Indonesian finding on the importance of foreign buyers' presence is significant as it reinforces the earlier observed need to boost SMEs' role in global value chains through facilitating their integration into production/supply systems of foreign affiliates of larger firms (OECD, 2007).

Support programmes for SME internationalization

Box 2. Perspectives from UK Exporting Healthcare SMEs

A study among UK based SMEs that predominantly manufacture devices for hospitals revealed that business growth, opportunity for greater profit and market size were the prime motivators for exporting. Finding an appropriate distributor or agent was perceived to be the main barrier to exporting. Other major obstacles for these firms included the costs associated with marketing overseas, competing with overseas producers, currency exchange fluctuations, and a lack of market knowledge.

Source: Barnes et al. (2006)

Reflecting the widespread recognition of the importance of internationally-active SMEs in sub-national/regional, national, and global economies, there has been a rather well established tradition by public agencies and the organised private sector institutions of supporting the internationalisation activities of SMEs, mainly through appropriate interventions to redress market failures (European Commission 2007). This section examines the extent to which current support programmes across OECD countries and other economies involved in the OECD enlargement and enhanced engagement processes appear to address the five top internationalisation barriers highlighted earlier in this chapter. It also assesses the degree of attention being paid to the identified top motivations for SME internationalisation by currently available support programmes.

The specific OECD economies covered include Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Italy, Japan, Korea, Mexico, Netherlands, Norway, Poland, Sweden, Switzerland, Turkey, UK, and USA. Brazil, Chile, China, Estonia, India, Indonesia, Israel, Russia, Singapore, Slovenia, and South Africa are the non-OECD member countries reviewed. Sub-national and sectoral insights on these support programmes barriers are also explored.

3. Financial barriers

Available support takes a variety of forms, including export credit guarantees, pre-shipment financing, and working capital augmenting facilities. Australia's export credit agency, Export Finance and Insurance Corporation (EFIC) for example, recently introduced the 'EFIC Headway', which increases access of SME exporters to working capital by up to 20%, by guaranteeing additional facilities offered by banks beyond agreed loan capacity. Trade Development Canada also provides a range of facilities, including Working Capital and Export ease programmes, 'Export Protect', pre-shipment financing, and Masters

Accounts Receivables Guarantee to support export activities among Canadian SMEs. The level of support provision for SME internationalisation appears to be similarly strong in the non-OECD economies reviewed, including Chile, Israel and South Africa. In Russia, the Chamber of Commerce Network is involved in developing the SME export support programme.

Informational and contact barriers

A range of support programmes are also available to tackle critical SME internationalisation barriers such as identifying foreign business opportunities, locating or analysing markets, and contacting potential overseas customers and partners. Among these are the UK Trade and Investment's Passport to Export service (a hand-holding in-market service for 'new to export' or inexperienced exporters) and the Overseas Market Introduction Service (OMIS), an internet based service for individual 'new to market' exporters to conduct personalised research at overseas offices. International Trade Canada's Trade Commissioner Services also draws on its 500 officers in more than 140 cities worldwide in helping SME exporters to assess export potential, identify key foreign contacts, and obtain relevant advice and intelligence. The Dutch Agency for International Business and Co-operation, EVD, also leverages its worldwide network of embassies and business support offices abroad to provide Dutch SMEs with quick and easy access to business and government contacts in foreign markets. APEX-Brasil, a private and independent agency linked to Ministry of Development, Industry and Foreign Trade (MDIC), assists Brazilian SMEs in analysing export markets and identifying export potential. Several examples of targeted export market drive were further observed, including Australia's Austrade's focus on the US market and Italy and France's campaigns in the Indian market.

Managerial Capacity Barriers

Support programmes for addressing internationalisation barriers related with SMEs' limited managerial skills and knowledge are also identified in several countries. Examples of such programmes include the 18-month export coaching course offered by Ubi France, the French Agency for International Business Development; the Export Academy provided by Czech Republic; the 6-month Global Company Development Programme offered by the Scottish Enterprise (a sub-national initiative); and the export managers' forum available to Greek SMEs.

4. Conclusions, implications and recommendations

Barriers. Analysis results suggest that limited firm resources and international contacts as well as lack of requisite managerial knowledge about internationalisation have remained critical constraints to SME internationalisation (see also European Commission, 2007). Also observed are the heightened prevalence of resource limitations, particularly of a financial kind, among smaller, newly internationalising firms and the susceptibility of SMEs particular sectors to certain industry-specific internationalisation barriers. These barriers are essentially endogenous as they reflect the limitations of the investigated firms in regard to the key resources and capabilities they need to internationalise or further their activities thereof. Taken together, the recent findings on top barriers to SME internationalisation reviewed in this chapter appear largely consistent with the conclusions of the OECD-APEC 2006 study, with one notable divergence: no recent relevant evidence was uncovered in regard to the limiting effect of identifying foreign business opportunities.

Drivers. Analysis also points to the importance of growth and knowledge-related motives in driving SME internationalisation. Growth-related factors seem to be increasingly important to SMEs, which reflects their rising appreciation of the international pathways and associated opportunities for future business growth. These firms' stock of knowledge resources and quest to leverage value augmenting knowledge assets embedded in external actors are also observed as having the effects of respectively pushing and pulling them into international markets. Furthermore, reinforcing their status as social entities, SMEs appear to be motivated in their internationalisation decisions by factors within their external environment, including network and supply chain links, social ties, immigrant links, improved global trade infrastructure, and sector and region-of-origin factors. These 'soft' factors are inter-related and they reflect recently emerging trends. For example, the observed salience of supply chain links captures the increasing importance of linkages with the lucrative supply systems and value chain network of larger global players to SME internationalisation (OECD, 2007). Such internationalisation-boosting links are more likely to be developed in sectors or regions/clusters with greater export intensity or foreign buyers' presence, which suggests the importance of the firm's sector and regional location. However, there is some preliminary evidence in some European countries that growth-focused firms are also squeezed out of their domestic markets by foreign competitors entering the market [OECD CFE/SME(2008)5/PART1/REV1].

Government support programmes. The 2006 OECD-APEC study looked generally across all government support programmes aimed at addressing barriers to international markets. This report builds on this past work by focussing on support programmes aimed at addressing the top five barriers together with programmes developed since 2006. It emerged that the examined economies generally offer a range of support measures, including working capital augmenting facilities, pre-shipment financing, and export credit insurance and guarantees, for redressing observed financial barriers to SME internationalisation. Programmes aimed at tackling barriers arising from SMEs' typical lack of international market information and contacts are also available in a variety of forms, including appropriately tailored service for new exporters, market analysis, key contact identification and focused market campaigns. Support provision for redressing SME managers' limited internationalisation knowledge and skills were identified, albeit to a lesser extent than for the other barriers types. The latter is also the case with support programmes specifically aimed at motivating SME internationalisation. This can be explained by the overlap between barriers and motivations, which often means that support measures targeted at redressing internationalisation barriers may also serve to stimulate internationalisation among SMEs.

Another key finding pertains to an increasing tendency to take a sub-national or sectorial approach to promoting SME internationalisation within several countries, including Australia, Czech Republic, Germany, Greece, Hungary, Italy, and USA. Regional initiatives to redress SME internationalisation barriers and facilitate access to priority international markets are also evident, notably within the European Union. Greece, Hungary, Japan, Spain, and South Africa are a few examples of economies with sector-focused initiatives.

The observed resilience of most of the previously identified top barriers to SME internationalization challenges policy makers to intensify ongoing efforts at removing these intractable barriers, specifically limitations in finance and related resources, international contacts, and relevant managerial knowledge. The findings also highlight the continuing importance of appropriate interventions to shore up the financial resource foundations of SMEs (European Commission, 2007). Support provision, at its best, should focus on activating the internal motivations of the SMEs themselves, including their strong quest for growth, profit, market share, and international presence, for it is these types of SMEs who are more likely to be motivated to achieve their international growth aspirations. This provides continuing justification for the segmentation or needs-based approach to targeting internationalization support (Ibeh, 2006; Leonidou et al., 2007; Wheeler et al., 2008).

The evidence reinforces the importance for managers of public sector internationalisation support programmes to have a clear understanding of their target user community (Leonidou et al., 2007).. Additionally, it is equally important to deliver best practice support provision, having due regard to the relevant international disciplines and rules, notably those of the European Commission and the World Trade Organisation. Reinventing the wheel must be resisted in favour of appropriate benchmarking of the assistance programmes of other comparable economies and sensible adaptation and adjustment to any significant circumstances that are unique to the target SME community.

The persisting low user-level perceptions of the effectiveness of public sector support programmes (Ibeh, 2006; Wheeler, Ibeh, and Dimitratos, 2008) raise a number of issues, including the extent to which the specific support programmes have user input at the various pre-release stages, the level of awareness of these programmes among the target user communities and other stakeholders, and the quality of implementation and delivery of the programmes. The first point about the level of user input highlights the need for designers of relevant support programmes to model the introduction of specific programmes after the new product development process framework, which typically requires different but iterative levels of idea generation and multi-stage screening and evaluations involving the target user and other key stakeholders prior to the far from inevitable full release and commercialisation. Such a fine-grained process may not assure the success and universal acclaim for the subsequently introduced support programmes, but would improve their perceived value and relevance to the target users. It would also demonstrate the commitment of the relevant agencies to getting support provision right.

The systematic programme development approach envisaged above needs not be unduly expensive. Indeed, it can facilitate overall cost effectiveness through its potential contribution to addressing the questionable level of awareness of available support programme among the target users and other key stakeholders and the suspect quality of implementation of these programmes. The argument is that investing upfront in involving and communicating with the target users and key stakeholders during the design of the support measures is likely to have positive spill-over effects in terms of awareness that may be created through user-community communication. Such initial commitment of time and effort is likely also to lead to greater understanding and better delivery of the support measures on part of the relevant agencies.

Concerns such as the above probably explain why the organised private sector-led model of providing SME internationalisation support has gained currency in a small number of the examined economies, notably Finland and Russia. The Finnish experience with Finpro partnered by the Ministry of Trade and Industry is a well established example of successful public-private sector partnership in internationalisation support provision. Other economies may wish to study the workings of this partnership with a view to adapting it for their own purposes. In general, greater involvement of the organised private sector, including the Chambers of Commerce network and similar organisations, appears beneficial.

Some additional comments regarding the awareness and visibility of internationalisation support programmes are deemed necessary. This is due to the relative difficulty experienced in this present study in obtaining relevant data on the support programmes offered by some of the focal economies. The fact that well experienced researchers encountered difficulties in accessing such information suggests that most business people are highly likely to struggle, which may explain the often-heard claim of lack of awareness. Internationalisation support agencies may wish to review their web presence and accessibility and to benchmark their provision against available best practice. Good examples worth emulating include those of the relevant agencies in Australia, Canada, Finland, New Zealand, UK and South Africa, amongst others.

A potentially useful 'must-have' in these websites are easy and active links to the support programmes for SME internationalisation provided by supra-national organisations such as the European Commission, the Union Nations, and the World Bank. A great deal of support is freely available and potentially accessible to SMEs and it is important that appropriate information is placed within their reach and brought to their attention. On a slightly broader note, it is crucial to get as many SMEs as possible to buy into the notion of the Internet as a very rich and cost-effective resource to leverage to add value to their business, particularly in terms of boosting their knowledge base on internationalisation and international markets.

Overall, policy makers need to address the following questions, among others:

- Do we have the appropriate support measures to address the specific set of top barriers identified? If so, are the target SMEs sufficiently aware of them?
- How well does our support provision compare with international best practice?
- How responsive is this support provision to any observed sub-national or sectoral aspects of the perceived barriers? Are support programmes appropriately visible online?
- What do we know regarding target users' perceptions of our support provision? What about non-users' perceptions?
- What actions are needed to improve awareness and perceived usefulness of our support programmes for SME internationalisation?

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