



Internationalisation strategies of SMEs in the EU in cross-country comparison

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November 2017



Agenda

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- 2 *Theoretical background*
- 3 *European framework to support SME internationalisation*
- 4 *Internationalisation of German SMEs*
- 5 *Internationalisation of Portuguese SMEs*
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1 Introduction

EU Commission's definition of small and medium-sized enterprises (SMEs)

Enterprise size	Number of employees	Turnover €/year	Total assets €/year
micro	up to 9	<2 million	<2 million
small	up to 49	<10 million	<10 million
medium	up to 249	<50 million	<43 million

Source: European Commission, 2017

In the EU SMEs:

- represent about 99% of all European companies;
- are employing about 66% of all European workers.

Creating a friendly environment for new and existing SMEs is one of the main objectives of the European Commission.

2 *Theoretical background*

International expansion / *Why?*

Reasons for going international:

- Globalisation of competitors;
- Regulations and restrictions;
- Customer demand;



Reactive reasons

- Economies of scale and scope;
- Growth opportunities;
- Resource access;
- Incentives

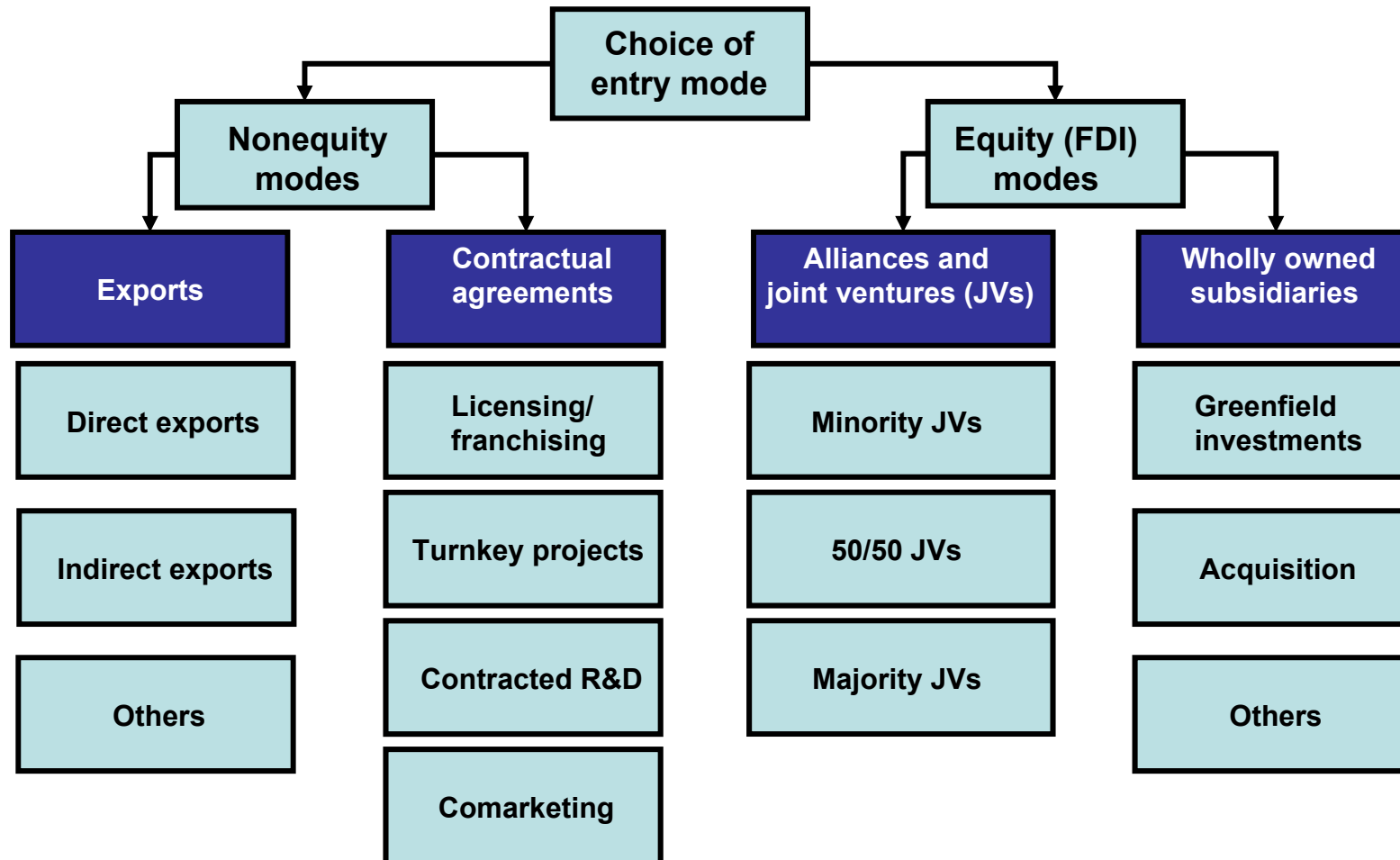


Proactive reasons

Source: Adapted from Deresky, H. (2011): *International Management*

2 Theoretical background

International expansion / How?



Source: Adapted from Pan, Y. and D. Tse, "The Hierarchical Model of Market Entry Modes," *Journal of International Business Studies*, 31 (2000), 535-545

2 *Theoretical background*

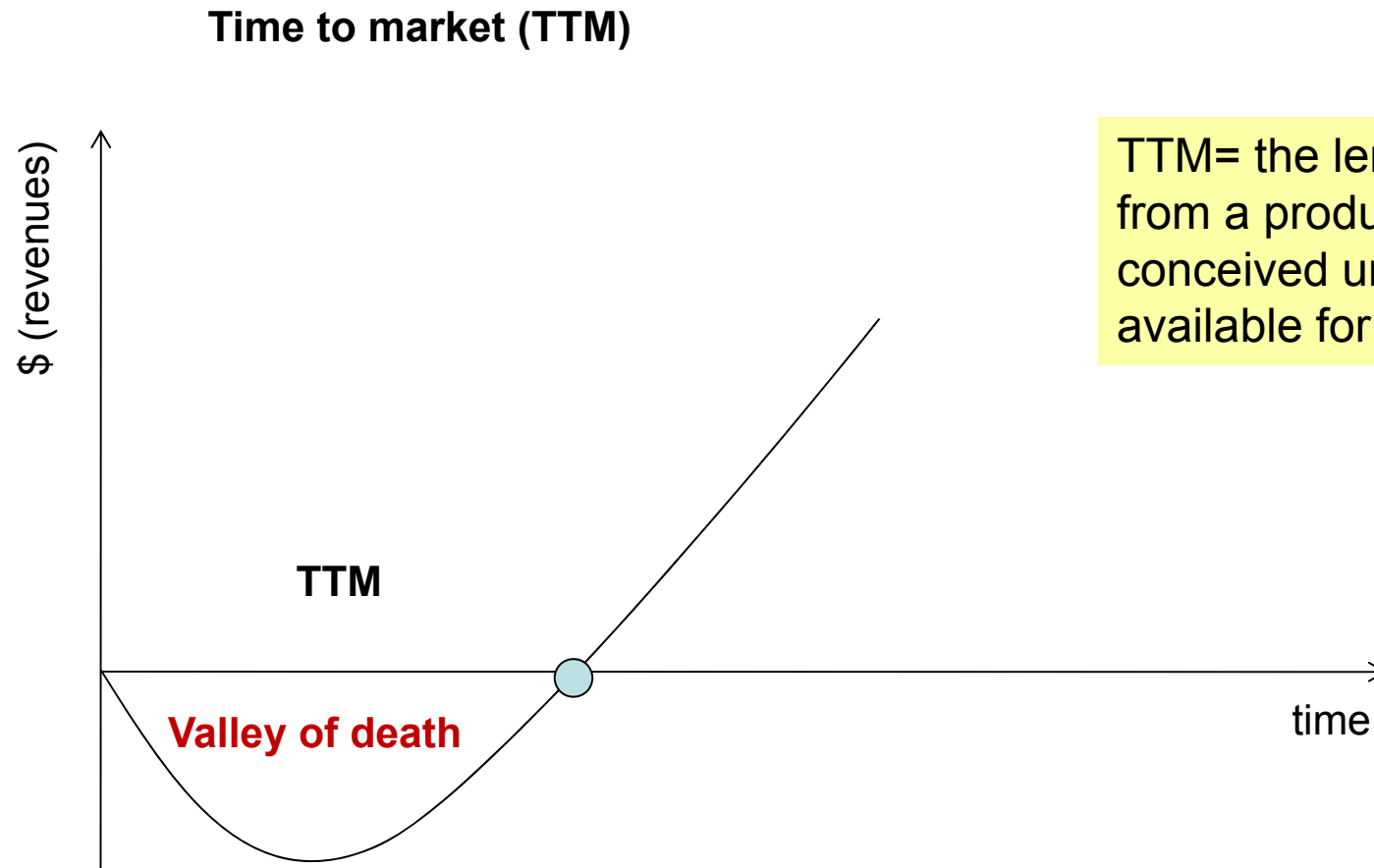
International expansion / *When?*

Timing the Entry

- Advantages frequently associated with entering a market early are commonly known as **first-mover advantages**
 - The ability to preempt rivals and capture demand by establishing a strong brand name
 - Ability to build sales volume
 - Ability of early entrants to create switching costs
- Disadvantages associated with entering a foreign market before other international businesses are referred to as **first-mover disadvantages**
 - Pioneering costs are costs that an early entrant has to bear
 - Possibility that regulations may change

2 Theoretical background

International expansion / *When?*



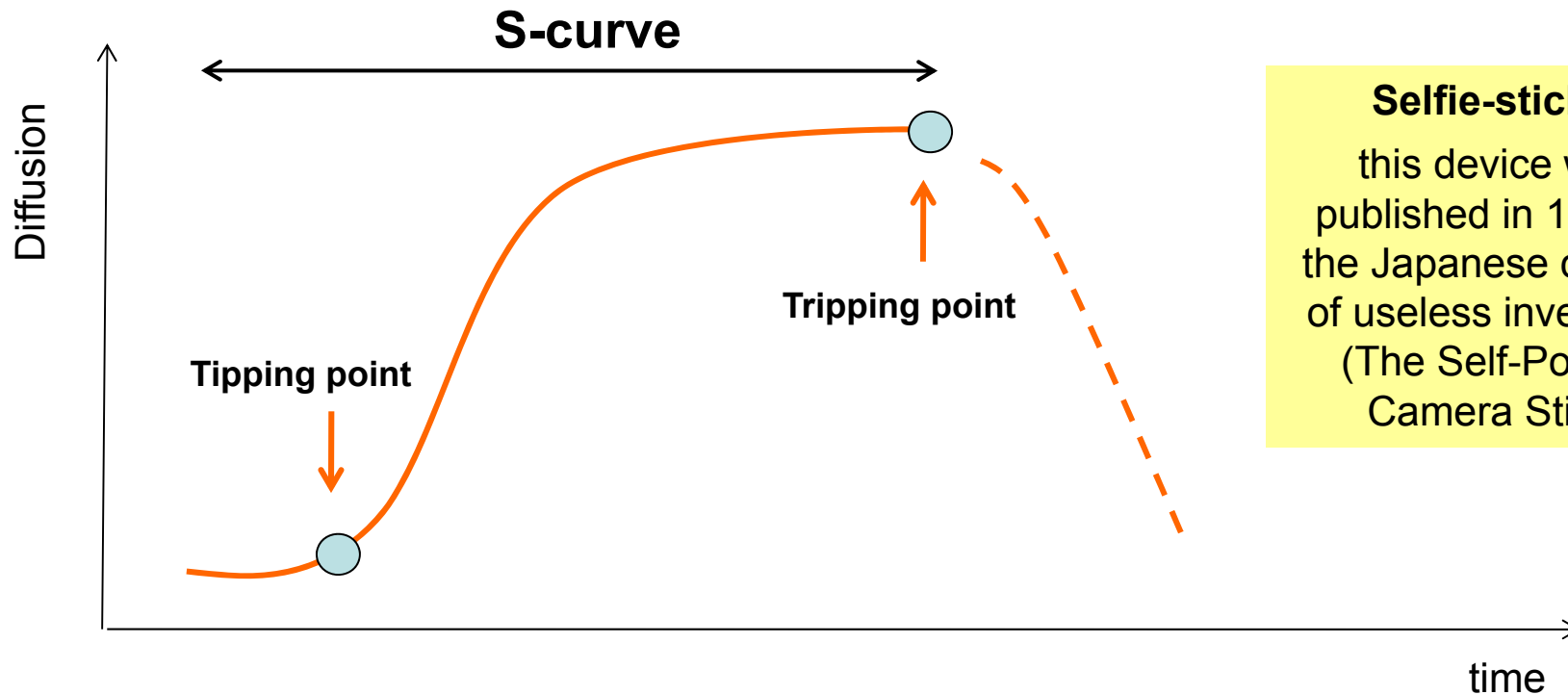
TTM= the length of time from a product being conceived until its being available for sale

2 Theoretical background

International expansion / When?

The diffusion S-curve (pace of diffusion)

Diffusion – is the process by which innovations spread amongst users



Selfie-stick –
this device was published in 1995 in the Japanese catalog of useless inventions (The Self-Portrait Camera Stick)

3 *European framework to support SME internationalisation*

Legal and administrative support / Selected instruments

2000 - The European Charter for Small Enterprises:

- Education and training for fostering entrepreneurship / Availability of skills
- Cheaper and faster start-ups (through online registration)
- Better legislation and regulations (allowing less restrictions and more simplicity)
- Improving online access (both with customers and regulatory bodies)
- Getting more out of the single market
- Taxation and financial matters (simplification of taxation and access to capital funding)
- Strengthening the technological capacity of small enterprises (new patents & technologies)

2008 - The Small Business Act (SBA):

- Encouraging more entrepreneurship
- Simplifying regulations by removing existing barriers
- “Think Small First”

Top Barriers to SME Internationalisation (status quo of 2009)

- 1 Shortage of working capital to finance exports
- 2 Identifying foreign business opportunities
- 3 Limited information to locate/analyse markets
- 4 Inability to contact potential overseas customers
- 5 Lack of managerial time to deal with internationalisation
- 6 Inadequate quantity of and/or untrained personnel for internationalisation
- 7 Difficulty in matching competitors' prices
- 8 Lack of home government assistance/incentives

Source: OECD, 2009

3 *European framework to support SME internationalisation*

Financial support / Selected instruments

2008 - The Enterprise Europe Network (EEN):

- Over 600 business support organizations (Chambers of Commerce, technology centres, research institutes etc.) to help SMEs capitalize on the EU Single Market and international markets
- Support packages for innovative SMEs
- Access to finance
- Advice on EU law and standards, Intellectual Property Rights (IPRs)
- Research funding

2014-2020 - The Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) // Budget: EUR 2.3 billion:

- Support SMEs with access to finance
- Internationalization support / access to markets
- Creating a favourable competitive environment and encourage entrepreneurial initiatives

3 *European framework to support SME internationalisation*

Country-level / Selected instruments for German SMEs

Trade fair support:

- Ministry of Economic Affairs and Ministry of Food & Agriculture
- Grants for exporting SMEs // 25% of total export turnover generated through trade shows
- For trade fairs listed in the ministerial foreign trade programme (300 trade fairs in 2017)

Export credit guarantees (ECG):

- Hermes Covers - ECG by the German Federal Government
- Companies are protected against losses in the event of non-payment
- Mainly used for firms exporting to developing or emerging countries

Other instruments for SMEs:

- Investment guarantees – PRI
- Consultancy
- Coaching
- Network extension support

Federal Government / Ministry of Economic Affairs
German Trade and Invest (GTAI) / iXPOS
Chambers of Commerce
German Embassies

4 *Internationalisation of German SMEs*

Country-level specificity of SME sector

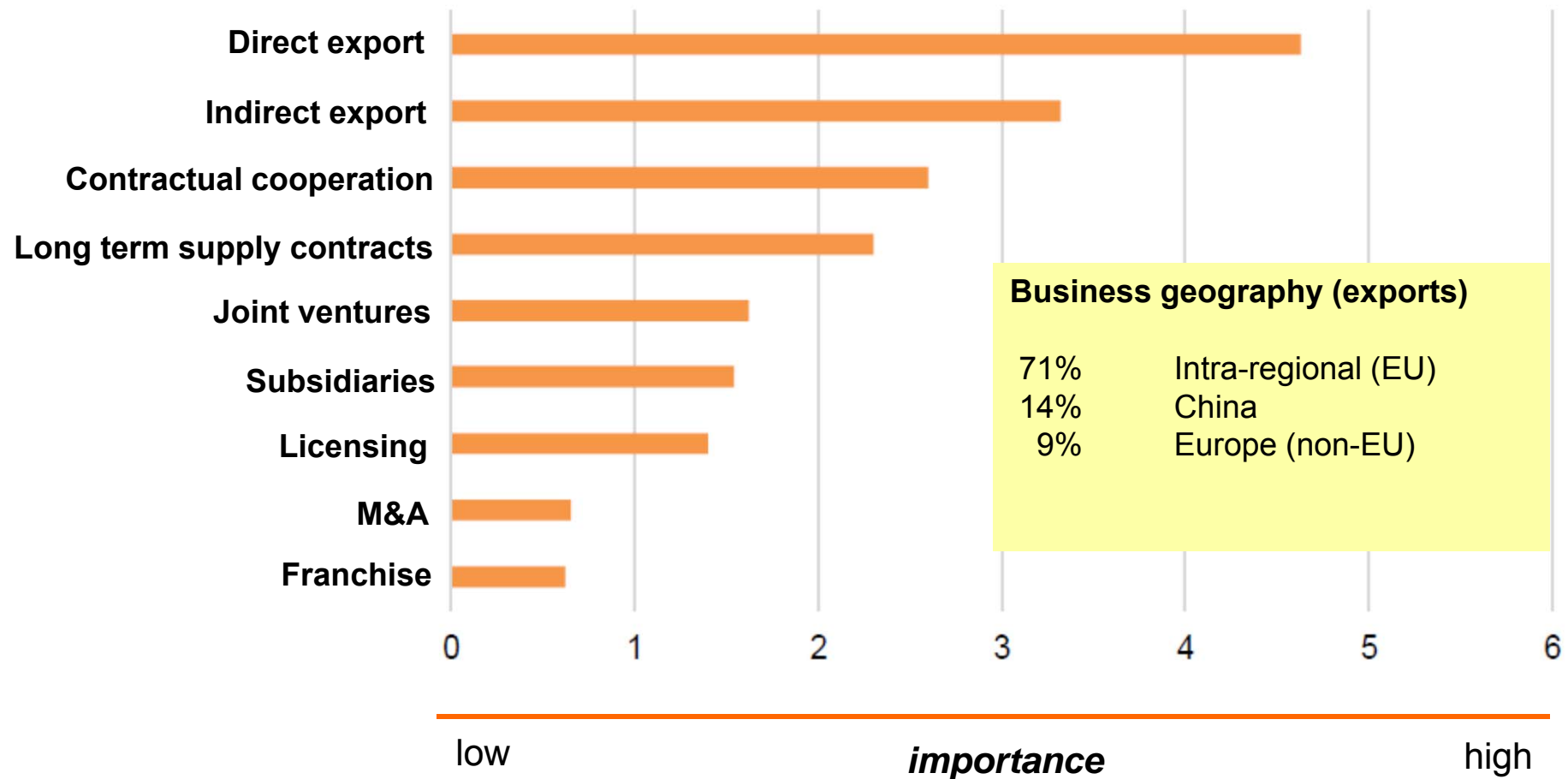
- About 95% of all German SMEs are family-owned and managed
- Tend to have a low degree of business diversity
- Long-term commitment to the company and deeper shared responsibility (vs. non-family firms)
- Tendency to stable growth
- Risk averseness
- Readiness to sacrifice business opportunities in order to maintain control of the firm

Impact on internationalisation strategy design

- Family-owned SMEs favour to avoid internationalisation
- Prefer to stay closer to their country of origin
- Seeking for homogenous international markets to lower possible transaction costs associated with the liability of foreignness
- Specific market entry modes preferred
- Internationalisation@home

4 Internationalisation of German SMEs

Internationalisation strategies of German SMEs (based on data provided by Chambers of Commerce, 2017)



4 Internationalisation of German SMEs

Reasons for going international:

high	economies of scale
importance	demand of international customers
	competitive pressure
	diversification of risks
low	governmental support programmes

Major challenges while internationalising:

high	interaction with foreign partners
impact	bureaucracy
	legal restrictions at home and abroad
	Insufficient information
low	

Most used support options:

- ✓ Consultation sessions
- ✓ Financial support for trade fairs
- ✓ Networking events

5 *Internationalisation of Portuguese SMEs*

Country-level specificity of SME sector

- High percentage of foreign ownership of large Portuguese companies and banks (China, UAE, Spain)
- Portuguese SMEs are not integrated as subcontractors into GVCs (*different to German SMEs*)
- Limited access to financial resources and knowhow / High debt ratios
- Moderate innovation level
- Cultural work ethic limitations / Lack of entrepreneurial spirit
- Talent mismatch

Impact on internationalisation strategy design

- Predominantly internal market orientation of businesses
- Lack of sustainable business models (“intrapreneurship” is limited)
- Internationalisation pattern dominated by exports (supported by reshoring trend)
- “Portuguese salesman” spirit (innovative approaches while being pushed out of comfort zone)
- Venture capitalists are broad-band, not sector specific
- Tendency to have “trade secrets” / IPR functionality low

5 *Internationalisation of Portuguese SMEs*

Reasons for going international:

high	governmental support programmes
importance	domestic market push factors
	competitive pressure
low	diversification of risks

Business geography (exports) / top 3

- 1 Angola
- 2 Brazil
- 3 Spain

Major challenges while internationalising:

high	lack of financial resources
impact	lack of skills
	Insufficient information
low	bureaucracy

Most used support options:

- ✓ Financial support
- ✓ Training / Educational programmes

5 *Internationalisation of Portuguese SMEs*

Portuguese SMEs with competitive potential by sectors

(as defined by the Portuguese National Innovation Agency, 2017):

- Healthcare
- IT
- Agrofood (global players in olive oil production)
- Automotive sector (as OEMs integrated into GVCs)
- Fashion, footwear and textiles (supported by reshoring)
- Tourism (if sustainable models evolve)

Factors of impact on internationalisation pattern:

- External macroeconomic and political environment
- Legal and administrative framework
- Access to financial resources
- Historical background
- Availability of skills
- Cultural values

Thank you for your attention!



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