

ISSUES SMEs FACE WITHIN THE INTERNATIONALISATION PROCESS

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ABSTRACT

The paper presents the correlation between different variables and internationalisation, such as: the size of the company, the activity field, the level of innovation. It also emphasizes the barriers the SMEs face in the process. In the end of the paper, one presents some of the solutions proposed in order to sustain the SMEs overcome these barriers

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Internationalization consolidates growth, intensifies competition and long term balances companies for long term. At the same time, it generates new jobs and potentiates the company competitiveness. Though, for many SMEs, there is a series of important barriers in extending their own business, fact that determines them to depend, more or less, on the internal market.

One should also know the correlations that appear between different variables of SMEs and internationalization, so as to know which way is the best to be approached.

Situation and drivers to internationalization

A considerable number of European SMEs are engaged in international activities yet only a small percentage is involved in internationalization beyond the internal market.

The two most common modalities of internationalization are exports and imports. The first shows that 25% of SMEs within EU27 export, out of which about 50% go beyond the internal market (13%). The second one shows that 29% of SMEs within EU27 import, out of which 50% import from countries outside the internal market (14%).

In addition: 7% of SMEs within EU27 are involved in technological cooperation with foreign partners; 7% are subcontractors to foreign partners; 7% have foreign subcontractors; 2% of SMEs within EU27 are active in foreign direct investments.

In accordance with the results presented in the EIM report that has been carried out regarding internationalization of European SMEs, one describes below the issues that have come up.

- There is a direct link between the internationalization level and company size:
 - the larger the company, the more it tends to internationalize. This applies to any single mode of internationalization. For exports, 24% of micro, 38% of small and 53% of medium-sized SMEs are active, as for imports the respective percentages are 28%, 39% and, respectively, 55%.
 - the smaller the country, the more its SMEs are internationalized, but the SME's proximity to a national border does not have much effect on its level of internationalization

There is a negative correlation between the size of the SME's home country population and its level of international activity. For example, countries such as Estonia, Denmark, Sweden, the Czech Republic and Slovenia have a much higher percentage of exporters than the EU average of 25%. Germany, France and UK score below average.

SMEs situated near border show much higher activity rates with their cross border regions, but this is not followed by being more internationally active in general.

- The most internationalized sectors are trade, manufacturing, transport& communication and research.

The highest percentage of internationalized SMEs is found in wholesale trade, mining, manufacturing and sale of motor vehicles. Within services, the sector 'research' has a very high score. The activity sectors having the highest share of exporting SMEs are: mining (58%), manufacturing (56%), wholesale trade (54%), research (54%), sales of motor vehicles (53%), renting (39%) and transport&communication (39%).

- The enterprise age is proportional with the export and import activities.

Thus, the percentages of SMEs that are exporting gradually increase from just over 15% for enterprises up to 4 years of age to nearly 30% for enterprises that have existed for 25 years or more.

- SMEs usually start international activities by importing.

If SMEs have both import and export activities, then they start with import twice as often (39%) as starting with exports (18%). One has noticed that 42% of SMEs have started with imports and exports in the same year.

- Not many of the internationally inactive SMEs are planning to start international activities in the foreseeable future.

Few non-internationalized companies show any intention to start international operations.

Only about 4% of all SMEs have concrete plans to start such activities.

- Partner countries are mostly other EU countries. The relations with BRIC countries are generally little developed, excepting the imports from China.

Whereas three quarters of all exporting SMEs are oriented towards markets in other EU Member States, emerging markets such as Brazil, Russia, India and China (BRIC) are only served by 7-10% of exporting SMEs. The percentage is much higher in transport and communication. At the same time, for imports, most SMEs, meaning 86% of importers, focus on other EU Member States, but again China is quite important (27%).

- Companies involved in e-commerce are more internationally active.

The possibility to sell products or services online is positively correlated with being active in export or import markets (also when controlled for other effects such as company size). The conclusion is that the Internet has made SMEs of all sizes to overcome some of the barriers to internationalization. In fact, the relationship between certain barriers and the company size has weakened because of the Internet.

- Barriers for internationalization as perceived by SMEs.

SMEs have reported the following most important barriers:

- Internal barriers: price of their own product or service and the high cost of internationalization.
- External barriers: lack of capital, lack of adequate information, and lack of adequate public support and the costs of or difficulties with paperwork associated with transport.

Lack of capital and adequate public support are even more important, with reference to EU-EEA markets, than with reference to third markets. This might be related to the fact that generally larger and more experienced SMEs are active in third markets. Both barriers become more important the smaller the SME is.

- Low awareness of public support programs among SMEs.

SMEs are generally not well aware of the existence of public support programs for internationalization that could be used by their company. The percentages range from 15% for micro enterprises to 27% for medium sized enterprises and from only 10% for enterprises that are not internationally active to 22% for SMEs with international activities. Judging by sector, one can find the following situations: 20% to 25% of SMEs in wholesale and manufacturing are aware of support programs, whereas for retail, transport and personal services this is only 10% to 13%.

Step one in adequately supporting SMEs to access international markets opportunities is to raise the rather low awareness of business support programs among SMEs.

- Rather low use of public support.

Only a small number of the SMEs actually use public support measures. In 2009, the financial support was used more by the larger SMEs, as it follows: micro 10%, small 13% and medium-sized 16% of enterprises with international activities.

Non-financial support is used more by the smallest firms: micro 10%, small 8% and medium-sized enterprises 6%.

By country, the differences are very large. A very high percentage of SMEs in Austria (47%) and Turkey (32%) reported using financial support whereas in countries such as Portugal, Denmark, the Netherlands, FYROM and Iceland this percentage is only 1% or less. One registered the highest use in Slovenia (23%), Cyprus (19%) and Latvia (16%), but only between 2% and 10% in 10 countries and below 2% in 15 of the 33 countries.

The effect of internationalization on business performance

- Being internationally active strongly relates to higher turnover growth.

There is a positive correlation between being internationally active and reporting high turnover growth. Accordingly, more than 50% of SMEs that invest abroad and SMEs that are involved in international subcontracting report a turnover increase related to 2007- 2008, whereas for all SMEs this is about 35%.

- SMEs that are internationally active report higher employment growth.

SMEs that are internationally active generally report higher employment growth from 2007 to 2008 than non-active SMEs, for example:

- Exporters' employment growth 7%; non exporters 3%.
 - Importers employment growth 8%; non importers 2%.
 - SMEs both importing and exporting 10% employment growth; others 3%.
 - SMEs with FDI employment growth in 2007-2008: 16%; others 4%.
- Strong relationship between internationalization and innovation.

26% of the internationally active SMEs have introduced products or services that have been new for their sector in their country; for other SMEs, this percentage is only 8%. These internationally active SMEs are also more active with process innovations that are new for their sector in their country (11% versus 3% for the SMEs without international activities).

What should be done?

- More aggressive promotion of awareness and use of public support programs.

For SMEs that use the support provided, the effect of public support is relatively important. But SMEs are generally not well aware of the existence of public support programs for internationalization and the level of use of these instruments is very limited: less than 10% of the internationally active SMEs use them.

- Easier access to support measures for micro companies.

The smallest (micro) SMEs are the ones that need and would benefit most from support programs. Yet, paradoxically, they are the ones that are least aware and are the lowest users. This is particularly relevant in the case of financial

support, especially considering that lack of capital figures prominently among the barriers reported in the survey. Therefore, one should make efforts to improve the access of especially micro and small SMEs to existing public financial support mechanisms. Support programs, financial and otherwise, must be more specific in their targets and objectives and include monitoring tools.

- Support innovation to spur internationalization.

Nevertheless, the study results confirm that there is a strong link between activities on international markets and different innovation forms. These findings regarding the link between innovation and internationalization, that it is useful to design and present policy support measures, aimed at stimulating innovation and internationalization in conjunction. It might also be considered to merge the agencies that are implementing these two types of policies.

- Focus on export, but also on import.

The survey shows that import is an important activity for SMEs, not only in its own right (sourcing inputs to remain competitive), but also as a good start to internationalization. However, most public support programs still focus on exporting.

- Foster e-commerce.

E-commerce activity is positively correlated with being active in export or import markets. The Internet has already made it easier for SMEs of all sizes to overcome some of the barriers to internationalization. The actions carried out by policy makers for facilitating a continuing growth of e-commerce may further strengthen this effect such as acceptance of electronic signatures.

- Cooperation between MS in collecting market information.

Lack of information is a crucial barrier for doing international business and might be due to a market failure. The costs for overcoming this gap could be considerably reduced by ensuring that the amount of 'double work' within the EU is further reduced.

Efficiency gains could be obtained by organizing, at EU level, the collection and analysis of information on market developments and the legal and institutional environment in foreign markets. This will allow local agencies to focus on being an efficient interface with their national business community.

Conclusions

The main advantage of an analysis, as the one presented before, is that several characteristics of the company are taken into consideration simultaneously.

The emphasized issues have shown a strong correlation among the factors that make an SME being internationally active to become better than the average business performance scores ranged at the other ones.

Although part of this effect is due to the 'self-selection' process, in the sense that SMEs having better performance are more likely to be active internationally, the facts lead to the conclusion that there is also a direct, positive effect on the performance of enterprises that become internationally active.

Nevertheless, this will also have a direct effect on the performance of the national and European economy. In addition, there will be indirect effects, for example, on learning and innovation.

Overall economic welfare gains from internationalization make the letter one worthwhile to see to what extent policy makers could and should further support SMEs internationalization.

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