

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES  
POLICY DEPARTMENT



## Workshop

# Tailor-made support for SMEs towards effective implementation of the EU's trade and investment strategy

INTA



## WORKSHOP

# Tailor-made support for SMEs towards effective implementation of the EU's trade and investment strategy

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## PROGRAMME OF THE WORKSHOP

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT



For the Committee on International Trade (INTA)

## WORKSHOP

### Tailor-made support for SMEs towards effective implementation of the EU's trade and investment strategy

Wednesday, 17 February 2016

Brussels, **Paul-Henri Spaak Building, Room (P1A002)**, 14.30-17.00h

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#### PROGRAMME

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**14.30-14.40 Welcome and introductory remarks by**

- **Bernd LANGE**, Chair of the Committee on International Trade (INTA)

**14.40-14.50 Contribution of SMEs towards implementation of 'Trade for All'**

- **Signe RATSO**, European Commission, Director DG Trade

**14.50-15.10 Exploring strategies for European SMEs to do business abroad - Presentation of findings**

- **Prof Robert BLACKBURN**, Director of Small Business Research Centre, Kingston University/UK

**15.10-15.30 Tailor-made support for SMEs going abroad**

- **Dr Ernst KOPP**, Director, go international, Wirtschaftskammer Austria, Vienna
- **Ralph LERCH**, Managing Director and Global Head of Export Finance, Commerzbank AG, Frankfurt/Main

**15.30-16.00 SME entrepreneurs share their experience**

- **Maria Pia CONTI**, Partner, Panificio Zanella srl, Bologna and member of the National Council of CNA Alimentare, Association of Small and Medium-Sized Enterprises and Crafts, Bologna/Italy
- **Pavla BŘEČKOVÁ**, Director for International Trade & Strategy, Audacio s.r.o., Brno and Vice Chair of the Board of Directors of the Association of Small and Medium-Sized Enterprises and Crafts CZ (AMSP CR), Czech Republic
- **Rafael HIERRO MARTÍN**, General Manager, IxiaRegal, Juinsa, Unimasa, Alicante/Spain
- **Juergen LINDENBERG**, Director LINDY-Elektronik GmbH, Vice-President and Chair of External Trade Committee of the IHK Rhein-Neckar, Mannheim/Germany

**16.00-16.55 Q&A**

**16.55-17.00 Concluding remarks by Ms Tiziana BEGHIN (MEP /EFDD)**, INTA Rapporteur for the INI "A new forward-looking and innovative future strategy on trade and investment"

## BIOGRAPHICAL SUMMARY OF THE SPEAKER

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT



For the Committee on International Trade (INTA)

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#### BIOGRAPHY

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##### Professor Robert BLACKBURN

**Professor Robert Blackburn** is Director of the Small Business Research Centre, Associate Dean for Research, Faculty of Business and Law, Kingston University; and Editor-in-Chief of the *International Small Business Journal*. He has undertaken research for private and public sector organizations worldwide, including the European Commission, the OECD, HM Treasury and HM Revenue and Customs, and banks and support agencies. Mr Blackburn has detailed experience of researching government-SME relationships, using qualitative and quantitative methods. His latest research involves understanding the role of trust in SME's external relations and the effects of public policy interventions. He is holder of the Queen's Award for Enterprise Promotion, a Trustee of the Society for the Advancement of Management Studies, a Fellow of the Royal Society of Arts and President of the ECSB <http://www.ecsb.org/>.

<http://business.kingston.ac.uk/staff/professor-robert-blackburn>

## **PART I: AN ANALYSIS OF SME INTERNATIONALISATION AND POLICY INTERVENTIONS**

### **EXECUTIVE SUMMARY**

The significance of SMEs to the economy and society is widely recognised, with major contributions to employment, output and innovation. However, for some time now, policy makers have been looking to SMEs to internationalise and help them to do so through interventions. This research-based paper examines the challenges of SMEs to internationalise, the support landscape and how policy interventions may be improved in the EU. The SME population is very heterogeneous in terms of size, age, location, sector, capabilities and entrepreneurial ambition. Undoubtedly, this renders the design and delivery of appropriate interventions challenging. Yet, the limited resources of SMEs and their internal and external constraints, ostensibly provide a case for policy intervention. However, most SMEs appear to internationalise without engaging with the government apparatus of support, at the EU or member state level; although there are variations in the take-up of initiatives within the SME population. This is not surprising given the determination, 'self-help' approach and a lack of trust of government agencies of many SMEs.

The literature on SME internationalisation is voluminous and can be instructive for policy development. It provides different models of internationalisation, presents analyses of firms that internationalise and the orientation of people who run them. Amongst the greatest challenges to SMEs is risk. This is heightened when they internationalise. Hence, they draw upon their trusted networks to minimise risk and gain knowledge and information about markets before entering them. Policy needs to be cognisant of the efforts that SMEs make themselves, their challenges and networks if it is to deliver relevant interventions to boost internationalisation.

The paper shows that there appears to be an abundance of organisations and schemes deriving from member-states and the EU, for SMEs to internationalise. However, these are not always reaching SMEs because of a lack of awareness, their relevance and accessibility. There also appears to be a lack of co-ordination of these interventions, causing market confusion. The paper examines EU interventions in particular and finds them, in some areas, to be wanting. Analyses of more recent efforts by the EU to promote SME internationalisation are also limited by their lack of engagement with existing systems and lack of available monitoring and evaluation evidence. This is somewhat alarming given that it is this very evidence that would enable appropriate policy improvements.

If the EU's policies for SME internationalisation are to be more effective and add value to what is on offer, their design should pay more attention to the research-base. The analysis suggests that relevant EU agencies seeking to promote trade have to develop closer relationships with the institutions and agencies that constitute the 'natural' networks of SMEs. These include sector-based organisations, chambers of commerce and member-state promotion systems and agencies – examples are provided. It has to be recognised that, if EU policies for internationalisation is to be improved, engaging with SMEs is very different than with large, multi-national organisations and requires engaging with the fabric of their world and their networks, rather than developing structures in parallel. This engagement will help raise the efficiency of interventions as well as their reach and impact.

## INTRODUCTION

Success in international markets is recognised as one of the priorities for the EU, is regarded as integral to firm growth and contributes to economic development (European Commission, 2008; 2015a). A focus on SMEs is intrinsic to such a priority: SMEs account for over 99% of all enterprises, 67% of jobs, and 58% of output (European Commission, 2015b). Although numerically dominant in the economy, the contribution of SMEs to international trade is less prominent than larger enterprises. Recent data shows that around 52% of SMEs in the EU are engaged in international activities, either as exporters or importers (European Commission, 2015c) and they account for around a third of the value of all EU exports (Cernat et al., 2014). However, more SMEs import than export: 33% of all SMEs in EU are exporters and 39% importers (European Commission, 2015c, p. 16). Other data shows that less than 20% of SMEs are involved in internationalisation as subcontractors; and less than 10% of them partnered with an abroad-based enterprise on R&D and 4% invested directly in a foreign based firm.

Research also shows that although they can internationalise, SMEs face many challenges in this process. This may involve identifying and penetrating new markets for the first time; maintaining existing markets; or extending beyond existing markets. Internationalisation needs to be regarded as a process rather than a fixed event, as engagement in foreign markets changes over time. For example, this may even involve withdrawing from an international market rather than a constant expansion process. Prior research suggests that one of the main reasons for market retreat stems from the firm's lack of information, lack of competitiveness, and un-readiness to deal with the challenges in the foreign markets (Crick, 2004). Indeed, the literature also suggests that rapid internationalisation by SMEs is risky and can lead to high business failure rates (Nummela et al., 2016). Thus internationalisation is risky and not preferable for many SMEs.

The internationalisation of SMEs has also received detailed attention in the policy research literature over an extensive period (eg. OECD, 2009; European Commission, 2010; OECD, 2013; Kahiya, 2013; Dimitratos et al., 2014; Felzenstein et al., 2015; European Commission, 2015a;2015d; Fernhaber and Prashantham, 2015; Pickernell et al., 2016). This literature often draws upon surveys and qualitative studies of SMEs, as well as monitoring and evaluation reports from interventions at member state and European levels.

Overall, a consensus demonstrates that SMEs are found to encounter a number of *internal constraints* such as their limited resources, market knowledge, and networking capabilities. They also have *external challenges* including coping with regulations and legal procedures, customs, quotas, administration, market competition, language and culture barriers, and accessing internationalisation support. More importantly, for this paper, there appears to be gaps between existing policy support structures and interventions and SMEs' needs, especially in relation to SMEs' exporting to non-European (third) countries. Hence, this paper seeks to analyse the support needs of SMEs in the internationalisation process with a view to informing demand-led interventions and support structures.

Internationalisation is defined as the process involving all activities that put SMEs into a meaningful business relationship with a foreign partner (European Commission, 2010). Internationalisation involves both outward operations that "...occur outside the firm's country in the form of exporting, licencing, or foreign direct investment", and inward operations, i.e. those which "...occur in a firm's own country in the form of non-equity contracting relationships with foreign firms, joint ventures, or importing" (Liang et al., 2012, p. 134). In the context of this research paper, we aim to focus on SMEs doing international business beyond the EU internal market.

## 1 Aim of the paper

This paper is designed to provide a research-based background briefing on the internationalisation of European SMEs. Specifically it seeks to

- I. provide an analysis of the internationalisation performance of SMEs in the European Union
- II. understand the challenges of SMEs to internationalisation
- III. clarify to what extent public support and regulations have reached SMEs
- IV. identify the gaps in support and challenges ahead, and
- V. propose intervention strategies to the European Parliament to simulate SMEs in the internationalisation process.

The SME population is highly heterogeneous, encompassing firms at different stages of development, different ages, sectors and locations; and run by people with different personal aspirations, capabilities and ambitions (Blackburn, 2012; BIS, 2013). Developing support structures and initiatives that can reach these various needs is challenging. Evaluations of existing support provision suggest room for improvement (e.g. Wymenga et al., 2013). As 90% of the global economic growth is expected to be driven in non EU-markets in the next decade, SMEs' internationalisation beyond the EU is essential to enhance the growth and sustainability of European economies (European Commission, 2015c; 2015d). Hence, the final objective of this paper is to help inform policy interventions to address to the needs of European SMEs, especially addressing to those targeting third country markets.

## 2 SMEs contribution to economy

The significance of SMEs in the European economy has been well established in the literature. SMEs account for 99.8% of the enterprise population and have contributed more than 70% of the increase in employment in 2014 (European Commission, 2015b).<sup>1</sup> Recent evidence shows that the EU has 22.3 million SMEs, employing over 90 million people and SMEs in the non-financial sector contribute to almost 60% of the economies total value added. The SME population itself is highly skewed towards micro-firms (i.e. those employing less than 10 people) with 92.7% of all firms; and this sub-group accounts for 29.2% of all employment and 21.1% of all total value added (European Commission, 2015b). Hence, support and intervention for SME's should be cognisant of this size distribution because of the different needs and resource constraints linked to enterprise size.

SMEs are mainly concentrated in five sectors: Manufacturing, Wholesale and retail, Construction, Business services, and Accommodation and food services. These constitute 78% of all SMEs; generate approximately 80% of the total SME employment and 71% of value added. Across these sectors, Business Services was reported to be the leading sector in terms of value added, growth in employment and number of enterprises. There is also variation within the SME population according to business sector dominance: Wholesale and retail trade is predominant amongst micro and small firms, while those in Manufacturing are mainly medium sized firms (European Commission, 2015b). This baseline data is important not only to help demonstrate the significance of SMEs in Europe, but also to show the diversity of the population. It is this diversity, as well as the totality, which is important when considering the extent of international trade by SMEs and their support needs in internationalisation.

<sup>1</sup> Excludes Financial Intermediation. SMEs are defined by the European Commission in 2010, SMEs are enterprises which have fewer than 250 employees and less than 50 million euros in their turnover, or having the balance sheet of less than 43 million euros.

### 3 SME approaches to internationalisation: Models and theories

A number of concepts may be used to help understand the internationalisation behaviour of firms that may have utility when developing appropriate interventions. These include the resource-based view; transaction costs analysis; network and organisational learning approaches; and international new venture approaches (Jones and Coviello, 2005; Dimitratos et al., 2014). However, one of the most influential approaches of internationalisation is the stage model, dominated by the Uppsala school (Johanson and Vahlne, 2006).

#### Stage models

The most popular stage model of internationalisation is known as the Uppsala school model. This model focuses on the internal process of small firm's development (Ruzzier et al., 2006; Johanson and Vahlne; 2006). According to this model, the firm's decision to internationalise is driven by its *experiential market knowledge* and *resource commitment* (Nummela, 2011). Internationalisation behaviour is shaped by the firm's accumulated market knowledge which influences the firm's entry mode and target destinations (Johanson and Vahlne, 2003, p. 89). Hence, it is significant for SMEs to enhance their market knowledge, capacity (i.e., financial, technical, human and physical resources) and capabilities (i.e., skills, knowledge, know-how, networking) to manage risk in international markets. This model suggests that firms will favour countries nearby with a low 'psychical' distance<sup>2</sup> (Johanson and Wiedersheim-Paul, 1975) and then expand to more distant markets.

Although appealing, stage models have been criticised as too deterministic and ignoring variations in the internationalisation process. More recent research as also suggested that the time between start-up and internationalisation has declined (Sharma and Blomstermo, 2003; Cavusgil and Knight, 2009). This has spawned new concepts, particularly 'born-global' (new firms that internationalise within three to five years) (Cavusgil and Knight, 2015) as opposed to 'late internationalisers' (sometimes referred to as 'born-again globals' (Bell et al., 2001). These will be discussed in more detail in the next section of this paper.

#### Types of SME internationalisation

In understanding the different types of support requirements of SMEs, and thus potential policy and programme interventions, it is important to understand the different pathways to SMEs to internationalisation. The first route is early internationalisation in the life of the firm; often known as *born global firms*. These firms conduct international business at, or near their foundation and "...seek to derive a substantial proportion of their revenue from the sale of products in international markets" (Knight and Cavusgil, 2004, p. 124).

Born globals face a number of constraints, such as a lack of economies of scale and insufficient experience in international business markets. However, they are also known to have distinctive *intangible resources* and *capabilities* in the form of knowledge management and innovation compared with other firms (Rialp et al., 2005; Knight and Cavusgil, 2004). These firms view the global market as their main target market, facilitated by the internet and innovations to reduce the costs of doing international business. These firms are often run by business owners who have had prior experience of working in international markets (Rialp et al., 2005) and thus take advantage of their tacit knowledge.

The second and third routes to internationalisation are rather more conventional, and are distinctive by both the time it takes and the intensity of their international activities. Specifically, the second group

<sup>2</sup> By psychical distance we are referring to "...factors that prevent or disturb the flow of information between firm and the market" Johanson and Wiedersheim-Paul (1975, 308). These include language, culture, economic and political systems, and education levels.

comprises SMEs that start their businesses serving domestic markets and build up market knowledge and expertise before approaching foreign markets (Johanson and Vahlne, 1990; Cavusgil and Knight, 2015). This route tends to fit into the Uppsala school discussed earlier. These SMEs aim to achieve a substantial share of international sales in their growth and maturity phases. The internationalisation process of this group of SMEs is iterative and experiential (Nummela, 2011).

The third group may be classified as 'late internationalisers' (also known as born-again globals) (Bell et al., 2001; Nummela, 2011). This group comprises SMEs that concentrate on their domestic market and only once well into their life start internationalisation activities. Again these firms tend to fit within the Uppsala model of internationalisation.

Such empirical-informed differentiation may also help to classify firms according to their support requirements. For example, a 'born-global' may need access to market knowledge and networks as well as financial support to build-up sufficient capacity (Freeman et al., 2006) and for the additional costs made on the young enterprise when internationalising. A late-stage 'internationaliser' may have a product or service that is less adaptable to foreign markets and unaware of the additional costs of product or service delivery to an international market and may, therefore, require detailed market knowledge or an access to an overseas agency.

### Significant Role of Networks

The literature shows that networking is a process that helps to link businesses and institutions to construct relationships across different environments (Freeman et al., 2006; Felzensztein et al., 2015; Fernhaber and Prashantham, 2015). The use of networks by different business owners does vary and this can also shape their decision making to internationalise (Child and Hsieh, 2014).

Hence, networks can provide SMEs with access to resources; helping them identify and capture market opportunities and enhance their knowledge, and information about foreign target destinations (Johanson and Vahlne, 2003; Sharma and Blomstermo, 2003). Furthermore, networking helps to lower the risks that SMEs face through the identification of opportunities, gathering of local market intelligence, formulating alliances and shaping their products and services for a foreign market (Lu and Beamish, 2001). Networking is, therefore, considered to be a critical role in simulating and enabling the internationalisation of SMEs; not only in terms of *speed* but also the *degree* of internationalisation (Johanson and Vahlne, 2009; Nummela, 2011). Networks can also reduce the 'psychical distance' that many SMEs face when looking to internationalise (eg. Ojala, 2009).

Networks have been classified as formal and informal. Informal networks are found to be more effective to new or young international ventures that seek resources (Fernhaber and Li, 2013; Felzensztein et al., 2015; Dimitratos et al., 2014). Formal network relationships refer to the founding of alliances which enable firms to have close collaboration and inter-dependence in the of pooling resources to generate economies of scale and creating synergies in operating international activities (Fernhaber, 2013; Felzensztein et al., 2014).

Interventions by government agencies can play an important role in formal network development through the provision of trade missions, websites, digital platforms and exhibitions (Zain and Ng, 2006; Fernhaber and Li, 2013; Amoros et al., 2015). In short, networks, formal and informal are particularly important enablers for SMEs seeking to internationalise, as they help them overcome their relative weak in-house resource base: thus enhancing their capacity and capabilities.

## Innovation

The interplay between innovation and internationalisation performance of SMEs has been emphasised in the literature (Love and Roper, 2015; Geldes et al., 2015). Ruzzie et al.'s (2006) innovation-related model links SME's internationalisation behaviour with innovation. SMEs with strong innovative capabilities are more likely to introduce new products and services, which simulate their market share and foreign sales (Kafouros et al., 2008; Geldes et al., 2015). The integration of SMEs into the internationalisation process enables SMEs to create synergies to further enhance innovation by utilising their existing resources and networks to cut costs while improving technical expertise (Kotabe et al., 2002).

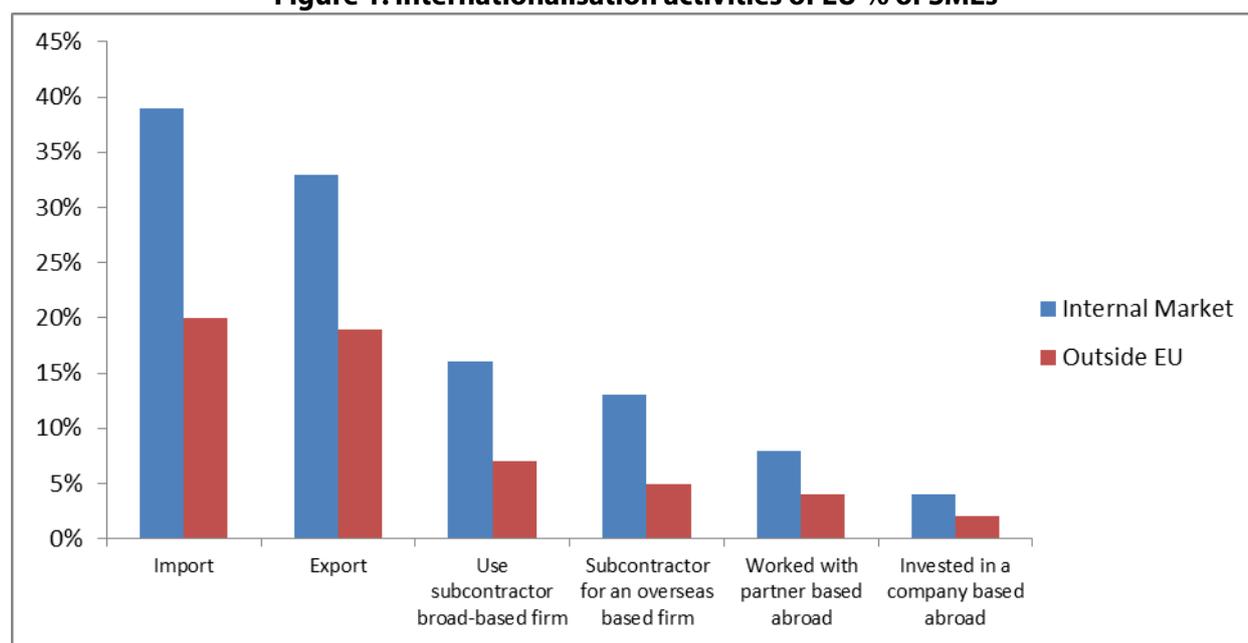
The academic literature is supported by policy evidence that finds a positive association between the degree of internationalisation and innovation (European Commission, 2010). More specifically, internationally active SMEs are more likely to launch product/ service and process innovations than non-internationally active SMEs (European Commission, 2010). For example, more than half of internationally active SMEs introduced product/services innovation and over 30% launched process innovations, compared to the average rate of 32% and 22% of total European SMEs respectively (European Commission, 2010).

The degree of SME internationalisation is, therefore, influenced by the level and type of innovation. Statistics from a survey of internationalisation amongst European SMEs shows that amongst those firms introducing new products/service for their sector in their countries, the proportion of internationally active firms is three times more than that of domestically-orientated SMEs (European Commission, 2015b; Felzensztein et al., 2015).

## **4 SME internationalisation performance: Baseline data**

There are a number of sources of data on SME internationalisation activities. Recent evidence indicates that the total value of EU exports was approximately EUR 5500 billion, contributing to 43% of the Europe's GDP (Cernat et al., 2014). The number of SMEs that export outside the EU is estimated to be over 600,000. According to a Eurobarometer survey (European Commission, 2015c), over 33% of SMEs in the EU are engaged in exporting within the EU; almost 20% export to a non-EU country; and 39% have been involved in importing. Other internationalisation activities, such as subcontracting and operating in a foreign market involve less than 20% of SMEs in the EU28. However, the proportion of SMEs engaging in internationalisation activities outside the EU is approximately half of those doing business in internal markets (see Figure 1). In terms of the number of enterprise involved in trade, SMEs are net importers rather than exporters both within and outside the EU.

The most popular markets of SMEs, outside their own member state, are within the EU; which accounts for 81% of SME exports and imports. Outside the EU, exports are equally distributed amongst Middle East and North Africa (15%), Eastern Europe, Caycasys and Balkans (14%), and the USA (13%). The data on the contribution to turnover is, however, less clear although estimates suggest that around 21% of export 'sales' came from within the EU and 13% from outside the EU (European Commission, 2015c).

**Figure 1: Internationalisation activities of EU % of SMEs**

Source: European Commission, Eurobarometer survey 2015c

## 5 Characteristics of SMEs that are involved in international trade

The empirical-based literature on SME internationalisation is extensive and draws upon surveys, interviews and case studies. This has helped develop, *inter alia*, a profile of the characteristics of SMEs that are most internationally orientated. These characteristics will now be discussed.

### Firm size

The literature shows that firm size is an important determinant of the international status of firms (eg. Ottaviano and Mayer, 2007; Wagner, 2007). The entry cost into the third country market is much higher than the cost of doing business in closer and better known regions in Europe: the 'psychical distance' effect. This also influences the patterns of internationalisation between small, micro and large firms (Dimitratos et al., 2014). A survey for the European Commission (2010) suggests that the proportion of exporters amongst micro, small and medium sized is 24%, 38% and 53% respectively. This is in line with the latest evidence reported by the European Commission (2015c), that found larger enterprises to be more likely to engage into international activities beyond the EU markets over a three year period. In addition, the proportion of exporting SMEs belonging to an international group also doubled that of independent SMEs over the last three years (42% compared with 19%). This size-relationship is also shown in analyses of the level of export engagement in high growth markets, such as the BRIC countries (e.g. Brazil, Russia, India and China) (OECD, 2013). The size-effect can be attributed to the heightened risks and variety of challenges involved in penetrating these markets. Clearly, firm size is an important determinant of the firm's engagement in international trade and any intervention needs to be aware of the differences in capacity between micro and medium sized enterprises.

### Firm Age

Conventionally, the literature suggests that the internationalisation behaviour amongst European SMEs is positively associated with firm age (European Commission, 2010). For instance, the proportion of young internationally active SMEs (whose age is less than 4 years old) is half of mature firms (those having over 25 years in operation) (European Commission, 2014). Similarly, SMEs founded before 2008 are more likely

to engage into internationalisation compared to those started during 2008-2014 (for example, 21% vs 15% in export respectively). This indicates that the more mature the firm grows, the more active it is in internationalisation because of its accumulated resources, market knowledge, experience and networking. These firms are also more likely to be larger SMEs. Hence, these facts and figures imply that younger firms that are seeking to internationalise may be more vulnerable to failure. This has implications for policy and support interventions and suggests that younger firms are more vulnerable to challenges and failure.

### Sector

Industry sectors are found to vary tremendously the SMEs' internationalisation behaviour. The three most internationally active sectors are: manufacturing, transport and communication, and research. Regarding the intensity of internationalisation activities, most export-oriented SMEs are concentrated in the following sectors: Mining (58%), Manufacturing (56%), Wholesale Trade (54%), Research (54), Sales of Motor Vehicles (53%), Transport and Communication (39%) (European Commission, 2010). Evidence shows that the proportion of SMEs in manufacturing and retail *planning* to import from non-EU markets is approximately three times higher than those in services and industry sectors. In terms of foreign destinations, Manufacturing SMEs are considered to be the most active exporters to non-EU markets (European Commission, 2015c).

### Entrepreneur characteristics: intentions and capabilities

#### *Intentions and ambitions*

The literature suggests that owner-manager orientation, or mind-set, is highly influential in the export behaviour of SMEs (Cavusgil and Godiwalla, 1982; Morgan, 1997; Lloyd-Reason and Mughan, 2002; Felzensztein et al., 2015; Amoros et al., 2015). This includes their ambition, vision and intention to grow and internationalise (Morrison et al., 2003). In other words, the owner-managers' vision and ambition have a critical impact on the firm's orientation to approach either 'global from inception' or gradually increase their engagement into international activities (Rialp et al., 2005).

In the case of 'born global enterprises', entrepreneurs are highly motivated to engage international markets because they have a strategic orientation that focuses on potential business opportunities outside their own country (Lloyd-Reason and Mughan, 2002). This also reflects the entrepreneurs' risk-taking attitude and their perceived business opportunities in the foreign market. While 'growth-inclined' business owners tend to be more active and have positive attitudes to exporting, 'growth-ambivalent' and 'growth-resistant' are more likely to avoid internationalisation activities (ERC, 2015).

#### *Capabilities*

Small business owner-managers' capabilities: their experience, language capability, management know-how, and educational training in international business, play an important role in their firms' internationalisation (Morgan, 1997; Reid, 1981; Rialp et al. 2005; Ruzzier et al., 2006; Hsu et al., 2013). Some authors classify this factor as 'human capital' (Novak and Bojnec, 2005; Ruzzier et al., 2007). Human capital refers to the knowledge accumulated by the entrepreneur including tacit (e.g. market knowledge) and explicit (eg. experience, management know-how, ability to do business in foreign market) (Ruzzier et al., 2007).

The entrepreneur's management know-how (i.e., skills and international expertise) plays a critical role in identifying, and utilising a combination of resources for product development, production and promotion (Vatne, 1995). Hence, this is positively related to SME internationalisation in terms of "...product, time, market, operation mode and degree" (Ruzzier et al., 2007. P. 19). The level of human capital held by an entrepreneur is positively associated with their ability in identifying and exploiting

business opportunities (Davidsson and Honig, 2003). This, in turn, enhances their levels of internationalisation (Reuber and Fischer, 1997; Carpenter et al., 2000).

### Destinations of SME's trade

Evidence suggests that there is distance-decay in the exporting intentions and activity of SMEs and those that do export only do so to a few countries. Aggregate data shows that 60% of all exporting firms export to only one or two extra-EU markets and it is likely that this proportion will be higher for SMEs given their limited scale and resource base (Cernat et al., 2014: p. 2). Furthermore, over 80% of exporters target other EU countries, whilst only 13% target non-European destinations (European Commission, 2014). The remaining proportion is equally shared by other markets including Middle East, Russia, China, India and South East Asia and USA. The exporting market share of European SMEs is depicted in Figure 2.



Source: European Commission, 2015c.<sup>3</sup>

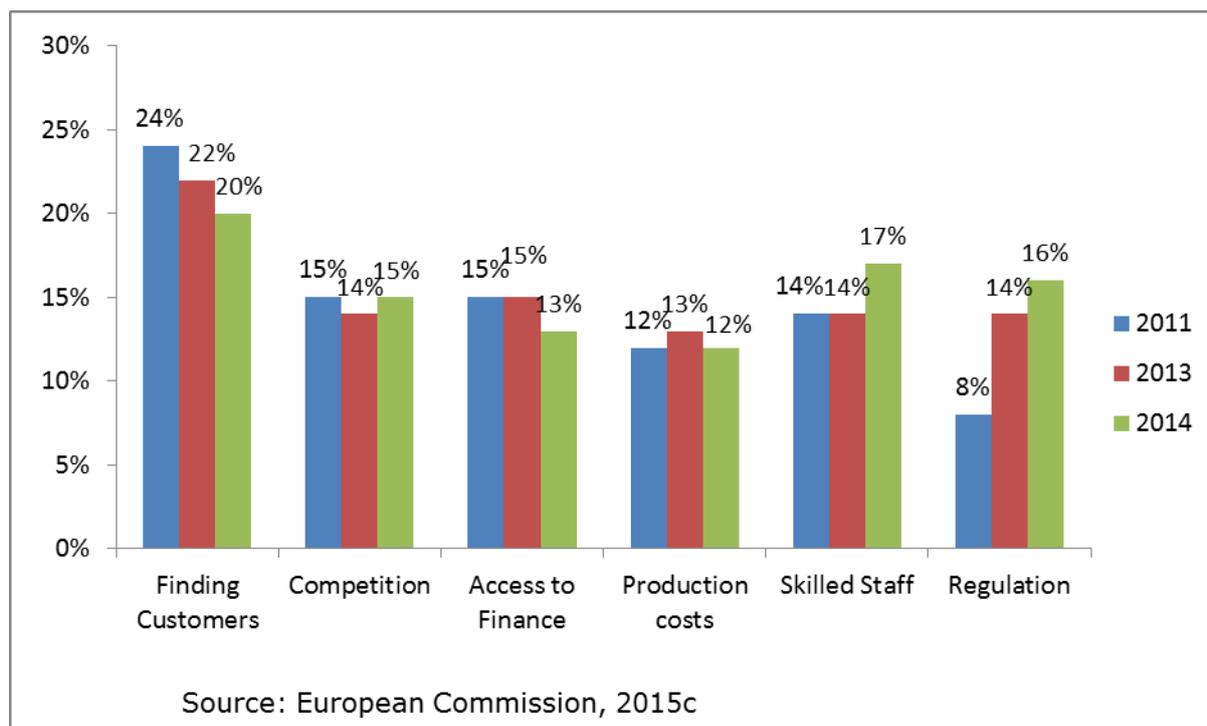
Clearly, despite serious efforts to promote internationalisation of SMEs beyond the EU and especially to BRIC economies, the bulk of activity remains within the EU. Such findings demonstrate the concept of 'psychical' distance as well as illustrate the challenges of strategy that seeks to stimulate SME exporting beyond EU and known markets.

## 6 Challenges to SMEs internationalisation

As suggested by a recent European survey (SAFE, 2014), the most common obstacles faced by international SMEs over the period 2011-2014 include the difficulties of finding customers, competition, access to finance, cost of production or labour, availability of skilled staff or experienced managers, and regulation. Over these three years, there has been improvement in the SMEs' ability in seeking for international customers. However, SMEs have to deal with the increasing concern about insufficient skilled staff and more complicated regulation in doing international business as shown in Figure 3.

<sup>3</sup> Businesses that have exported goods or services in the last three years (N=4,320 in the EU)

**Figure 3: Challenges of international SMEs during 2011- 2014**



### Internal challenges

Research suggests a variety of internal and external constraints to the internationalisation of European SMEs (Love and Roper, 2015; Ruzzier et al., 2006). The most critical internal factor is related to the firm’s limited resources and capabilities. SMEs are known to have lower levels of human resources, reputational resources (such as credibility, trust and recognition) (Tolstoy and Agndal, 2010), physical resources (i.e. infrastructure, facilities, equipment) (Coviello and Munro, 1997; Zain and Ng, 2006); financial resources; technical, and market knowledge (OECD, 2009; European Commission, 2010).

Knowledge of international markets is considered critical to trade (Felzensztein et al., 2014; Fletcher and Harris, 2012). However, SMEs have difficulties in accessing data and information about foreign markets. As a consequence, SMEs face many challenges in identifying business opportunities abroad and understanding the nature of local demand. They also lack the internal expertise in dealing with administrative issues raised during the internationalisation process. A survey of EU SMEs, found that their main perceived barriers to internationalisation are often related to their internal resource base, including the price of their product/service, the cost of doing international business, a lack of skilled staff, the specification of the firm’s products, and language barriers (European Commission, 2010).

### External challenges

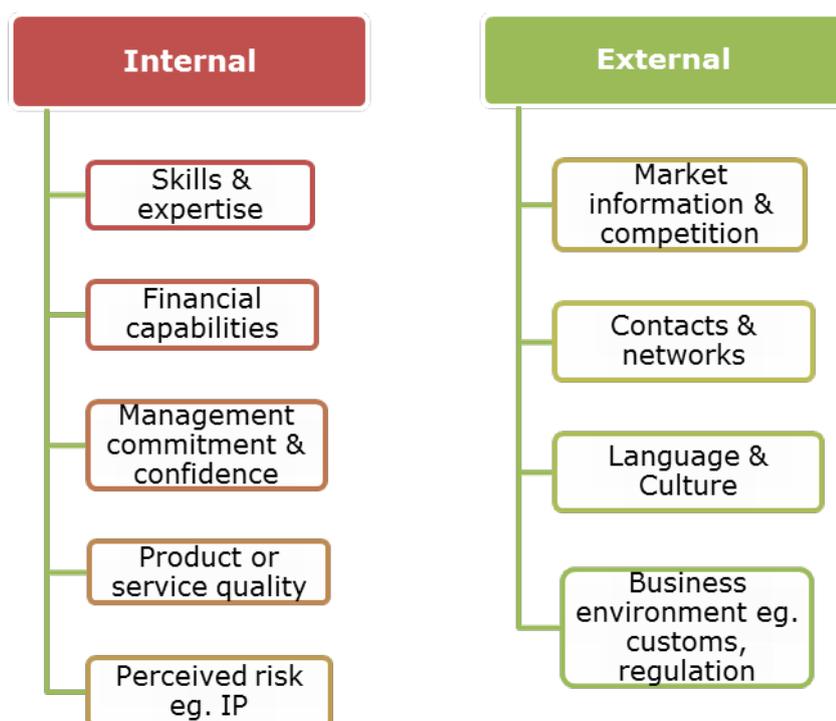
SMEs also deal with a number of external challenges resulting from both the domestic and foreign business environment. This relates to regulations, law, customs, administration, lack of public support, lack of information, and ‘cultural clashes’ (OECD 2009; European Commission, 2010). To these has to be added constraints emerging from the business environment including, for example, the instability of the economy, infrastructure, exchange rate fluctuation, IPR enforcement, political risks, corruption and the competition rules (Ruzzier et al., 2006). The asymmetric information perceived by SMEs and the lack of business support from national and international authorities also make it more costly for SMEs to engage into international business (OECD, 2009). The UK’s House of Lords (2013) identified different compliance barriers in target countries to result in a more expensive market entry for SMEs because of the fixed costs

involved, in the changes and adaptation of products and services, to meet the foreign standards and rules. In addition, it is more difficult for SMEs to find prospective customer contacts overseas because of their limited international networking as well as experience in the foreign market.

Undoubtedly, the evidence shows that exporting is normally relatively expensive per unit sale compared with domestic sales. For example, 52% of EU SMEs reported administrative procedures and delivery costs to be the most common problems. More than a third were concerned about the lack of security in payment from foreign countries, complicated taxation procedures, as well as having insufficient information about the potential markets (European Commission, 2015c).

In summary, the internal and external challenges that SMEs encounter in the internationalisation process can be illustrated in the Figure 4.

**Figure 4: Internal and External Challenges of Internationalisation**



Despite the challenges faced by SMEs to internationalise, the data does show that they are engaged and make a significant contribution to the EU. Examples of how SMEs internationalise were presented at a workshop organised by the European Parliament Committee on International Trade (European Parliament, 2016). The experiences of the four business cases demonstrated the validity of the concepts developed in the literature, particularly the orientation of some entrepreneurs to want to internationalise; and their determination and the fortitude to realise this ambition. Internationalisation by these cases, from very different sectors, illustrated the role of networking, personal and familial resources, importing and trade fairs as significant in their journeys to become exporters. However, the cases also illustrated the inclination of *not* considering engagement with government support, at member state or EU levels, and none of them had used any government support.<sup>4</sup> It is their very industriousness and self-help approach to internationalisation that policy interventions must understand if they are to raise interest and levels of take-up. Seeking and securing public policy support is not amongst the priorities of most entrepreneurs

<sup>4</sup> Such an attitude amongst SME witnesses was also demonstrated in the House of Lords investigation of exporting (2013).

seeking to internationalise. If they do seek advice and support government is also unlikely to be the first port-of-call. Rather, they are most likely to approach their most frequently used or trusted sources of advice in the first instance. Hence, the requirement to have policy interventions that are relevant and easily accessible for SMEs is emphasised.

## 7 Policy interventions and evaluations

The case for intervention to support SMEs to internationalise is incontrovertible. The insufficient internal capabilities of SMEs, compared with the scale and scope of resources necessary to undertake international activity, presents a clear case for intervention. However, what is to be delivered, who delivers and how this is delivered is debateable. The analysis in this paper implies that a *demand-driven approach* should be adopted. This identifies the needs of SMEs, ties in with the existing relationships of SMEs, is sympathetic to the fabric of their networks and how they engage with their networks.

However, the literature also shows that the provision of support for SMEs exporting is in abundance (Wymenga et al., 2013). These derive from member states as well as from the EU. Whether these are reaching those SMEs that require support is open to question.

### EU interventions

The scale and range of EU interventions can be seen in the EU portal for SMEs, including assistance and advice on accessing non-EU markets.<sup>5</sup> In 2015, DG GROW produced an overview of the instruments that exist to support EU SME's internationalization (DG GROW 2015).<sup>6</sup> This report lists around 50 interventions deriving from the European Union designed to promote internationalisation amongst SMEs.<sup>7</sup> Many of these interventions are designed to enhance trade and investment during the period 2014-2020 such as COSME (Competitive of Enterprises and Small and Medium-sized Enterprises- 2014-2020), Partnership instrument, European neighbourhood instrument, HORIZON and Structural and investment funds (ESIF). These initiatives aim to promote SMEs' ability to seize market opportunities by facilitating networking, bilateral trade, information exchange, access to finance, and business support in the foreign markets.

A more recent emphasis in the EU strategy is to promote 'doing business' in specific third countries (DG GROW, 2015). A number of EU interventions have been launched to support SMEs in developing economies, particularly in the form of EU business centres in India, China, Thailand, followed by the foundation of European and Latin American Business Services and Innovation Network (ELAN). Further Gateway activities in Asia are planned by the Commission. The amount of funding for SME internationalisation by the EU is substantial. For example, the actions financed by COSME in 2014 under the 'improving access to markets' objective totalled EUR 12.65 million.<sup>8</sup> However, pinning down an overall amount for the whole of the EU's interventions for SMEs is problematic: there appears to be a variety of budget allocations within a range of EU interventions, reflecting the complexity of what is available. However, this does render an overall assessment of the efficacy of measures somewhat difficult, particularly given the additional challenge of finding the actual expenditure amounts on interventions.

<sup>5</sup> See: [http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

<sup>6</sup> <http://ec.europa.eu/DocsRoom/documents/9334/attachments/1/translations/en/renditions/pdf>

<sup>7</sup> Author's calculation based on DG GROW (2015).

<sup>8</sup> Data provided in a European Parliamentary answer on behalf of the Commission, 29 April 2015. See: <http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2015-001791&language=EN>

## Trade Agreements

Of course, SMEs have to work within the broader context of trade agreements. These agreements require consideration when analysing the internationalisation challenges and opportunities of SMEs. Facilitating SMEs equal access to international markets is perceived as a priority by the EU because of SMEs' limited resources and the huge potential risks involved in the foreign markets. This is enshrined in the EU's 'Think Small First' Principle (European Commission, 2008). For example, the EU's initial textual proposal on EU-US Transatlantic Trade and Investment Partnership (TTIP) specifies information for SMEs regarding customs regulations and procedure, regulations, intellectual property rights, internationalisation supporting programmes, business registration regulations and so on.<sup>9</sup> In addition, a number of trade support provisions for SMEs have been proposed including the elimination of double certification requirements, enhancing supporting schemes, providing SMEs with fast track procedures at the border (European Parliament, 2015: pp. 25-26). This helps to foster SMEs capabilities and capacity in overcoming the trade and investment barriers to undertake potential business opportunities.

Recent evidence from the European Commission (2015c, p.16) indicates that the two most critical concerns on the global trade performance of small firms include the costs of new market entry and the information on market access opportunities. These issues are perceived to impose a more significant impact on SMEs than larger firms due to their resource constraints. Additionally, SMEs are often found to encounter more challenges in dealing with non-tariff barriers such as foreign technical standards, certifications, licensing, IPR enforcement (Cernat et al., 2014). Hence, the opportunities gained from Free Trade Agreements (FTA) through the eliminating tariffs and non-tariff barriers are regarded to be beneficial to SMEs (European Commission, 2015c).

## Evaluations of existing EU programmes

As reported in this paper, in addition to academic studies, there are numerous reports on SME internationalisation and the role of member state governments and EU institutions in this process. Overall, the research suggests that the main concerns about policy interventions relate to: the segmentation of SMEs, target markets, sources, types and forms of support, the collaboration between EU and Member States' programmes in both domestic and foreign market, and the monitoring and evaluation of on-going interventions.

## *Target SMEs*

Many European support schemes are found to be more open to *all* SMEs engaging in internationalisation. This approach tends to ignore the diversity of the SME market by firm age, size, sector and experience of internationalisation. This is reflected in a lack of tailor-made programmes that address specific business concerns of different SMEs and their phases of internationalisation. SMEs from different sectors and industries are also likely to encounter specific challenges in different business environments, such as regulations relating to product specifications or intellectual property issues. For example, networking and market information are perceived to be more valuable to 'born globals', compared with other SMEs because of their higher speed of internationalisation, and the range of markets involved in their businesses (Felzensztein et al., 2015). These firms are often driven by radical innovations to serve international markets and will more likely to seek support in developing, sustaining and protecting their innovations (Cavusgil and Knight, 2015; Nummela, 2011).

SME needs are also determined by their growth orientation, as driven by the entrepreneurs' vision and ambition. Ostensibly, many existing interventions and structures have not been able to offer tailor-made supporting measures to 'growth-inclined' and 'growth-ambivalent' SMEs to enhance their

<sup>9</sup> EU's initial textual proposal, 7<sup>th</sup> January 2015, [http://trade.ec.europa.eu/doclib/docs/2015/january/tradedoc\\_153028.pdf](http://trade.ec.europa.eu/doclib/docs/2015/january/tradedoc_153028.pdf)

internationalisation performance, in particular in third countries which involve a higher level of risks and challenges. Rather it is suggested that interventions have attracted SMEs that are more likely to want to internationalise, rather than be on the cusp of this process. Hence, the link between the specific needs of SMEs and what is on offer may be inadequate. For many SMEs, interventions need to be meaningful to them and their requirements, otherwise they will suffer from a lack of take-up.

#### *Target markets*

Recent evidence suggests that while 81% of SMEs export to other EU countries, only around 10% target non-EU markets (European Commission, 2015c). The more recent emphasis on the EU to target BRIC and developing economies seems to be particularly challenging.

As already demonstrated, the proportion of international SMEs targeting non-EU markets is dependent on business sector, firm size, age and the owner-manager's orientation. Recent statistics suggests that SMEs in manufacturing and services sectors are more likely to export to markets outside EU. SMEs that were set up before 2008 have a higher intensity of export and import activities beyond EU borders. Medium-sized firms or SMEs belonging to an international group have a higher probability of engaging in internationalisation in non-EU markets (European Commission, 2015c). In addition, 'born-globals' are more likely to target multi-destinations compared with incremental or late 'internationalisers' (Nummela, 2011; Knight and Liesch, 2016; Felzensztein et al., 2015).

Despite substantial efforts to enhance internationalisation, European interventions have not fulfilled the expectation of state members as well as reach SMEs' needs, especially with regard to business support to SME internationalisation in non-EU countries (Wymenga et al., 2013; European Parliament, 2015). For example, a preliminary assessment of the Asian supporting schemes suggests that the top-down approach of European Commission's interventions have failed to reach the SMEs' needs. The main problems and concerns may be summarised as follows (Eurochambres, 2015; European Parliament, 2012):

- There is a lack of adequate cooperation between EU centres in the third countries and SMEs and their network partners in the member states.
- There are overlaps between EU centres and Member States' schemes in terms of structures and aims. Hence, SMEs may be confused in selecting different schemes from the EU and Member States.
- Some EU initiatives are organisation-based (i.e., EABC, SME Centre, IPR Helpdesk, Europe Enterprise Network), while others are more activity based (i.e., Gateway to Japan, ETP, Missions for Growth, AL Invest). This lack of coherent vision may weaken the sustainability and effectiveness of such schemes.
- There is not any robust and consistent system for monitoring and evaluating the progress and efficiency of the existing EU centres, the implemented programmes and on-going projects.

Although the EU should be encouraged to meet the needs of SMEs to internationalise through policy innovations, a weak monitoring and evaluation systems is a missed opportunity for subsequent refinements and permanent improvements.

#### *Publicity and SME awareness of support services*

EU programmes have revealed some weaknesses in raising the SMEs' awareness about their impact and roles in enhancing internationalisation. For example, a recent survey by the European Commission (2015c) shows that 92% of the SMEs across 28 EU- countries (out of 13,111 SMEs) have no idea about the Enterprise Europe Network (EEN), despite its claim to play an influential role in connecting businesses across Europe. There are no differences in the level of awareness about this network between SMEs in

non-EU and EU-28 member states. This not only reflects the lack of coordination between EU and member-state programmes but also implies an inactive role of European Commission in publicising and disseminating the impact of their programmes on promoting SME internationalisation.

According to the European Commission, the highest rate of awareness of public support programmes by SMEs is from the following sectors: Manufacturing (25%), Wholesale trade (20%), Business Services (17%), and Construction (17%). In addition, only 22% of all internationally active SMEs are aware of current supporting schemes, and less than 30% of medium-sized enterprises have information to access to existing programmes (European Commission, 2010). This may be attributed to their lack of confidence and beliefs in the effectiveness of EU supporting schemes in accelerating internationalisation performance.

This may also reflect a lack of awareness of what support exists amongst SMEs. The assessment by the European Commission also revealed that medium-sized firms are found to perceive more value from these support programmes than micro firms. Overall, a third of all SMEs perceived value in the schemes. However, the survey also reveals that these schemes are perceived to be more valuable to new comers, or inexperienced international SMEs, than established international businesses (by 40% of all SMEs) (European Commission, 2015c).

#### *Sources, types and forms of services*

Even though most EU initiatives aim at promoting all forms of internationalisation 'modes', they are more likely to focus on the needs of direct exporters. Less attention appears to be paid to SMEs involving other forms of internationalisation (for example, firms seeking new sources of supply, or establishing foreign based subsidiaries) because of their different approaches or limited capabilities (European Parliament, 2012). The range of support services available across the EU for SME internationalisation are extensive, including seminars, workshops, staff training, trade missions, consultancies, business cooperation, networking, subsidies, grants, tax incentives, insurance services, and so on (Wymenga et al., 2013). The bulk of the *funding* for these services is predominantly from member states (Table 1). Of these services, 482 have only one source of funding. The role of the EU is important, contributing as estimated 28% of funding for services.

**Table 1: Number of services in the EU by source of funding**

Source of funding	EU	National	Regional	Municipality	Other
	217	343	158	50	205

*Source: Wymenga et al. (2013: Table 3.24, p. 72)*

A focus on the *number* of information and support services offered in the EU shown in Table 2, confirms the pattern of relative importance of national, regional and EU sources: 403 information and support services were reported to derive from the national level, compared with 139 from the EU.

**Table 2: Number of information and support services offered in the EU by level**

EU members	EU level	National	Regional	Local
<b>Total EU</b>	139	403	163	29
<b>Average EU</b>	5	14	6	1

Source: Wymenga et al. (2013: Table 3.28, p. 76)

When the analysis of the number of information and support services *in third-countries* is considered, again national sources dominate (Table 3). Of the 422 support services funded only 35 are funded by the EU alone (Wymenga et. al., 2013: p.80).<sup>10</sup> This is also reflected in the type of organisation providing support services. For example, 98 chambers of commerce provided support services in third countries, compared with 71 from governments and 9 from the EU (Wymenga et al., 2013: p. 77).

**Table 3 Number of information and support services in third countries**

Sources	EU	National	Regional	Municipality	Other
<b>Total</b>	83	177	63	40	142
<b>Average</b>	3.6	7.7	2.7	1.7	6.2

Source: Wymenga et al. (2013: Table 3.32, p.80)

The provision of a variety of support services has the potential to enhance the efficiency of the EU programmes. It also lays the ground for different SMEs to engage and gain knowledge and access to information and finance from different approaches. However, the Wymenga study found that the poor focus of these schemes meant that they did not address the needs of SMEs of different types, sectors in their internationalisation activities. For example, seminars, workshops and staff training are perceived to be more valuable to new internationalisers, whereas experienced 'internationalisers' would be more interested in seeking financial support (Wymenga et al., 2013). Overall, the analysis suggests that the EU provision is but one stream in a wider range of services for SME internationalisation. In this, member states' provision appears to dominate.

#### *Collaboration and forms of delivery*

One of the major challenges for the EU in designing interventions for SMEs is how to connect with the existing fabric and behaviours of SMEs and their owner-managers. Although there appears some collaboration, such as with the EEN and chambers of commerce (e.g. Mattino, 2015)<sup>11</sup>, this is not widespread and is a source of criticism. This can lead to both duplication of services and the lack of capacity building for SME support. The lack of cooperation between EU service points in foreign markets and the home market has led to SMEs' confusion (European Parliament, 2012). For example, international activities need to be prepared and planned in the home market before SMEs seek information in the EU centres in non-EU markets. However, recent EU programmes have focused attention on the development of centres in foreign markets rather than building up capacity or drawing on networks in the home market. The evidence shows that EU centres in foreign markets have not met SMEs' needs in terms of the number of contacts (European Parliament, 2012). Hence, there appears to be insufficient coordination between the EU's internationalisation efforts and the business community it seeks to serve. It is no surprise, therefore, that the impacts of these centres are not perceived high amongst SMEs. This can be

<sup>10</sup> Estimates of the actual budgets at the EU and national levels are difficult to obtain. The Wymenga et al. (2013) study reports financial figures but raises serious qualifications about the accuracy of the data. Hence, although we draw upon the Wymenga et al. study, this has limitations.

<sup>11</sup> See [http://cor.europa.eu/en/events/Documents/EER/SME%20internal.%20\(09-12-2015\)/Panel%201-2%20Mattin%C3%B2.pdf](http://cor.europa.eu/en/events/Documents/EER/SME%20internal.%20(09-12-2015)/Panel%201-2%20Mattin%C3%B2.pdf)

seen in the low number of inquiries to these centres (European Parliament, 2012).<sup>12</sup> Overall, it is fair to summarise that these schemes have not been adequately shaped or based on the extensive literature that shows the heterogeneity of the SME population and their various pathways and needs to internationalisation.

A further issue is the form of delivery of interventions. In some cases interventions appear to have missed engaging with existing sector, business support networks and activities of SMEs on the ground. The awareness of the EEN, for example, remains low across the EU (European Commission, 2015c). Face-to-face contacts remain significant for many SMEs in their day-to-day activities. For example, research shows that even with breakthroughs in digital forms of engagement and marketing, face-to-face meetings remain important for SMEs in developing their contacts and support networks: internet enabled means of contact are not sufficient (Giudici and Blackburn, 2014). A deeper engagement with such networks and their key stakeholders would strengthen the performance of the centres, but not necessarily guarantee their success or sustainability.

#### *Monitoring and evaluation of ongoing projects*

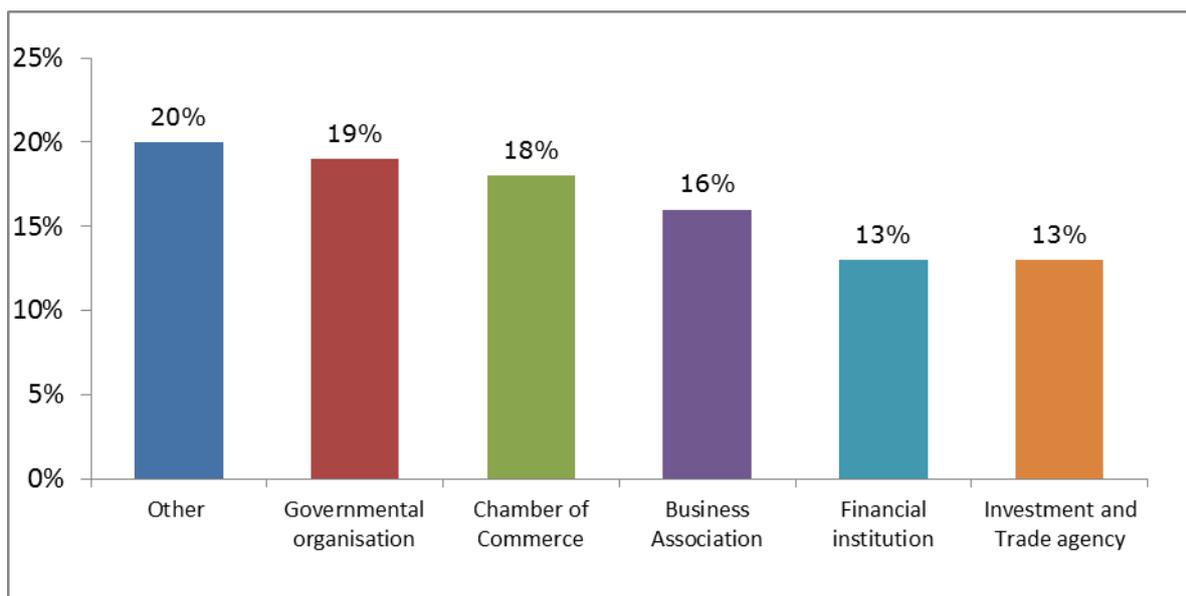
In examining the performance of EU interventions, it appears that the available monitoring and assessment system of existing EU centres is not sufficiently transparent. There appears to be limited or even no robust data of the progress of interventions that would enable comprehensive analyses and help shape subsequent improvements. For example, there is insufficient available data on the effect and progress of the Asia centres on the SMEs' internationalisation performance, or the interventions themselves. Data on the number of enquiries to the EU business centres in Asia lacks transparency or rigour. This was not readily available, or the public domain for the development of this paper and what data that does exist suggests a limited number of enquiries (European Parliament, 2013; 2014). For example, there appears to be no records of the number of enquiries to EU business centres in Thailand or India, whilst those for China appear relatively low compared with member-state's enquiries (such as the UK's PIMs system: Rincon-Aznar et al., 2015). Hence, the extent to which the EU centres in foreign markets have assisted SMEs in overcoming the barriers to internationalise and the effect of these programmes, on boosting the sustainability and intensity of internationalisation activities, remains unknown, if not controversial. The absence of an evaluation system that produces publically available robust data or analyses for permanent improvement is a major flaw in any government intervention.

#### Evaluation of EU-27 member states' schemes

In addition to EU sponsored interventions, SMEs can draw upon support deriving from their own member state. The study by Wymenga et al. (2013) show these to be prolific than from the EU as a whole (Table 1) and derive from mainly public and then private sources (Table 2). Regarding the types and forms of support, most EU-27 member states have utilised a combination of organisations and services in promoting internationalisation (Figure 5). Clearly government and chambers of commerce are significant players in delivering support at member state-level although business associations are also important. This is understandable, given that most SMEs are more likely to be connected within their own countries business and support networks than those at an EU or supranational level.

<sup>12</sup> Here we draw upon a paper from 2012. There is, however, an absence of publically available evaluation evidence from the Commission on many of the interventions promoted by the EU. Some documents from the Parliament are labelled 'internal use' only (European Parliament, 2013; 2014).

**Figure 5: Supporting organisations in EU-27 Member States**



Source: Wymenga et al., 2013

However, there is unevenness in the types of support. For example, the proportion of sectoral programmes, tax incentives, low interest credit, credit guarantee schemes, grants and subsidies are quite low, varying from 2% to 6%. While seminars and workshops turn out to be very helpful for new comers regarding their access to new markets, this provision may not to fully meet the demands of more experienced SMEs in internationalisation who are more concerned about financial support.

According to the Wymenga et al. study (2013) the value of the supporting schemes launched by EU-27 member states is determined by the level of support that reach SMEs rather than the quantity of support services. However, most EU member states have failed to offer specified programmes targeting to different groups of firms according to their size, age, sector, experience and types of firm as found in the literature.

A further weakness of EU-27 national programmes is that they tend not to be tailor-made. Only a few national schemes are designed to address to SMEs needs according to sector or their internationalisation phase. In addition, more attention has been focused on constructing formal networks rather than drawing upon the natural and informal networks among the business community. This has somewhat constrained SMEs in expanding their networking and developing sector-related business hubs to promote their competitiveness in the internationalisation process. Low awareness of national programmes amongst SMEs, either because they do not perceive the value of such schemes, or lack of information is also a challenge. This has shaped a gap between what the policies expect to develop and achieve and what SMEs really need.

**Table 2: Types of support to SME internationalisation in EU-27**

Type of support	Public		Private	
	Support Services	Share in total %	Support services	Share in total, %
Seminars, workshops	355	12	39	10
Staff training	214	7	26	7
Trade missions, trade fairs and matchmaking events	280	9	33	9
Information on rules and regulations	286	9	30	8
Information on market opportunities	308	10	45	12
Identifying and arranging meetings with potential clients	264	9	34	9
Advice and consultancy	370	12	51	14
Business cooperation and networking	338	11	45	12
Sectoral programs	180	6	17	5
Credit guarantee scheme	105	3	15	4
Subsidies, grants	133	4	16	4
Tax incentives	73	2	6	2
Low interest credits	75	2	4	1
Insurance services	69	2	12	3
Other	21	1	2	1
<b>Total</b>		<b>100%</b>		<b>100%</b>

Source: Wymenga et al. (2013, p. 70)

Finally, the monitoring and evaluating of existing national programmes is also a big concern to not only at the EU level but also within member states. The lack of transparent and robust systems of monitoring on-going and implemented projects made it more challenging for policy-makers and policy analysts to assess the effectiveness of existing schemes. This renders evidence-based policy-making and incremental improvements difficult. In this case, it means that there is no guarantee that policies and interventions to help SMEs internationalise will improve with time.

## 8 Case study examples of support for internationalisation of SMEs

### 8.1 Case study 1: Italy

*Compagnia delle Opere ('CDO', i.e. "Companionship of Works")*

Source: <http://www.cdo.org/>

CDO is a non-profit organisation founded in 1986, aiming to provide support and create networking capabilities for SMEs to foster trade and mutual collaboration between its members. With more than 34,000 cross-sector members, CDO connects SMEs, supporting institutions and partners such as banks, IT and energy companies and universities. Its objectives are to enhance SMEs' management skills by providing training, workshops and consultancy, and financial advice. CDO currently has 38 local branches across Italy and formal branches in 17 foreign countries.

#### Activities

CDO provides a number of support services to SMEs including consulting and services, focusing on the following areas: Insurance, Human Capital, Certifications, Energy, Finance, Internationalisation, Innovation and Trade Fair. CDO also utilises its business agreements with its partners/networks to help reduce the supplier costs for SMEs (i.e. discounts). This support is mainly applied to several sectors such as Automotive, IT, Mobility, Communication.

In 2005, CDO first launched Matching 2.0 ([www.e-matching.it](http://www.e-matching.it)), claimed as an innovative B2B networking to develop a closer linkage between smaller and larger firms. This intervention is supported by both the government and business associations including the Italian Ministry for Economic Development, the Italian Trade Agency, the national Association of the Chambers of Commerce and the Lombardy and Veneto regional governments. In addition, CDO also organises a 3- day annual event in Milan, attracting more than 2000 delegates, institutions and organisations.

Since 2010, CDO focuses on supporting internationalisation of SMEs by coordinating with 'matching' events in foreign markets (i.e. Brazil, China, Qatar, Russia and Spain). In 2013, CDO re-launched e-Matching platform, aiming at facilitating the use of digital technologies in business in the four areas: Inter-firm networks, Internationalization, Relationship with Large Firms, and Clusters.

#### Results and Impacts

The first 'Matching 2.0' platform was successful, resulting in the re-launch of 'E-Matching' in 2010 and 2013. CDO currently attracts more than 34,000 users and has a strong impact on Italian international SMEs, especially enterprises in the Lombardy area.

The main advantage of CDO is its provision of both online and off-line services, which enables SMEs to access to data, information, sectoral networking, consultancy, and interaction with business associations, and supporting institutions. Its value to SMEs was also confirmed by the turnover generated from membership fee to join CDO. Non-profit businesses have to pay a fee of 200 euros. Profit organizations have to pay fee that might range from €250 to 1000 depending on their statuses. The same fee has to be paid yearly in the case the company decides to renew its membership.

The weakness of this organisation, however, is the lack of monitoring and evaluation of the follow-up progress of SMEs after joining CDO. Hence, CDO is an example of a focused intervention that seeks to overcome the human capital and networking disadvantages of SMEs. By bringing together SMEs with potential stakeholders, including trainers, suppliers and customers, CDO helps SMEs overcome the barriers to internationalise.

## 8.2 Case study 2- GERMANY

*Bayer Innovativ GmbH- a publicly backed body*

Source: <http://www.bayern-innovativ.de/>

Bayer Innovativ, based in Nuremberg, was founded in 1995 by the State of Bavaria. It is a Centre for Innovation and Technology Cooperation, aiming at facilitating networking for open innovation and supporting SMEs to promote innovations in international markets. The Centre was funded partly by the Bavarian Economics Ministry (40%) and by fees and projects (60%), 51% of its shares are owned by the LFA state bank. Bayer Innovativ is run by a board of politicians, scientists and industrialists to enhance knowledge and technology transfer, involving 11 spoken languages and 7 nationalities. Currently, Bayer Innovativ GmbH is managing a network of 70,000 customers from 40,000 companies, of which 30,000 are located in Bavaria, plus 500 institutes and 80 organisations both nationally and internationally.

### Activities:

Bayern develops innovation networks in sectoral categories to enhance knowledge transfer and networking regionally, nationally and internationally. Some of its main projects are listed below:

- BAIKA - the automotive supply industry
- BAIKEM - electronics and microelectronics
- BAIKUM - environmental technology
- Network Life Science - biotechnology, food and pharma
- Textile Innovation - functional textiles
- Logistics
- New Materials
- Wood

Bayer Innovativ also enables its members to join European networks such as EEN - to promote technology and knowledge transfer. As well as promoting sectoral activities, Bayer Innovativ also creates activities in the corresponding clusters: Automotive, Energy Technology, New Materials.

### Results and Impacts

Bayer Innovativ has a huge network of more than 70,000 customers and has gained credibility amongst SMEs in Bavaria. Its publications and news items are regularly updated in different formats including E-Letters, Internet portals, Congress TV and the Bayern Innovativ Journal. The organisation also generates more than 150 million euros annually from Bayern Innovativ Congresses.

The strength of this organisation include its long-term financial funding from the government, which support it to create cross sectors and cluster activities and programmes, and offer customer-orientated services to SMEs.

## 8.3 Case study 3: UKTI - The UK

Source: <https://www.gov.uk/government/organisations/uk-trade-investment>

UK Trade and Investment (UKTI) is the leading government body to promote internationalisation of UK SMEs (UKTI, 2012; 2014). Recent statistics shows that in 2009/10, UKTI has provided support to more than 31,000 UK based SMEs (cf. 18,000 in 2005/06) in engaging into the internationalisation via export or entering high growth markets (Rincon Aznar et al., 2015). UKTI also aligns with more than 170 organisation and institutions to simulate supporting programmes to SMEs. UKTI offers both online and off-line services, through numerous delivery methods such as workshops, training, events, meetings, consultancy, and access to data, trade fairs, and exhibitions.

### Activities

UKTI has initiated a number of following programmes and campaigns in supporting both exporters, and firms willing to export.

- International Trade Advisers (ITAs)
- Passport to export (providing information, training, market knowledge for new exporters)
- Gateway to Global Growth (to SMEs having from 2 to 10 years of export experience and innovative)
- Export Marketing Research Scheme (access to foreign market knowledge)
- Overseas Marketing Introduction Service (for both starters and experienced exporters)
- Trade fair and exhibition
- Open-to-Export (free online advice service for exporters)

### Results and Impacts

By providing solutions aligning with SMEs challenges in the internationalisation process, UKTI has contributed to raise the percentage of its users to enter new markets to 53% during 2012-2014 (Rincon Aznar et al., 2015). Within this duration, 52% of its users have also improved skills, and 28% has introduced new products/services or process innovation. In addition, 47% of them have gained confidence to enter new markets. UKTI support has also helped to improve SMEs' access to resources (23%), and 14% of SMEs overcame regulation challenge. Language and cultural concerns have also significant reduced. For example, 46% of SMEs supported by UKTI, gained their access to information and 37% improved overseas marketing strategy. UKTI's access to market data also improved SMEs' knowledge of competitive environment in foreign market (40%) and improved their credibility in doing international business (42%). Overall, UKTI is a good example of an organisation providing tailor made services to international SMEs and is very influential in the UK. Currently its online platforms (such as "Open to export" attracts more than 20,000 online visits monthly, and its publications (around 4000 articles and reports) are of great value not only to SMEs, but also to the policy-makers (UKTI, 2014)

### Strengths

The advantages of UKTI are to provide a kind of tailor-made supporting schemes to both new comers and experienced internationalised SMEs. This not only enhances knowledge exchange, access to information but also shape a strong networking/ social capital for SMEs from both informal and formal networks as explained in the literature.

The UKTI also benefits from a regular monitoring of activities (e.g. Annual Performance and Impact Monitoring Survey (PIMS). This information is publicly available and enables subsequent development of interventions. In reviewing the available literature, there was little or no comparative monitoring data for the EU interventions.

## 9 Issues for deliberation and policy recommendations

### Summary of key points

The research on SMEs and internationalisation that has implications for interventions shows:

1. The bulk of SMEs internationalise with no or little policy support. The evidence reviewed in this paper and the presentations by owner-managers at the EU workshop (European Parliament, 2016) help understand this lack of engagement. Although this varies by sector and in some cases member-states, nevertheless, the point remains: despite efforts by member states and the EU, most SMEs *choose* to internationalise with little public policy support. Given the finding that SMEs experience internal and external barriers to internationalise, this does imply that public policy can do better.
2. There are distinctive patterns in international activity by size and sector. Micro firms are less likely to be involved in trade than medium sized firms. Innovative firms are more likely to be involved in exporting. Furthermore, internationalisation appears to both enable as well as drive innovation and growth.
3. In terms of market entry, there appears to be a variety of pathways to internationalise. Some follow the textbook approach and have a strategy and operational plan. Others may become international because of a customer enquiry rather than having a deliberate marketing strategy. In other words, many SMEs *fall into trade* rather than having a conscious, proactive strategy. Trade involves both exporting and importing. The research shows that two-thirds of exporters also import. The cases and research suggests that personal networks and familial resources should not be underestimated. Nor should the fortitude of owner-managers seeking to export: these owner-managers have a strong orientation to internationalise.
4. The SME market for support may be segmented between those that have no or little experience of international trade and those that are more experienced. Some SMEs follow a stage model approach to internationalisation building up first a domestic market, whilst other are 'born global'. Some SMEs withdraw from exporting whilst others seek to extend their markets. The support needs will vary between these groups.
5. Risk is the greatest perceived barrier to exporting. The greatest risk of entering new markets is *late payment* followed by *political/ economic* instability. Once exporting, SMEs report significant barriers to further overseas development, including legal and regulatory issues; customs and developing contacts.
6. The need to develop trusted contacts in the international marketplace for both new market entry and once exporting is considered crucial. Hence, there is a need for international trade advisers and network brokers who can make links between SMEs and host economy contacts.
7. SMEs are shown to favour readily-accessible, trusted sources of advice from known institutions and network members. Hence, new institutions or initiatives need to take notice of these established patterns of behaviour and key agents.
8. The macro data shows that there is much more support activity at the member state level than the EU as a whole.
9. Evidence shows that trade agreements have a significant impact on SMEs in terms of market entry and utilising business opportunities for investment and growth. Free Trade Agreements therefore have the potential to offer more benefits to SMEs than larger firms due to their constraints and challenges encountered in the internationalisation process.

### Policy implications

These findings imply a number of key policy implications for the European Union: what should be delivered, who should deliver this and how should it be delivered?

1. EU programmes should be based on *demand-driven* approach by linking programmes and interventions to SME needs. These interventions should be designed to overcome SME's internal and external challenges to internationalisation. These challenges can be human, physical, knowledge and financially based. Identifying these needs and their changing nature involves policy makers engaging with SMEs and their stakeholders in order to design and deliver relevant, efficient and effective interventions.
2. Overcoming these challenges implies that a broad range of interventions and organisations, to reach the multiple challenges of exporting and the heterogeneity of the SME populations, is necessary. In addition, it is essential for the EU to continue developing initiatives that help SMEs build their internationalisation capabilities (i.e. know-how, knowledge management, networking, information and training).
3. One of the key challenges to SME internationalisation is knowledge of the 'local' foreign market. Many SMEs for example are importers, and there is some evidence that the knowledge gleaned and linkages from operating in foreign markets may be used to develop an export strategy. This may, for example, involve building sector- and geography-related business hubs to enhance knowledge sharing and information as well as introduce SMEs in the international market.
4. It is suggested that EU programmes should continue to segment their strategies and measures to address to different types of SMEs: their size, sector, target geographical markets. Of course, economies of scale have to be achieved in any policy intervention but an absence of identifying the target SME with support and with what type of support suggests poor policy design and an inefficient use of resources.
5. A further segmented policy approach can be based on the level of SME internationalisation experience: new exporters; those seeking to maintain the same target market; those seeking to extend their market-share in the same regions; and those seeking to extend their market-share to new regions. Specific examples of interventions designed to reach these firms have been discussed and can provide a successful basis of segmentation.
6. An examination of *who delivers interventions* finds that there is a substantial range of support for internationalisation at member-state and EU levels. The apparent diversity and variety of measures from member states and existing membership and support networks, should be regarded as enabling, rather than confusing, specific SMEs in their internationalisation efforts. It is this rich fabric of national-based support and bodies that should be built upon to enable SMEs to overcome the challenges they face when seeking to internationalise.
7. The rationalisation of support structures or initiatives, or their simplification, on the grounds of policy-makers' need to overcome complexity may not be desirable from an SME perspective. It is this very complexity, often deriving from a bottom-up or member states' initiatives, which enable policies and institutions to reach SMEs with tailored interventions. Hence, these local institutions and support measure should be utilised to help both the design and delivery of EU interventions.
8. Although innovations in *policy interventions* by the EU to promote SME internationalisation are welcome, care should be exercised in their design and implementation. The limited research that is available suggests that the take-up and impact of interventions could be improved. However, the research also shows that new interventions should take a SME 'world view': understanding their

natural networks and activities, and engaging with these. If developed in isolation, not adequately connected to the needs and networks of SMEs, new interventions will not flourish.

9. EU trade policy needs to address to SMEs' specific needs, in particular with regard to the FTAs, following the 'think small first principle'. For example, offering investment and trade incentives to targeted sectors and different types of SMEs. The development of SME chapters in EU FTAs is highly recommended to lay the ground for SMEs' integration into the global trade. SMEs' concerns with tariff and non-tariff barriers, administrative hurdles and the restricted mobility of migrant workers should be minimised through trade agreements.
10. A structured monitoring scheme of trade agreements for SMEs should be involved in future EU trade policy to assess the progress of internationally active SMEs in order to provide appropriate support to promote their trade and investment performance.
11. A closer collaboration and co-ordination of member-states' structures and measures is desirable across the EU. This will allow increases in efficiency, greater policy reach and the sharing and learning of best practices/ interventions among EU-28 member states. This paper has identified the scale of interventions and provided examples of good-practice at the member state level. There is every reason to suggest that the EU can learn from this experience and help shape new interventions.
12. The paper has also identified a weakness in the detailed evidence-base on SME internationalisation. Whilst aggregate data exists on the proportion of firms that export, beyond this the data is patchy. For example, there is insufficient systematic evidence on the intensity of exports or the value of exports amongst SMEs and well as their export destinations. Much of the information is also outdated or incomplete. The academic literature has also tended to focus on the process of exporting but little is known about the behaviour of SMEs over time in relation to the changing risks and intensity of exporting over time. This makes assessing the performance of SMEs and the appropriateness of interventions designed to improve this performance problematic.
13. Furthermore, if policies and interventions are to improve, with each successive round of interventions learning from previous efforts, it is essential that robust monitoring and evaluations are undertaken. These need to be regular and transparent. Our review of the evidence suggests that this underpinning activity in the EU policy-making process needs improving so that the results of evaluations are fed into subsequent interventions.
14. Further, clarity over the metrics used in the evaluations of intervention will ultimately aid the EU in helping SMEs in their internationalisation efforts. For example, the costs of intervention, the number of SMEs involved in the intervention, and the value-added to the SME (perhaps in terms of additional sales and sustainability of securing a market) would provide some measuring rods of success or otherwise. This would also help inform the opportunity-cost of an intervention over other types and approaches that may be possible.
15. These monitoring and evaluation exercises and the data on which they are based, should also be made known to the European Parliament and other key stakeholders. The Parliament can only execute its budgetary control function on the basis of full transparency of the monitoring and evaluation of the various support schemes at EU level, in particular with regards to lessons learnt.
16. SMEs are central to the development and progress of the EU, its citizens, economy and society. It is crucial that the support for internationalisation is improved and *adds value* to the efforts made by entrepreneurs and SMEs in the economy. This paper is designed to help stimulate discussion in the European Parliament with a view to improvement in the EU's policy interventions.

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## PART II: POWERPOINT PRESENTATIONS

# Exploring strategies for European SMEs to do business abroad

### WORKSHOP

Tailor-made support for SMEs towards effective implementation of the EU's  
trade and investment strategy

European Parliament

Brussels

17 February 2016

Professor Robert Blackburn

Faculty of Business and Law

Kingston University, UK

<http://business.kingston.ac.uk/sbrc>

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## Aim of the presentation

- Analyse SME *routes* to internationalisation
  - Models and experiences of internationalisation
- Identify the *needs* of SMEs to internationalise
  - What are their challenges?
- *Implications* for support from SME perspective
  - What do SMEs need?
  - Identify *gaps* = a *demand informed* approach
- *Support structures, content* and *delivery* methods
  - EU and member state levels
  - Effectiveness and evaluations
- Draw upon theory, research base and evidence

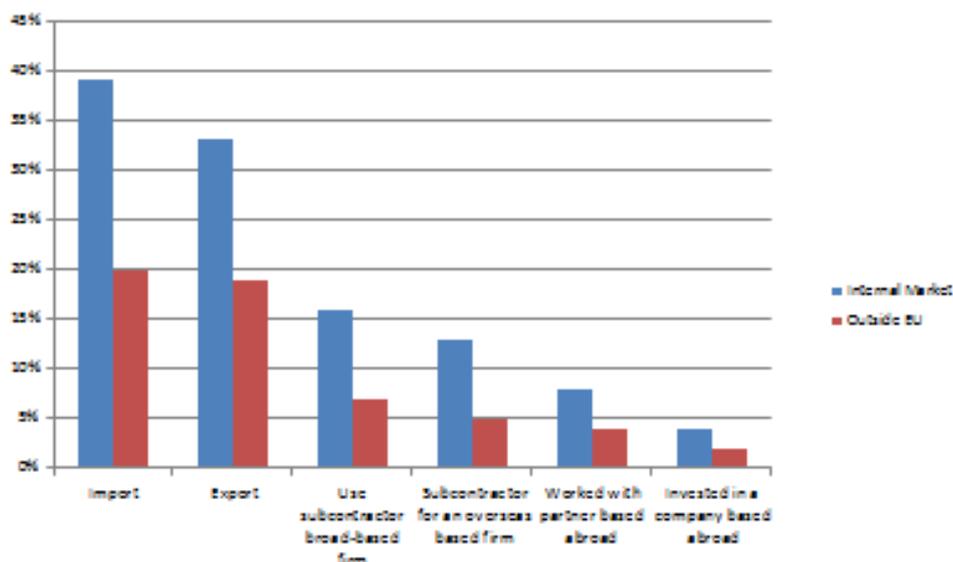
## Context: SMEs in the EU economy

- 22 million SMES in the EU28 (2014)
  - 99% all businesses; 58% of value; 60% of total employment
- Heterogeneity of SME population
  - Size, sector, location, innovation
  - Entrepreneurs aspirations, commitment and capabilities
- *Do not expect all SMEs to trade international*
  - But a lot of potential for improvement

## What is the issue?

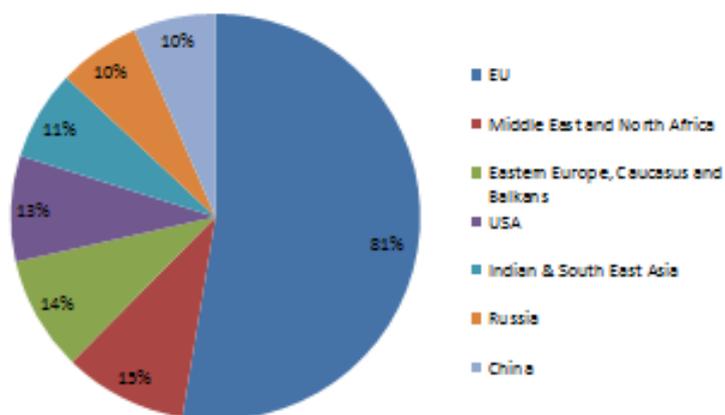
- SMEs share of trade: ***mixed success***
  - 52% engaged in trade (including cross-border)
    - 33% exporters; 39% importers
  - 600k exporting *outside* EU (13% all SMEs)
    - 81% of all exporters; 1/3 value all EU
  - Positive effects of trade at firm-level: the '*happy few*'
- Is support structure ***accessible*** and its content ***relevant?***
  - Why is take-up or support not higher?

## Types of international activity of EU SMEs



Source: European Commission, Eurobarometer survey 2016

## SMEs share of export destinations 2014



Source: European Commission, Flash Eurobarometer 421, 2015

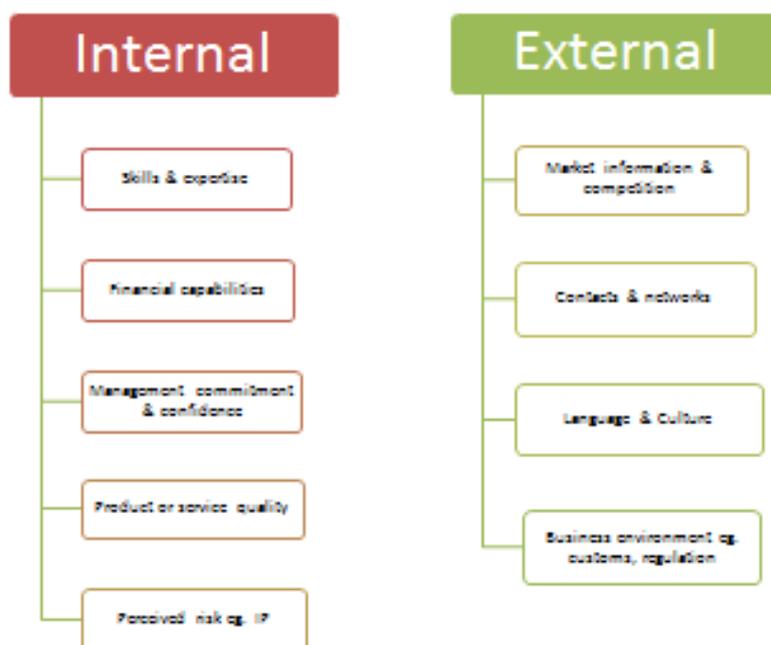
## SMEs routes internationalisation

- Models of SME internationalisation
  - **Stage models**: incremental and evolutionary
    - Start 'soft landing' then further afield
  - **Born global**; Established / Later stage
- Internationalisation= importing and exporting
  - Relationship between importing and exporting
  - Role in *networking, culture and contacts development*
- Differences **new** and **experienced** SMEs
  - Naïve exporters; experience exporter
- Implications for intervention

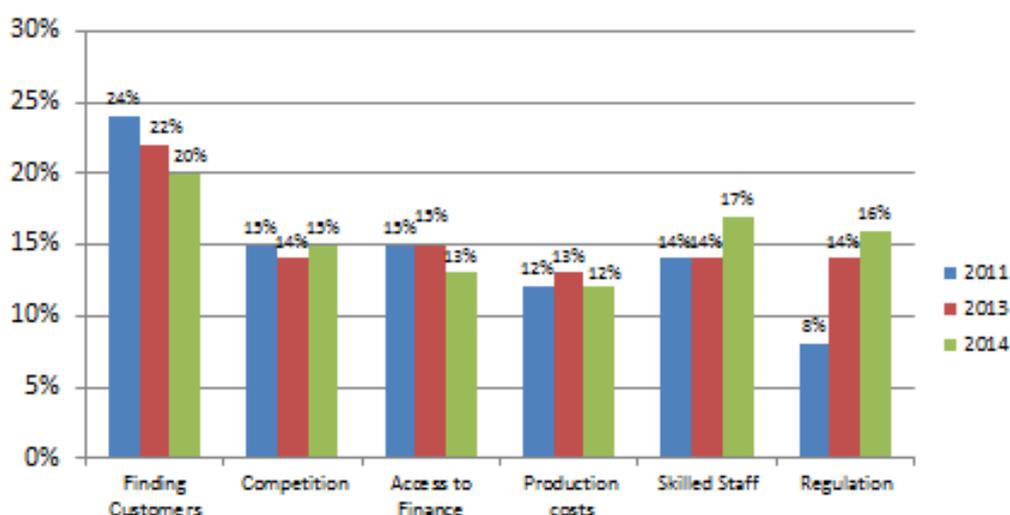
## Characteristics of 'internationalised' SMEs

- Managerial *orientation and commitment*
  - Desire, competence and awareness of international markets
- *Larger* SMEs (micro less likely)
  - Resource base: human, financial; social
  - Though some suggest *quality* rather than size
- More likely to be *innovative*
  - Focus on manufacturing
- But, many SMEs report *passive* role in international market exploitation

## SMEs challenges to internationalisation



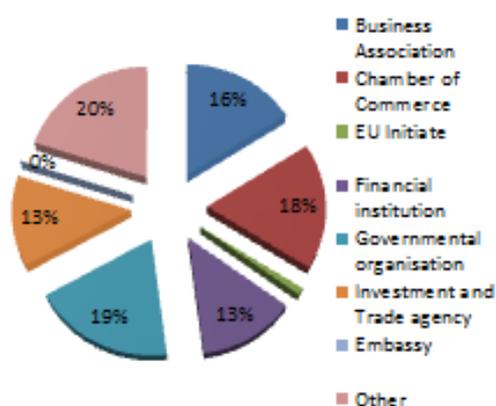
### Main recent challenges to SMEs internationalising (EU)



Source: European Commission, 2016

## Number of organisations and support services

% of organisations in EU-27



Number of support services/org

	Support Services	Organisations
EU-27	993	658
Third Country	549	539
<b>Total</b>	<b>1542</b>	<b>1197</b>

Source: Wymenga et al., ECSIP report, 2013

## Member States examples of intervention

Cases	UKTI (UK)	Bayer Innovativ GmbH (Germany)	Compagnia delle Opere (Italy)
<b>Facts</b>	<ul style="list-style-type: none"> <li>UK Trade and Investment - Leading UK government body</li> <li>Aligning with more than 170 organisation/associations</li> </ul>	<ul style="list-style-type: none"> <li>Founded by the State of Bavaria in 1995,</li> <li>Hub for innovation and knowledge transfer, align with 500 institutes &amp; 80 organisations</li> </ul>	<ul style="list-style-type: none"> <li>Non profit organisation Founded in 1986</li> <li>38 local and 17 foreign based branches</li> </ul>
<b>Main Initiatives</b>	<ul style="list-style-type: none"> <li>International Trade Advisers, Passport to export (new exporters)</li> <li>Gateway to global growth (experienced exporters)</li> <li>Overseas marketing introduction services (both new + experienced)</li> <li>Open to export (digital)</li> </ul>	<ul style="list-style-type: none"> <li>Bavarian Cluster Initiative</li> <li>Project BAIKA (automotive)</li> <li>Project BAIKEM (electronics and microelectronics)</li> <li>Network life science (biotechnology, food and pharma)</li> </ul>	<ul style="list-style-type: none"> <li>Matching 2.0 (online B2B networking)</li> <li>Digital technologies in 4 areas: Inter-firm networks, internationalisation, relationship with large firms and clusters</li> </ul>
<b>Results &amp; Impact</b>	<ul style="list-style-type: none"> <li>Over 20,000 visits monthly (online)</li> <li>33% of users -new markets (2012-2014), 32% improved skills</li> <li>28% improved innovation</li> <li>47% improved access to contacts</li> <li>43% gained confidence, 23% improved resources</li> <li>14% overcame difficulties of regulations</li> </ul>	<ul style="list-style-type: none"> <li>Over 70,000 customers</li> <li>Great Publicity (E-Letters, Internet portals, Congress TV and the Bayern Innovativ Journal)</li> <li>Generated &gt; €150 ml/ year from Bayern Innovativ Congresses</li> </ul>	<ul style="list-style-type: none"> <li>Attracted &gt; 34,000 users</li> <li>The first "Matching 2.0" platform in 2005, was 'successful', resulting in the re-launching of e-Matching in 2010, and 2013</li> <li>Limited evaluation data</li> </ul>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>Offer tailor-made services to different types of international SMEs</li> <li>Aligns services to SMEs challenges</li> </ul>	<ul style="list-style-type: none"> <li>Create activities and programmes cross clusters and sectors</li> <li>Customer-orientated services</li> <li>Long-term financial funding</li> </ul>	<ul style="list-style-type: none"> <li>Cross-sectoral services</li> <li>Help its members to have discounts on suppliers' costs in a number of sectors</li> </ul>

## Support need gaps: what do SMEs need?

- **Abundance** of organisations and services
  - Originate from EU and members states
  - But some *confusion* in the marketplace
- Overall **low take-up** govt. agency support
  - Preferred ways of engagement: '*when necessary*'
  - Local, trusted, accessible, *relevant* relationships
  - Digital platforms alone (eg portal) *not sufficient* for SME engagement
- Research shows issues for SME's of
  - **awareness; relevance; accessibility**

## Implications for SME support

- Recognise *variations* in type of support needs
  - New/experienced; sector; size; SME capabilities
- Build on *existing* networks
  - Connect with local, regional member state efforts
  - Raise awareness of support
- Case studies
  - Demonstrates variations in engagement
- Need for *monitoring and evaluation* data
  - Evidence base is partial (non-existent to detailed eg UK PIMs)
  - Permanent improvement and relevance to SMEs

## Summary

- SMEs crucial **role** in economy and society
  - Internationalisation integral to development of EU
  - SMEs important but their resource scarcity necessitates intervention
- Recognise SMEs **heterogeneity**
  - Firm and entrepreneur characteristics; experience
- Most SMEs **do not engage** with government
  - Preference for 'known agencies', normally at member state level
- Support for internationalisation **in abundance** but...
  - SMEs awareness, access, relevance and quality issues continue
- Need to provide enhanced service
  - EU and member states **collaboration** needed
  - Avoid duplication; **closer matching of needs**;
  - Fit-for-purpose **monitoring** system

Kingston University London

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Thank you

Robert Blackburn

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<http://business.kingston.ac.uk/sbrc>

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# SUR PRIS INGLY INGE NIOUS

[www.advantageaustria.org](http://www.advantageaustria.org)



## ADVANTAGE AUSTRIA

Support for Austrian SME's towards internationalisation

SME Workshop  
Brussels, 17 February 2016

Ernst Kopp,  
Head of *go international*

### Contents

- What are the typical requests we receive?
- How do we accompany SME's going abroad?
- How do we make sure that we render the support that is needed?
- Do we refer to support programmes offered at European level?

## What are the typical requests?

- Evaluate market entry: information on how to do business, sectors, macro-economic data, SWOT from an Austrian perspective etc.
- Support regarding specific business cases
  - find potential clients / partners
  - setting up a company
  - interventions: business partners / authorities
- Get connected
  - Industry networks
  - Austrian business community
  - (Other) Stakeholders – government, administration...



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## How do we accompany SME's?

- Internationalisation starts at home...
  - Advantage Austria is part of the Austrian Federal Economic Chamber (est. 1848; 480,000 member companies)
  - 83 local advisory and support offices all over Austria (motivational and information events)
  - 9 foreign trade departments on regional level (business support, customer acquisition)
  - HQ on the national level: Strategy, Programming, Budget, HR, stakeholder management



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## How do we accompany SME's?

- ...and continues abroad
  - More than 110 offices in over 70 countries run by Austrian trade professionals as Commercial Counsellors of Austrian Embassies, employing 800 people representing 80 nationalities
  - 1 million international visitors per year to its global web portal in 28 languages (200 country pages)



6

## How do we make sure our support is needed?

- Quality Feedback
  - At events and for each written contact customers are asked to fill in and return quality feedbacks (quality, suggestions)
  - Efficient claims management
- Advisory Board consisting of companies and stakeholders
- Periodical polls: "Außenwirtschafts-Monitor"



## Do we refer to support programmes at European level?

### Any activity on the European level has to

- demonstrate a clear European value-added
- be demand driven (bottom-up)
- be part of a coordinated EU effort
- avoid confusing duplication of existing structures and their activities
- guarantee an efficient, transparent and accountable appropriation of taxpayer's money
- be implemented by TPO's / BIO's whose core business is the internationalisation of companies



## Do we refer to support programmes at European level?

### Clean Tech Singapore & KL 2014

- 4 out of 5 Austrian participants were large enterprises, in two cases global industry leaders
- Budget: 25,000 EUR/company (extensive subsidies to participants)
- Lack of co-ordination: Advantage Austria and other TPO's/BIO's on the ground not involved in the design and implementation of the program
- Duplication of Advantage Austria's services





## ADVANTAGE AUSTRIA

Do we refer to support programmes at European level?

### What does/should work

- Advocacy
- Market intelligence
- Capacity building at national level

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### Contact details:

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[advantageaustria.org](http://advantageaustria.org)

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# Tailor-made support for SMEs towards effective implementation of the EU's trade and investment strategy

## The Commerzbank approach

Ralph Lersch | SMEs Challenges In International Business | Brussels | February 2016



### Commerzbank at a Glance



- › Commerzbank was founded as *Commerz- und Diskontbank* in Hamburg in 1870
- › Commerzbank's core business comprises its corporate banking (*Mittelstandbank*), the investment banking activities (*Corporates & Markets*), the private retail and wealth management and the CEE Holding (*Polish mBank*)
- › After the merger with *Dresdner Bank* in 2009, Commerzbank has become the #1 German bank for corporates, both for *Mittelstand* and large clients

#### Commerzbank – Key Strengths

- Leading German bank for corporate and private clients
- Leading trade & export finance bank with a network of more than 5.000 partner banks worldwide
- No 1. in German loan syndications, *schuldscheine*, *Plandarleite* and public finance
- Positioned to provide commitments globally throughout the value chain of DCM, FX and derivatives
- Leading cash management bank in Germany and Europe with an extensive network Europe and E+OIS

Balance-sheet total (as per 31/12/2014): € 960bn  
 Operating profit (FY2014): € 1,022m  
 Employees: 50,000 (in 52 countries)  
 Client Base: 15m retail clients, over 1m corporate clients worldwide



## Challenging market environment (not only for SME's)

- Growth rates in various regions of the world tend to go downwards, therefore the investment climate is also not overwhelming
- Regional crises and uncertainties in the Middle East, Russia, Ukraine etc.
- Volatility in raw material/natural resources demand and pricing, currency exchange rates and interest rates is also affecting the predictability for trade & export business – everybody is cautious
- Severe competition with suppliers from Non-EU (Non-OECD) countries
- No level playing field for European suppliers to competitors from Non OECD countries in terms of environmental & social governance
- Despite Quantitative Easing long term funding for export credits still challenging
- Often weak banking support in emerging markets for importers of European equipment

**Can European banks help to navigate safely through uncertain times?: YES**

## SMEs need to be prepared for trade & export finance

- › Know how in contracting, procurement, accounting and logistics required (Incoterms, legal support for different jurisdictions)
- › Access to and understanding of different cultures
- › On the ground presence/support needed – local partners, distributors, chambers of commerce, embassies, banks – access to door openers and multipliers
- › Knowledge about trade finance products/instruments, offerings from banks (E.g. which bank is familiar with the terms of business in Bangladesh?) and what competitors offer
- › Solid understanding and governance of compliance related rules and procedures (AML, sanctions, anti-bribery)

Within Commerzbank the relationship manager of an export oriented client has to assess for each export finance transaction that the exporter is capable to deliver, can fulfill his contractual obligations and acts in compliance with compliance procedures

## International presence is key to support SMEs abroad



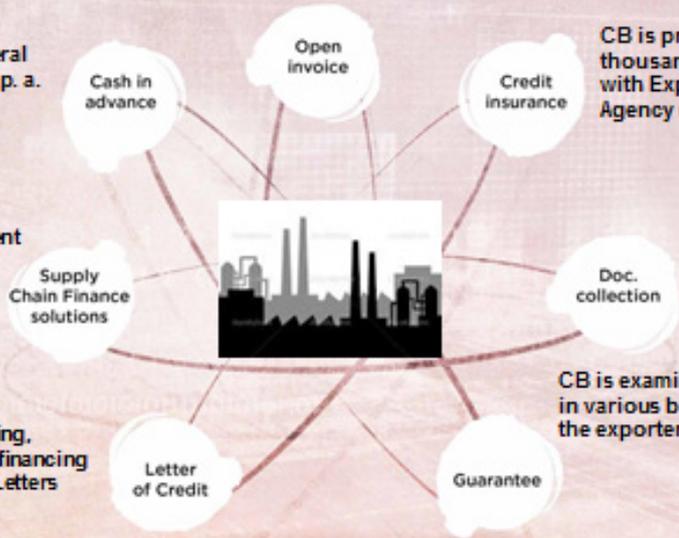
## SMEs Inquiry Examples

Request from a French SME: Construction and Environmental Services provider	Request from a German SME producing machinery for the furniture industry	Request from a German SME for Russia
<p>Notre filiale aux USA, [Subsidiary Name] veut mettre en place un lease sur du matériel [Company Name]. La banque mentionne le lease serait [Bank Name]. [Bank Name] leur demande de mettre en place une SBIC pour 750k USD afin de s'assurer du paiement des échéances.</p> <p>J'ai demandé à [Subsidiary Name] de nous envoyer la copie du lease. Je vous la ferai suivre dès réception. Commerzbank NY a proposé le texte de SBIC ci-joint. Est-il acceptable pour Commerzbank Paris? Peut-on à nouveau utiliser les lignes de [Company Name] pour une émission pour le compte de notre filiale [Subsidiary Name] avec réémission par Commerzbank NY? Pouvez-vous me confirmer le pricing qui serait appliqué sur cette émission?</p>	<p>Hallo Herr Hollnide,</p> <p>Hier eine neue Anfrage für eine Finanzierung eines Liefergeschäftes. Wir haben mit der Firma XY [Brazil] und Ihnen bereits eine Hermesgedeckte Finanzierung durchgeführt. Hier die Eckdaten für die Finanzierung die der Kunde uns wünscht:</p> <p>Auftragswert 2.200.000 EUR Anzahlung 15% = 330.00 EUR Laufzeit 5 Jahre, Rückzahlung alle 6 Monate [...]</p>	<p>Hallo Johann,</p> <p>Einer unserer Kunden aus Russland hat uns angefragt, ob eine Hermes-Finanzierung über die Bank Odrytje [RF] möglich ist. Ich glaube dass es zwischen dieser Bank und der Commerzbank sogar eine Rahmenkreditvereinbarung gibt. Könntest Du mir bitte sagen, ob Ihr mit dieser Bank eine langfristige Finanzierung darstellen könnt?</p> <p>Mit freundlichen Grüßen</p>

Clients requests range from straightforward vanilla to complex export financing solutions, e.g. with Export Credit Agency (ECA) insurance

**COMMERZBANK** 

## Instruments in foreign trade



CB is exercising several millions of payments p. a.

CB is providing several thousand of financings with Export Credit Agency (ECA) cover p. a.

CB is amongst the innovators of a new product Bank Payment Obligation (BPO)

CB is examining documents in various branches close to the exporters

CB is opening, advising, confirming and post-financing hundred-thousands Letters of Credit p.a.

**COMMERZBANK** 

## The new instrument

Bank Payment Obligation (= BPO)

**Trade Finance Solution**

The BPO is an irrevocable abstract undertaking of the Obligor Bank to the bank of the beneficiary to execute payment on maturity date (upon successful matching of agreed electronic trade data on a platform).

**Supply Chain Finance Solution**

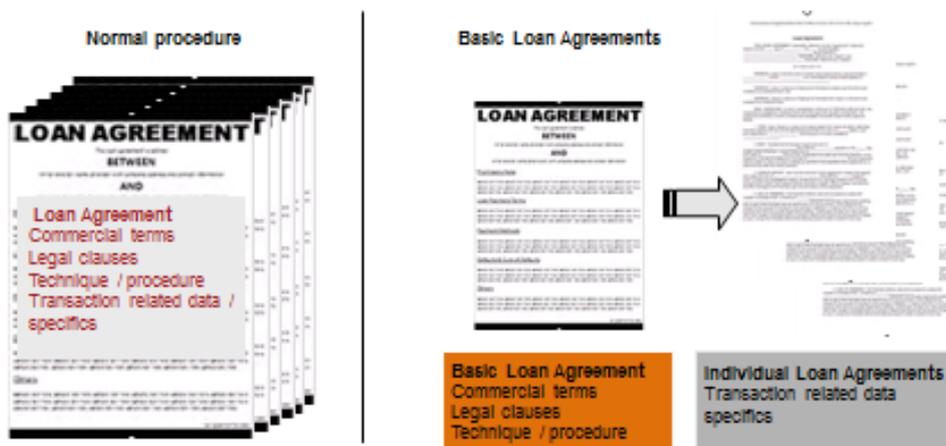
The BPO provides new finance opportunities for open account invoices along the supply chain.

## The focus of Commerzbank's export financing activities (SETF)

- › The SETF team (45 specialists) offers the whole range of export finance solutions from straight-forward ECA-covered loans to complex individually structured financings
- › Support to German/Western European exporters by using the export promotion schemes of all major ECAs (Hermes, ONDD, US-Exim, EKF, EKN, Atradius, Finnvera etc.)
- › Relationships with foreign banks and selective corporates to structure up-to-date export-/import-financing solutions (standardized: Basic Loan Agreements, Framework Agreements, Framework Cover, Revolving Buyer's Credit Schemes)
- › Broad structuring expertise through sector-specific know how, e.g. metals, renewable energies, petrochemicals, medical equipment, agricultural machinery etc. (e.g. Nordstream Pipeline project)
- › Advanced know how and economies of scale for Longterm-funding ("Verbriefungsgarantie", KfW program, ELO Scheme, covered bonds)
- › Experience in small ticket solutions (ILAs, purchase of ECA-covered receivables, Forfeiting, Fast-track-Scheme)
- › Member in several committees and working groups supporting export finance (Inter-Ministerial Committee/IMA, Hermes Expert Group etc.)

## Standardized Export Finance Solution: Basic Loan Agreements

- ➔ Standardised Loan Agreements allow to reduce the minimum amount requirements
- ➔ SMEs often lacking internal financing departments with advanced know how in contracting



## Commerzbank is partnering with major Export Credit Agencies

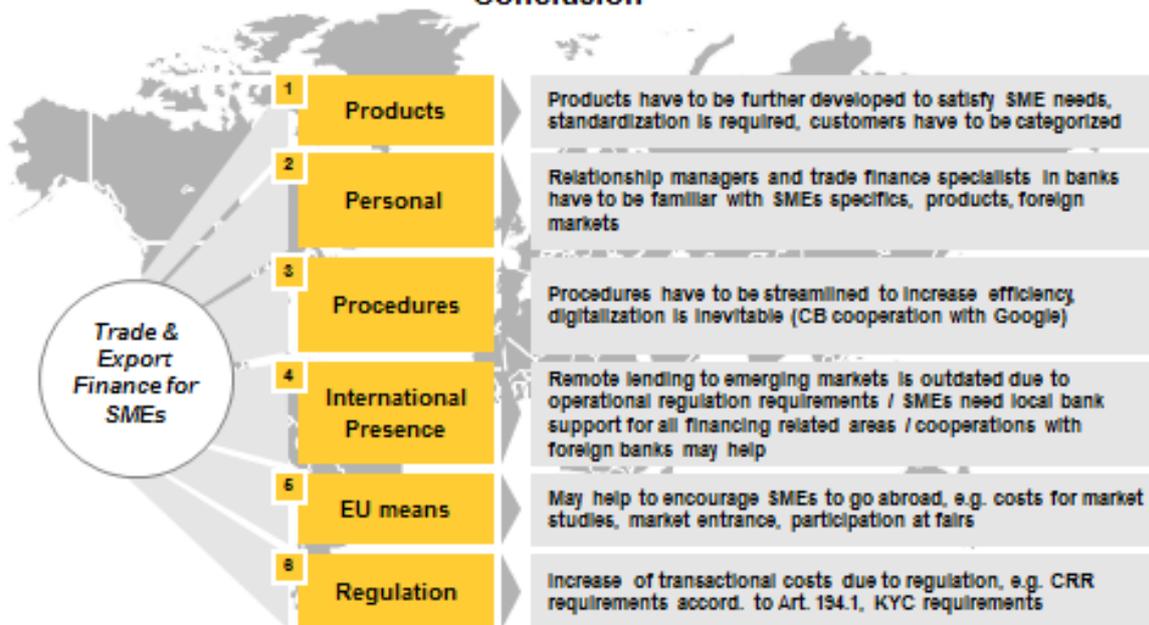
DE	 EULER HERMES	FI	 FINVERA
DK	 EKF	SE	 ekn
BE	 EXPOFIME	NO	 GIEK
CH	 serv	GB	 EXPORT FINANCE
AT	 OeKB	LU	 ODL
US	 EXPORT-IMPORT BANK OF THE UNITED STATES	JP	 NEXI
CZ	 IGA	KR	 Korea Eximbank
FR	 coface	NL	 atradius
US	 MICA		

ECA-specialists on the ground in Germany, Czech Republic, China, France, Japan, the Netherlands, Belgium, Spain, Poland, UK and US



➔ From Single to Multisource // Bank to Corporate, Sovereign or Bank // Cash-flow driven structures

## Conclusion





**Ralph Lerch | COMMERZBANK**

Tel: ++49 69 136 23769 | E-Mail: [ralph.lerch@commerzbank.com](mailto:ralph.lerch@commerzbank.com)

Ralph Lerch is Managing Director and Global Head of Export Finance, based in Frankfurt/Main. He joined Commerzbank in 2009 and is active in trade & export finance since more than 20 years.

Ralph Lerch is Chairman of the Export Credit Working Group of the European Banking Federation, Member of the ICC Export Finance Committee and the HERMES expert Group



Ralph Lerch | SMEs Challenges In International Business | Brussels | February 2016



### 1964 - OUR PROFILE

Panificio Zanella was established in 1965 as a **family run company** involved in the bakery sector with the aim to supply good and healthy bread products linked with a top quality brand.



### FIRST CONTACTS WITH THE MAIN INTERNATIONAL REALITIES INVOLVED IN THE ORGANIC SECTOR

The company takes part more and more often and with great enthusiasm in many fairs of the sector - **national** and **international** - gaining opportunities of comparison with different productions and meeting a new concept: the **organic world**.







### MEETING USA: OUR BUSINESS

Thanks to a **wide range of products** and the whole **family skillfulness** – built by generations of bakery Masters – in 2015 we signed a commercial agreement with an American society specialized in importing and commerce of organic and gluten free items, starting thus **exporting to USA** organic Private Label bakery products.



### THE PARAMETERS OF A DIFFERENT MARKET – CNA CONSULTANCY

This sodallice with foreign markets was supported by **classes** and **workshops** organized by CNA for promoting internationalization which we have regularly attended.

Thanks to disposability and consolidated commercial activity of our USA client, we fastly got **FDA** licences.



### FUTURE AND GOALS OF PANIFICIO ZANELLA

- Maintaing reached standards.
- Keeping on our research to guarantee competitiveness.
- Consolidating and widening new commercial ways for foreign markets offering taste and quality.





**Panificio Zanella S.r.l.**

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## Precision Engineering Czech Republic [since 1998]

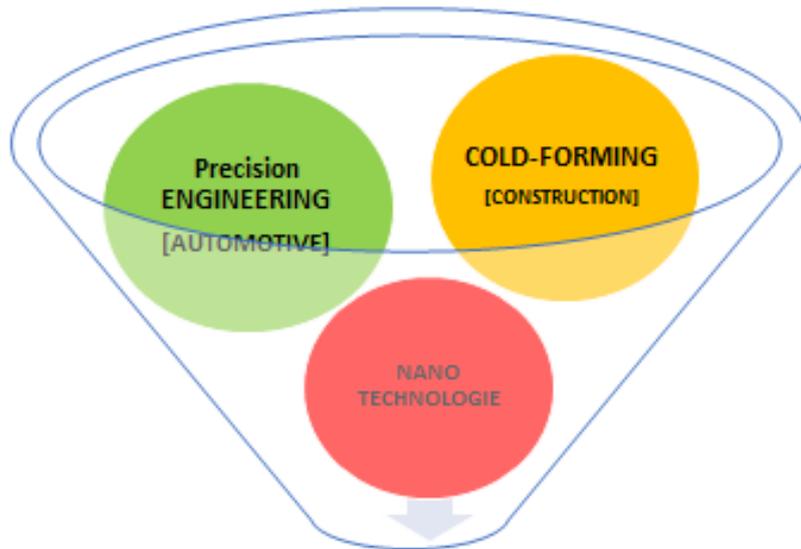
*Pavla Breckova*  
*International Operations & Strategy*  
breckova@audacio.cz

Presentation:  
**SME Workshop at the European Parliament**  
Brussels, 17 February, 2016

design and construction precision engineering nanotechnology	planary & volumetric cold-forming automatic parts manufacture R&D and innovation
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**DIVISIONS**  
**Manufacturing + R&D**

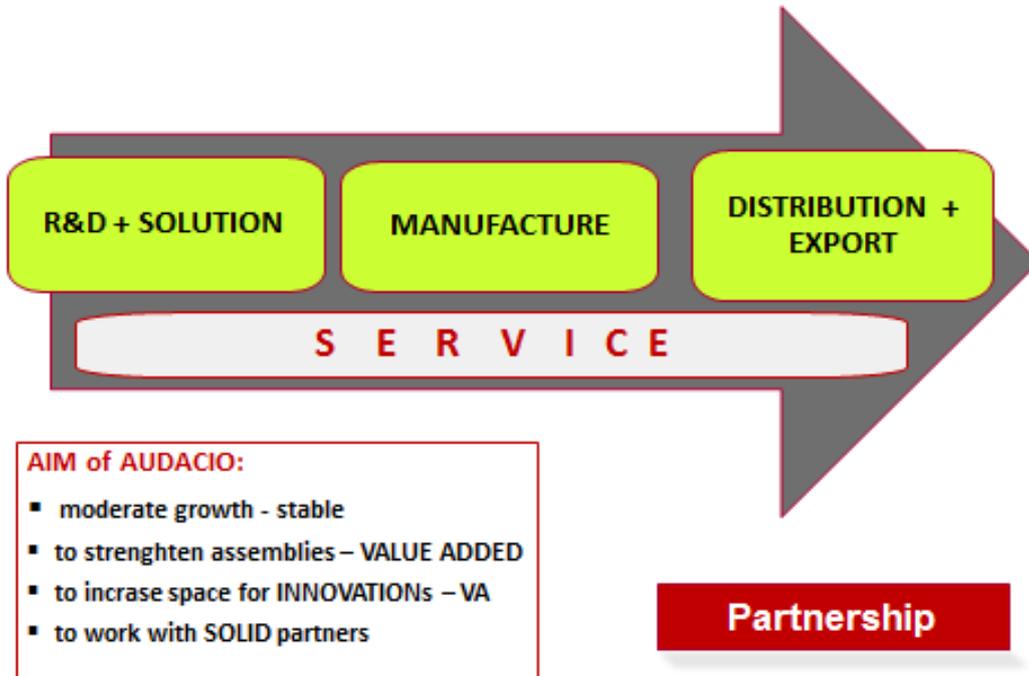


- Founded 1998
- Manufacture since 2005
- R&D since 2011

- **QUALITY**
- *Top-tech & EXPERIENCE,*
- *PARTNERSHIP*
- *MODERATE GROWTH*



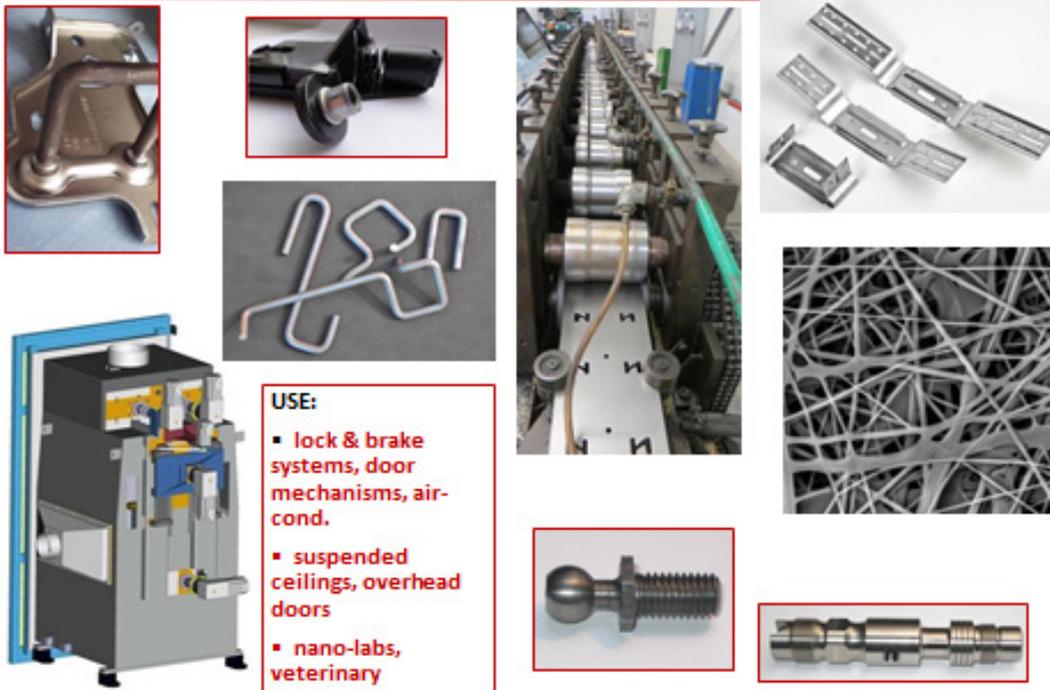
## Internal system / operations & AIMs



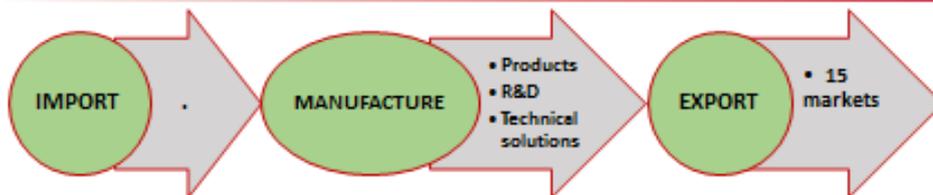
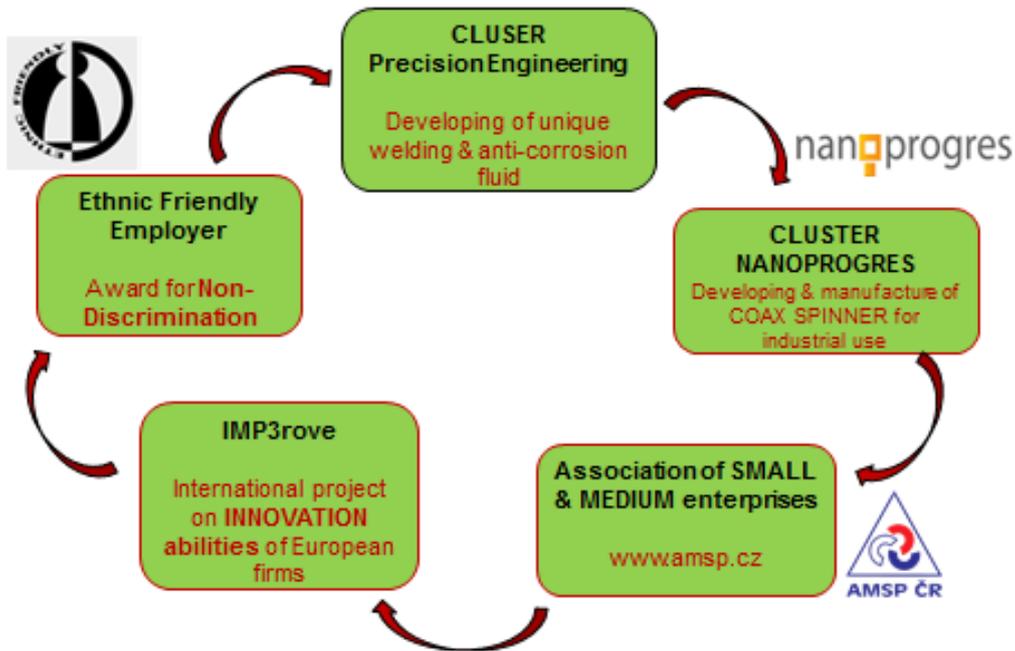
WWW.AUDACIO.CZ



## Typical PRODUCTS



WWW.AUDACIO.CZ



- **INTERNATIONALISATION**
  - Personal contacts, references – long time in the branch
  - Tried gov-support schemes (CzechTrade)
  - No external financing
- **Experience with TRADE-FAIRS**
  - Attending regularly
  - Meeting business partners at one place – personal contact crucial for business
  - Buying technology
- **CLUSTERS**
  - No internationalis. in our case (only R&D activities, contacts) – large potential exists, however
  - Financial participation on some R&D activities



## WHERE to find us?



**AUDACIO s.r.o.**  
Pavla Breckova [Eng., Ph.D.]  
Veveri 111, 616 00 BRNO, CZ  
tel.: +420 544 238 240

- **Brno HQ**
- **Kyjev / Svatobořice-Mistřín** [Brno - Svatobořice 50 km, 10 min from high-way]
- *80 mins drive from VIENNA – Austria*
- *110 mins drive from PRAGUE - CZ*



[www.audacio.cz](http://www.audacio.cz)

design and construction  
precision engineering  
nanotechnology

planary & volumetric cold-forming  
automatic parts manufacture  
R&D and innovation



Intergift-Eur-2016 -> Images 177  
Image 3 of 255

CLO



IF-Eur-2016 -> Images 989  
33 of 255

CLOSE X



OXIA

### European scale critical for survival

- Design and distribute b2b goods for home and family
- 150 Employees Purchase Sales Markt Systems Operations
- 48 million € sales
- Design in Europe, manufacture in Asia, Operations Spain
- 15% manufacture inside EU
- 6400 active customers in Spain, 1700 Europe, 30 Non EU
- Sales office in France, Italy, Portugal and Spain
- 53 years experience, second generation
- Product, collections, logistics and financial services

### Exhibitions key to our sales and procurement

- Once hired commercial director, Fairs critical next step
- Frankfurt, Milan, Paris, Nuremberg, Hongkong, Guanzhou
- Sale Exhibitions at Porto, Milan, Paris, Madrid
- 40% annual new customers found at Exhibitions
- Hire local agents we met at fairs
- I did not know or found not practical support schemes
- Industry fairs bring segmented and focused customers
- International fairs represent up to 10% sales cost of introducing in one market. Investment and logistics are demanding.

### I will start using EU support programs for new countries

- EU directives harmonizes and eases internal trade
- EU trans-border transportation cost main stop
- Non EU trade: Fiscal border documentation main hurdle
- Regional bodies distribute EU money, I did not use them
- Regional bodies organized by industry segments
- I check they pay up to 10% Exhibitions Costs
- Commercial Missions success depends on local Agent
- Non EU customer today arranges its own import
- Thanks to you I met a world out there of programs!

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

## POLICY DEPARTMENT

### Role

Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

### Policy Areas

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Human Rights  
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