

Le point sur :
Les PME européennes à l'international

NOTE DE FOND

(en anglais)

**Ongoing study on Drivers of SME Internationalisation:
Implications for Firm Growth and Competitiveness
(Background study for the European Competitiveness Report 2014)**

Background

The capacity to build on the growth, innovation and employment potential of small and medium-sized enterprises (SMEs)¹ represents a key priority for the EU. In policy terms, the Small Business Act for Europe (SBA) and the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises 2014-2020 (COSME) reflect the Commission's recognition of the central role of SMEs in the EU economy. Both of these initiatives focus on improving access for SMEs to markets outside the EU² and on developing growth-oriented business support services³ for smaller firms. In line with these objectives, the Commission is looking to provide a comparative analysis on the key drivers that influence the internationalisation of SMEs and their success in international markets.

Context

The opportunities for the internationalisation of small and medium enterprises (SMEs) have become increasingly apparent in recent years (EC 2010, 2011, 2012; OECD 2012). Advances in ICT and logistics

¹ The European Commission defines SME as firms that employ fewer than 250 employees and have an annual turnover not exceeding EUR 50 million and/or annual balance sheet total not exceeding EUR 43 million (<http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/>).

² SBA Review, COM(2011) 78 final.

systems, deregulation of markets, falling trade barriers, new forms of international financial transfer options and the completion of internal market are seen as the main factors behind these changes. Internationalisation can be characterized as either outward internationalisation (e.g. direct or indirect exports, acquisition of foreign enterprises, greenfield FDI, joint ventures, or contractual agreements such as licensing), or inward internationalisation (e.g. FDI inflows, direct imports or purchase of new technologies from abroad) (Pan and Tse, 2002). Outward internationalisation can be classified into equity (e.g. FDI) and non-equity forms (e.g. exports). This study focuses mainly on outward internationalisation with a particular attention on exports, outward FDI activity and international outsourcing, including trade in intermediates in the context of increased globalisation and the internationalisation of supply chains and ownership structures.

Previous literature shows that SMEs tend to enter foreign markets primarily as exporters since such entry requires little capital investment. Foreign direct investment and international outsourcing are seen as the second most important mode of international expansion. Other modes of internationalisation, such as alliances with foreign partners, occur rather rarely. A recent large survey of European SMEs suggests that internationally active firms are generally both more productive and more innovative (European Commission 2010). It is important to note that the productivity advantage can be observed before exporting or opening up a foreign subsidiary. This phenomenon is commonly referred to as the self-selection process of better firms to export or FDI (Melitz, 2003; OECD, 2009) suggests that limited international contacts and lack of managerial knowledge are critical constraints for SMEs to internationalise. Knowledge of the drivers, motives and degree of SME internationalisation is important given that most governments provide incentives for internationalisation of SMEs (see ECSIP 2013). Export promotion programs and incentives for going or investing abroad may serve as examples of these initiatives. The proposed study builds, *inter alia*, on recent surveys in the field including work undertaken by the European Commission.

Objectives

The aim of the study is to provide new empirical evidence on the degree and modes of internationalisation of European SMEs using various firm level datasets. A specific objective of the study is to investigate the link between firm growth and international activity, in the sense, for example, of whether there are critical thresholds below which firms are less likely to export; or whether it is easier to start exporting because of increasing fragmentation of the value chain and the networking and cross-border flow of knowledge, technologies, etc. The study considers how this is affected by the degree of globalisation, and whether policy should be focused more broadly on growth measures to encourage exporting or whether it should be targeted at internationalisation activity directly through market access support.

Based on the Commission's recent work on globalisation, in particular on trade in intermediates and fragmentation in the value chain (EC 2012b), a further focus of the study is on whether support for SME exports is a key factor in firm growth, or whether the supply of intermediates to established exporters are significant. This might indicate, for example, that initiatives to further encourage MNCs to use local suppliers may improve SME performance, particularly in relation to international supply chains and possible crowding out effects in local markets.

The final results will be compared within the EU and with major non-EU economies, particularly the US, Japan and China, using various data sources including the national statistical offices. In particular, drivers of internationalisation and firm characteristics of internationally active SMEs as compared to non-internationalised firms will be compared and the study will distinguish between various firm size

classes⁴ given data availability, and where possible provide descriptive statistics at a sectoral level, with emphasis being put on the patterns of SMEs exports by destination region.

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⁴ Firms with 1 to 9, 10 to 49, 50 to 249, and 250+ employees.