

# Entrepreneurship in the Netherlands

*SMEs and International co-operation*



Ministry of Economic Affairs



**EIM**  
Business & Policy Research

# **Entrepreneurship in the Netherlands**

*SMEs and International co-operation*

# Colophon

This publication forms part of a series relating to entrepreneurship and small businesses.

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# Preface

## **Internationalisation and innovation: two sides of the same coin?**

Globalisation of the economy and internationalisation of enterprises are on-going processes. SMEs, which count for a large proportion of enterprises, turnover and employment, also play their part in the international market. SMEs appear to internationalise in various ways: the long assumed stages model no longer applies. SMEs are going international by using different entry modes in different countries: importing, exporting, outsourcing, licensing, investing and various forms of co-operation.

The information in this booklet shows that SMEs that are 'internationalised' are co-operating more than SMEs in general, and there is some evidence showing that (international) co-operation leads to sales and employment growth. Important motives for going abroad appear to be the access to new and larger markets and the access to know-how and technology. These motives point at innovative entrepreneurship. Then, it is no surprise that motives for technological co-operation are more or less the same, as presented by earlier studies. So, in short, internationalisation might be stimulated by supporting innovation, and innovation might be the result of supporting internationalisation. For an overview of the relevant policy measures in The Netherlands, therefore, instruments aiming at both international co-operation and innovation are rightly addressed in this booklet.

However, more explicit attention to the linkages between internationalisation and innovation in research investigations and policy making might yield new insights. For example, internationalisation might become one of the tools of the innovation advisors of the Dutch government Agency Syntens, and innovation might become one of the tools of the (Chambers of Commerce) export advisors. Also, in the Dutch programme to support enterprises to enter new foreign markets (PSB-instrument) special attention could be paid to innovative firms, or in the programme to support R&D (WBSO-instrument) to export plans for the renewed products or services.

Traditionally the focus in research as well as in policy making regarding internationalisation and innovation has been on the manufacturing industry. In my opinion, the challenge for the next years is to exploit the innovative and export potential of the business services industries, and to shape the policy instruments accordingly.

Yvonne Prince  
Director of EIM Business & Policy Research



# 1 *Introduction by the editors*

The European Council held a special meeting on 23-24 March 2000 in Lisbon to agree a new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy.

This development for economic and social renewal asks for high-quality entrepreneurship. But what does that mean? Entrepreneurship or 'being an entrepreneur' includes a number of distinguishing characteristics. In the framework of this publication we will distinguish four specific roles.

In the first place an entrepreneur fulfils the role of risk-taker by starting and managing an enterprise for his or her own account and risk, seeking for example independence, growth and profitability.

In the second place an entrepreneur acts as a manager covering issues such as strategy development, defining the mission, internationalisation and finally determining what external support and qualities are required. This will include co-operation, both with other companies and with institutions.

Thirdly the entrepreneur fulfils the role of innovator. In this role the entrepreneur is (continuously) searching for new opportunities. These may relate to developing new products or services or new internal procedures and production processes.

Fourthly, an entrepreneur can be characterized as a market seeker, someone who is discovering and exploiting market possibilities. This requires an external orientation where the entrepreneur continuously searches for other (new) markets. One of the options here is searching for markets abroad: internationalisation.

The manner and the intensity with which entrepreneurs fulfil these roles differ considerably. Some are predominantly striving for independence and aim primarily to serve customers on local markets. They may not aim to develop new products, services or markets and are of the opinion that co-operation with others is not necessary. At the other end of the scale are entrepreneurs who are strongly focussed on growth and development, and who are continuously searching for new possibilities and markets.

The majority of the entrepreneurs are probably somewhere in between. They consider innovation, co-operation, internationalisation etc. to some extent, and put some efforts in the realisation of these strategies and goals. In this midfield are also entrepreneurs who might consider these strategies but are not (yet) implementing them due to negative attitudes, unfamiliarity, and perceived obstacles. These obstacles can hold them back from further exploiting the enterprise's economic potential.

This seventh edition of *Entrepreneurship in The Netherlands* focuses on the opportunities entrepreneurs may exploit while playing the four entrepreneurial roles described above, and by going international. The publication mainly focuses on risk taking and internationalisation. Where available data permit, attention will be paid to innovation (as one of the drivers for international co-operation) and to international co-operation rather than to more common forms of internationalisation such as import and export. The chapters discuss a number of these relationships, each time from another perspective.

In Chapter 2, Micha van Lin and Koos van Elk of EIM describe relations between risk taking,



internationalisation and co-operation. The aim is to show to what extent Dutch SMEs undertake international activities including co-operation with other enterprises or research institutions, what motives they have for this, what obstacles they are experiencing and to what extent internationalisation is profitable. The results for The Netherlands will be placed in an international perspective.

In Chapter 3, Koen de Pater of Senter-Novem, an agency of the Ministry of Economic Affairs and Johan de Vries of the Ministry of Economic Affairs, highlight enterprise policies to stimulate and support entrepreneurship in general and internationalisation in particular. This contribution focuses on the available policy instruments that facilitate innovation and international co-operation.

To illustrate how entrepreneurs in small and medium sized enterprises actually play these roles, Rob Augusteijn of Senter-Novem has carried out three in-depth interviews with entrepreneurs using these support measures. In these interviews attention has been given to risk taking, internationalisation, co-operation and innovation, and the mutual relationship between these elements in a practical setting. The three cases are presented in text boxes throughout Chapter 3 as illustrations.

Chapters 2 and 3 show which international opportunities SMEs in The Netherlands already exploit and what support is available. These chapters should contribute to understanding the current position of Dutch SMEs in international perspective and to see what lessons can be learned. Therefore, Paul Westhead, Professor 'Entrepreneurship', Mike Wright, Professor 'Financial Studies' and Deniz Ucbasaran Senior Lecturer in Entrepreneurship, all at Nottingham University Business School in United Kingdom, were invited to provide a review of the literature on internationalisation of enterprises<sup>1</sup> and link this review to the material presented in Chapter 2 and 3.

Chapter 4 also provides some policy implications. However, one should not expect a very concrete 'package' of specific policy recommendations from these authors from abroad, but the points they raise stimulate further reflection on the Dutch case.

This may result in an improved understanding of how the economical potential of Dutch enterprises can be further stimulated and exploited.

Koos van Elk and Johan de Vries

Note Chapter 1

<sup>1</sup> Consistent with the literature their focus is on exporting.

## 2 *International co-operation*

Koos van Elk and Micha van Lin

### 2.1 Introduction

Over the past decades, the previous 'safe' market niches for SMEs have been under constant 'attack'. Technology development has allowed large enterprises to customize their products and services better to individual customer needs, while at the same time maintaining the cost advantage of large-scale production. For SMEs one of the mechanisms to cope with these changes may be increased co-operation with other enterprises.<sup>1</sup>

Furthermore, the European business scene has enhanced international competition affecting both enterprises with an export profile and enterprises focusing on the domestic market. Technology has dramatically improved communication and the access to information as well as the possibilities of managing geographically scattered production. Improvements in communication and distribution systems have gradually reduced the significance of distance as a barrier to competition, thus creating a global market for many products and services.

Exporting, as the traditional way to internationalise, is still important, but internationalisation has become a much more differentiated business activity.<sup>2</sup> International research,<sup>3</sup> as well as studies in The Netherlands<sup>4</sup> into internationalisation, indicate that a majority of firms engage in both outward (e.g. sales/export) and inward (e.g. import or access to knowledge) activities in the international arena. It has been found that of the firms engaged in export business, a majority was not confined to exporting alone but also involved in a range of interacted inward and linked forms of international behaviour.

In other words different forms of international co-operation such as foreign partnerships, foreign investments and cross border clustering represent new, viable ways to strengthen the international business strategies of SMEs. Such diverse international activities may integrate different business functions (i.e. R&D, marketing, production) and thus involve elements across the entire value chain.

Much literature is available on co-operation<sup>5</sup> and internationalisation<sup>6</sup>, however the cross section on international co-operation amongst SMEs is less researched. New material available from the Observatory of European SMEs and 'Het MKB Beleids Panel' (SME Policy panel)<sup>7</sup> now allows an assessment of various aspects of international co-operation amongst (Dutch) SMEs. Moreover, since the ENSR Enterprise Survey 2003 covers nineteen European countries<sup>8</sup> the position and characteristics of Dutch SMEs<sup>9</sup> can be benchmarked vis-à-vis other European countries. For this comparative analysis four 'benchmark' countries have been selected: Belgium (BE), Denmark (DK), Germany (DE), and United Kingdom (UK) In addition the average for EU-15, i.e. the 15 old Member States is used for benchmarking The Netherlands.

The central questions this chapter addresses are:

- a) To what extent, why and how do Dutch SMEs co-operate internationally?
- b) What are the reasons and barriers to international co-operation?
- c) Does international co-operation influence the competitive positions of SMEs?

### *Definition of (international) co-operation*

There is a broad variety of different forms and types of (SME) co-operation. Co-operation also varies from loose and temporary (market-oriented) relations to stable and long lasting (structured) relations. The co-operation also varies from as little as two firms to many firms and other organisations such as knowledge institutions. Co-operation will usually be understood to mean a relationship between independent enterprises or partners that combine their efforts and resources in a value creation process. As such, co-operation has a specific purpose although this purpose may be different for the partners. When more than two enterprises are engaged in the same activity, complex relationships may develop into a network in which the co-operating enterprises and also other organisations, such as government departments and knowledge institutes (e.g. research centres and universities), may be organised to achieve common goals<sup>10</sup>.

The network perspective is particularly useful for the description and analysis of agglomerations of enterprises, such as industrial districts and clusters. The focus of such studies will often be the synergy effects of interaction between large numbers of enterprises and the other entities mentioned (research centres, universities, government departments).<sup>11</sup>

In focusing on international co-operation between SMEs, this chapter will primarily adopt the enterprise perspective i.e. the situation that entrepreneurs or small business managers face when they make decisions in SMEs.

Co-operation between individual partners depends on trust and trust building<sup>12</sup>. Such relations based on trust may foster partners to come to an understanding relatively easy, i.e. at relatively low transaction costs. Even more important, they stimulate the free flow of information that is conducive to creativity and innovations.

For the purpose of this chapter data on co-operation has been collected from the SME Policy Panel. In the questionnaire used in this survey co-operation has been defined as: "*Co-operation between two or more independent enterprises that extend beyond a **normal** business transaction such as the delivery of goods or services. This refers to co-operation for a specific task based on **mutual agreements**.*"

When SMEs indicate that they are engaged in co-operation it has already been established whether this refers to other Dutch enterprises and/or enterprises abroad and whether this refers to SMEs (<100 employees conform Dutch definition) and/or large enterprises (100 or more employees).

### *Structure of this chapter*

In section 2.2 the characteristics of SME co-operation, internationalisation and international co-operation are reviewed. Where the available information allows, the link between co-operation and internationalisation is subsequently made.

Section 2.3 addresses the reasons for (international) co-operation. What are the main drivers for SMEs to co-operate and to internationalise? Furthermore, why do SMEs choose to co-operate with an international partner? The perceived barriers to international co-operation are assessed in section 2.4. An analysis of barriers might provide insights that are helpful in formulating and evaluating policy instruments to foster international co-operation and assist SMEs in establishing such co-operation. The question whether international co-operation pays off, is addressed in section 2.5.

## 2.2 Characteristics of international co-operation

### *Co-operation amongst SMEs*

Co-operation can take many different forms and cover different activities, depending on the demands that are put upon the enterprise at any given time. Generally speaking entrepreneurs may consider co-operation as a way to promote the development of the enterprise. Growth is only one example of 'development'. Other examples of business development are reducing risk, extending markets and introducing new technologies. Some of these examples may induce growth in the long run. Co-operation can therefore be a strategy for SMEs not only to grow but also to enhance other types of development.

In the 2003 ENSR Enterprise Survey, transactions and commitments that are based on written word and contracts are defined as *formal*, whereas transactions and commitments based on spoken word and trust are defined as *non-formal*.

Using this classification<sup>13</sup> the situation in The Netherlands, the benchmark countries and Europe-15 is depicted in Table 2.1.

Table 2.1 illustrates three general features.

- Firstly, 50% of SMEs co-operate with other enterprises, either in their own country or SMEs abroad. Co-operation can therefore be considered a general and common business practice.
- Secondly, the substantial variation between the countries suggests that external factors in the business environment influence the tendency to co-operate.
- Thirdly, SMEs in all countries are more often engaged in non-formal co-operation than in formal co-operation.

**Table 2.1 Different types of co-operation for selected countries in EU-15, all SMEs**

	NL	BE	DK	DE	UK	EU-15
Only formal co-operation	18%	10%	7%	12%	8%	12%
Only non-formal co-operation	22%	22%	40%	20%	28%	25%
Both formal and non formal co-operation	13%	13%	15%	9%	13%	13%
No co-operation at all	47%	55%	38%	59%	51%	50%
Total	100%	100%	100%	100%	100%	100%

Source: EIM, 2004 based on ENSR Survey 2003.

Table 2.1 also shows that the percentage of SMEs that is *only* engaged in formal co-operation is the highest in The Netherlands, whereas the percentage of SMEs that is *only* engaged in non-formal co-operation is nearly the lowest in The Netherlands. The combined result is that the percentage of Dutch SMEs that has no co-operation at all in The Netherlands is only slightly lower than in EU-15. The percentage of enterprises without any co-operation shows a considerable variation among the benchmark countries ranging from nearly 60% in Germany to below 40% in Denmark.

To see whether the incidence of formal and non-formal co-operation differs between enterprises that export and enterprises that do not export Table 2.2 focuses on exporting enterprises only. In the benchmark countries some 20 to 30% of the enterprises export.

**Table 2.2 Different types of co-operation for selected countries in EU-15, exporting SMEs only**

	NL	BE	DK	DE	UK	EU-15
Only formal co-operation	7%	8%	5%	15%	3%	11%
Only non-formal co-operation	29%	30%	39%	23%	35%	31%
Both formal and non formal co-operation	27%	18%	21%	10%	20%	18%
No co-operation at all	36%	44%	36%	51%	42%	40%
Total	100%	100%	100%	100%	100%	100%

Source: EIM, 2004 based on ENSR Survey 2003.

It was shown above that half of all SMEs in EU-15 are engaged in formal and/or informal co-operation (Table 2.2), among exporters this percentage is higher at 60% (Table 2.3). For all selected countries except Denmark, such a difference is found. The incidence of co-operation among all SMEs in Denmark is about the same as among exporters. In the other countries, exporters are especially more active in informal co-operation agreements.

Almost two thirds of the enterprises involved in co-operation have 1 to 5 (national and/or foreign) partners<sup>14</sup>. SME co-operation tends to be stable over time and generally takes place with the same partners. The majority of the enterprises are frequently in contact with their most important partner. Nearly two out of three enterprises contact their partners at least once a week and nearly one third of the SMEs are in contact with their partners at least once each month. The smallest enterprises have more frequent contact with their partners than larger SMEs. This supports the view that the smallest enterprises co-operate on operational issues. The combination of a small number of partners, stable relationships and frequent contacts is conducive to strong relationships that are built on trust.<sup>15</sup>

#### *Internationalisation as a process of consecutive stages?*

As indicated in Section 2.1, international activities of SMEs encompass a broad variety of activities.<sup>16</sup> In short, the following forms of internationalisation can be distinguished:

- Exporting;
- Importing;
- International co-operation agreements (e.g. clusters and strategic alliances);
- Foreign Direct Investments (FDI, e.g. foreign subsidiaries or establishment, takeovers and joint ventures abroad).

Export behaviour and internationalisation of enterprises has been a research topic for a number of decades. The prevailing internationalisation model is the so-called 'Stages Theory'<sup>17</sup>. According to this model, internationalisation is a process of consecutive progressive steps in which enterprises increase their involvement in international activities. Export is often seen as the first step and the most advanced form of internationalisation is FDI.

Recent literature demonstrates that the Stages Theory does not always reflect reality. An increasing number of enterprises already has an international focus from the start. Such enterprises are often 'born globals' or 'International New Ventures'.<sup>18</sup>

The different types of internationalisation (trade, international co-operation or FDI) are more a reaction to different strategic targets rather than phases in a gradual process. This is especially

true for enterprises that are internationalising in search of foreign knowledge and technology. For some types of business service enterprises (e.g. consultancy or software developers) it is more logical to start an alliance or joint venture with a foreign company rather than starting to export. The fact that one third of European SMEs with subsidiaries abroad does not export might also be an indication that exporting is no longer the logical first step to internationalisation.<sup>9</sup>

### *Exports by Dutch SMEs*

Dutch SMEs are directly or indirectly<sup>20</sup> exporting 30% of the total Dutch export volume. This means that Dutch SMEs generate more than 50 billion euro in turnover from exports.<sup>21</sup> The percentage of turnover from exports for Dutch SMEs is slightly higher than the European average, but The Netherlands does not belong to the top European countries<sup>22</sup>. The Scandinavian countries, Belgium and Ireland are performing much better in this regard.<sup>23</sup>

Table 2.3 shows the picture that emerges from the 2003 ENSR Enterprise Survey for the selected countries. It confirms the conclusions drawn from literature above: The Netherlands SME - using the European definition, i.e. less than 250 employees - are performing just above the European average, but do not compare favourably with benchmark countries such as for example Belgium or Denmark. The Observatory of European SMEs shows that for the nineteen countries covered, The Netherlands occupies exactly the middle position<sup>24</sup>.

**Table 2.3 Percentage of SMEs exporting in 2002, by country**

Netherlands	20%
Belgium	24%
Denmark	32%
Germany	23%
UK	18%
Other EU-15	16%
Total EU-15	18%

Source: EIM, 2004 based on ENSR Survey 2003.

Overall 18% of all European SMEs report to have engaged in exporting in 2002. This figure rises from 17% for SMEs with less than 10 employees, through 38% for SMEs with 10-49 employees to 51% for SMEs with 50-249 employees. The highest scores were found in manufacturing (46%) and wholesale (41%).

### *Imports by Dutch SMEs*

Almost a quarter of Dutch SMEs (more than 110 000 enterprises) imports goods or services.<sup>25</sup> Many goods that used to be produced in The Netherlands are now produced in low wage countries such as Poland and Russia. This may occur because of increased outsourcing (buying for example intermediate products that used to be produced in-house in The Netherlands) or because of production transfer (establishing own subsidiaries abroad that take over part of the actual manufacturing).

Motives for re-allocations of production to these countries are the quality, availability and costs of personnel in these countries and the fact the regulations and control of regulation are organised in such a manner that it becomes economical to open a subsidiary in these

countries. Import and export are often combined activities rather than single isolated activities.<sup>26</sup> The number of Dutch SMEs that import increased as a result of increased outsourcing by SMEs to foreign partners.

#### *FDI by Dutch SMEs*

Dutch SMEs are also directly investing abroad (FDI), both independently and in consortium with other enterprises. SMEs sometimes take the lead in these processes, but they also follow larger (international) enterprises<sup>27</sup>. FDI provides enterprises with the opportunity to profit from benefits that are linked to a certain location such as low labour costs and access to local supplies. However, FDI requires a larger commitment abroad than exporting, and it is relatively difficult to withdraw these investments. Almost no quantitative information is available on the (development) of FDI by SMEs. From the ENSR Enterprise Survey 2003, it can be discerned that only 3% of Dutch SMEs are directly investing abroad.

A recent EIM review - also based on the SME Policy Panel - also concluded that over the last three years just over 2% of SMEs in The Netherlands have been investing abroad. Although there are many general press publications that suggest an increase in such investments, empirical research does not (yet) confirm such a trend. The investments that do occur are generally focussed on neighbouring countries and not so much on countries where important cost advantages could be realised, e.g. in Central and Eastern Europe. The direct foreign investments reported are mostly in sales outlets or representative offices rather than production facilities. In addition SMEs from The Netherlands quite often invest in innovation and development facilities.<sup>28</sup>

#### *Internationalisation and enterprise size*

There is a positive correlation between internationalisation and enterprise size. Only one in ten small (< 10 employees) Dutch SMEs exported directly in 2002, whereas this is one in 4 for enterprises with 10-99 employees, and more than 1 in 2 for larger enterprises<sup>29</sup>. Also the percentage of importing enterprises increases with enterprise size: 22% of small enterprises import, whereas 34% of the larger medium sized enterprises (75-99 employees) import. Larger enterprises are also more often active in FDI.<sup>30</sup>

Although differences are small, the number of small enterprises involved in international co-operation is also somewhat less than the number of medium sized enterprises.<sup>31</sup> A possible explanation might be that (international) co-operation is often less complex and more capital extensive than for instance FDI. This could make access to international co-operation relatively easy for small enterprises.

### Internationalisation profile of Dutch SMEs

Based on the results of the SME Policy Panel 2004, the incidence of exporting, importing, foreign direct investments and international co-operation among enterprises has been established.

Importing is the most important international activity - especially among the smallest enterprises - FDI is the least important among SMEs.

For all SME activities, it holds that larger enterprises are more involved than smaller ones.

### Percentage of Dutch SMEs active in various forms of internationalisation

	Number of employees		Total 0-100
	0-9	10-100	
Exporting	17%	34%	18%
Importing	25%	40%	26%
Invested abroad (last 3 years)	2%	6%	2%
Co-operation with enterprises abroad	8%	17%	9%

Source: SME Policy Panel 2004-2.

### International co-operation

Alliances and networks can relate to joint research and development, manufacturing, marketing, sourcing of inputs, or co-operation on distribution. Alliances can also be an important source of **indirect** export, for instance when SMEs trade their products internationally via an international distribution network of a large domestic enterprise (piggy back exporting). A great deal of the co-operation between SMEs is likely to be in the form of alliances and networks with other SMEs. Alliances with larger enterprises or even multinational enterprises (MNEs) are, however, also an important way of internationalising for SMEs.<sup>32</sup>

International literature indicates that alliances are of growing importance. Intensified international competition drives companies to specialise and concentrate on their core competencies. This is further intensified as a result of a more knowledge-based economy.<sup>33</sup> The growing emphasis on knowledge management results in a renewed focus on core competence. Larger companies therefore outsource more activities, which brings SMEs into play. Following the same line of reasoning, MNEs also form alliances with SMEs to gain market insight into a particular national market.

In focussing on core competence non-core activities are placed outside the enterprise itself. This naturally creates a corresponding rise in outsourcing alliances.

The recent SME Policy Panel provides the opportunity to analyse (international) co-operation for Dutch enterprises by size class: 49% of the medium sized enterprises (10-99 employees) and 42% of small enterprises (0-9 employees) are involved in co-operation with one or more enterprises



Table 2.4 shows that within sectors of industry, co-operation also increases by size class. The only exception is the construction sector where smaller enterprises are slightly more involved in co-operation than somewhat larger enterprises.

**Table 2.4 Percentage of SMEs (< 100 employees) that co-operate by size class, The Netherlands 2004**

Industry	0-9 employees	10-99 employees	Total
Manufacturing	44%	47%	45%
Construction	49%	42%	48%
Trade	33%	49%	34%
Hotels etc.	22%	46%	24%
Transport	52%	64%	53%
Financial Services	53%	50%	53%
Leasing	56%	53%	55%
Other Services	29%	50%	29%
Total	42%	49%	44%

Source: EIM, SME Policy Panel 2004-2.

With whom do SMEs co-operate, mostly with SMEs in their own country, or mostly with SMEs abroad?

As shown in Table 2.5, of those SMEs in Europe-15 that do co-operate, the overwhelming majority mostly co-operate with SMEs in their own country.

In The Netherlands, although a small open economy, the international orientation of SME partnerships is even lower. Whereas in Belgium and Denmark 1 in 4 SMEs have their most important co-operation relationship with foreign SMEs.

**Table 2.5 The most important relationship with national or foreign small and medium sized enterprise for selected countries in EU-15, percentage of enterprises that do co-operate\***

	NL	BE	DK	DE	UK	EU (15)
National SMEs	82%	74%	74%	85%	79%	81%
Foreign SMEs	9%	15%	10%	7%	9%	6%
Both National and Foreign	9%	10%	16%	7%	12%	13%
Don't know/no answer	-	1%	-	-	0%	0%
Total	100%	100%	100%	100%	100%	100%

Note: \* i.e. 50% for EU-15.

Source: ENSR Survey 2003.

Internationalised SMEs engage in co-operation more frequently than SMEs in general.<sup>34</sup>

Table 2.6 provides information for SMEs in The Netherlands on the type of co-operation partners domestic or foreign, by size class.

Type of partner	0-9 employees	10-99 employees	Total
Only firms in The Netherlands	81%	65%	79%
Only firms abroad	5%	8%	5%
Both foreign and domestic firms	14%	27%	16%
Total	100%	100%	100%

Source: EIM, SME Policy Panel 2004-2.

Table 2.6 shows that the relatively high percentage of SMEs in The Netherlands that only co-operate with other Dutch SMEs as shown in Table 2.5, is mainly brought about by the smallest enterprises. Because international co-operation increases as the size of the enterprise increases.

Table 2.7 shows that the smaller the enterprise, the more the focus is on co-operation with (other) smaller enterprises. However, from the smallest enterprises (0-9 employees) still 23% co-operate with enterprises employing more than 100 workers.

	0-9 employees	10-99 employees	Total
Only with large enterprises (> 100 employees)	10%	14%	10%
Only with smaller enterprises	77%	57%	75%
Both	13%	29%	15%
Total	100%	100%	100%

Source: SME Policy Panel 2004-2.

Dutch SMEs that do co-operate mainly with other enterprises within The Netherlands co-operate almost entirely with smaller enterprises, whereas those who focus on enterprises abroad are more often engaged in co-operation with larger firms.

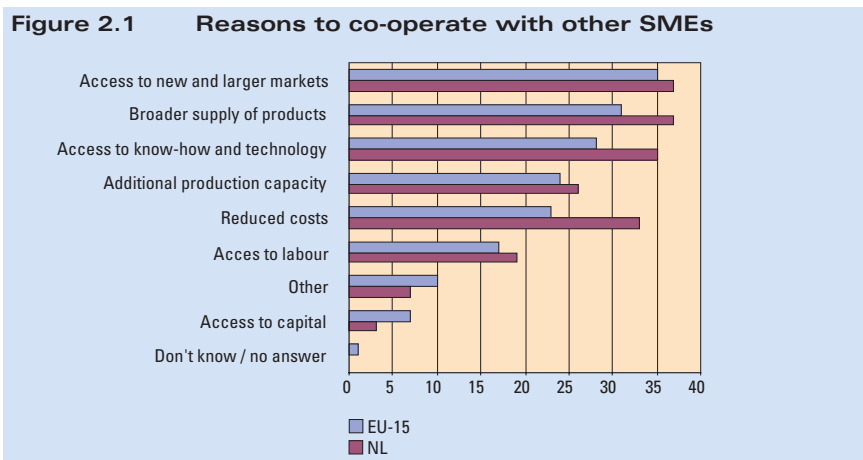
### **2.3 Reasons for international co-operation**

The forms of and reasons for internationalisation of SMEs are divers and complex. Compared to simple export, using suppliers abroad and establishing foreign subsidiaries, co-operation with partners in other countries is an additional form of internationalisation<sup>35</sup>. Co-operation with partners abroad may on the one hand facilitate access to inputs (mainly in the form of access to suppliers of assemblies for the production process). On the other hand, it gives SMEs access to new and larger markets. In addition to factors that are relevant for co-operation in

general, the element of access to 'local knowledge' is obviously more important in international than in domestic co-operation. Typical examples of such local knowledge can be knowledge of the (foreign) partner on consumer preferences and tastes, relevant rules and regulations, sources for support and information, market opportunities, etc.

### *Reasons to co-operate*

The most important reasons among European SMEs to co-operate with other SMEs (see Figure 2.1) are 'Access to new and larger markets' and 'Broader supply of products'. Still quite important are 'Access to know-how and technology', 'Additional production capacity' and 'Reduced costs'. The smallest enterprises most frequently mention access to new and larger markets as reason for co-operating, while the largest enterprises give preference to cost reduction.



*Note: Two answers allowed, therefore percentages do not add up to 100%.  
Source: EIM, 2004 based on: ENSR Enterprise Survey 2003.*

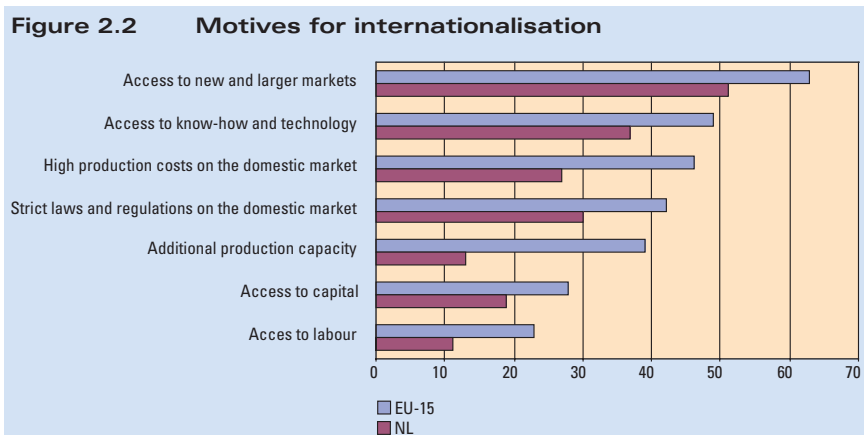
Compared to European SMEs, Dutch SMEs take a more innovative approach to co-operation. 'Access to know-how and technology' is an important reason for over 33% of SMEs in The Netherlands vs. 28% of SMEs in Europe as a whole. Next to that, also 'Reduced cost' is relatively important in The Netherlands.

The reasons to co-operate presented are not mutually exclusive. There are strong elements of interdependence between several of them. Access to new and larger markets and broader supply of products are the two most frequent reasons for SME partnerships. These factors are strongly related and underline a market driven approach. Access to know-how and technology is directly related to innovative capacity, whereas additional production capacity and reduced costs are related to efficiency and production capability and come as a second group in terms of frequency. A third group is constituted by access to labour and access to capital as reason for partnerships. These two factors that most directly measure resources are ranked last in the ENSR Enterprise Survey 2003. This underlines the strong motivating force of the market and the capability to provide what the market demands at competitive prices. The resource supply side of SMEs is not as important when it comes to motivation for SME co-operation<sup>36</sup>.

The size of the enterprise influences the form and the purpose of co-operation. Generally, medium-sized enterprises co-operate with other SMEs for strategic reasons and long-term benefits, while smaller enterprises co-operate with other SMEs for operational purposes with shorter time-scale for the expected benefits. These smaller enterprises tend to have a higher preference for non-formal co-operation than medium-sized enterprises.

### *Reasons to internationalise*

Access to new and larger markets (63%) is clearly the most frequent motive for internationalisation for the European SMEs that export or have establishments abroad (Figure 2.2). This reflects the possibilities of expanding the market for a company's products by exporting or creating subsidiaries or joint ventures abroad. Access to know-how and technology is a frequent motive for going abroad (mentioned by 49% of European SMEs).



*Note: The graph represents the percentage that rated the motive 'important' or 'very important'. Source: EIM, 2004 based on: ENSR Enterprise Survey 2003.*

Although less frequently mentioned, the important motives for internationalisation for Dutch SMEs are similar to the EU-15, i.e. access to new and larger markets and access to know-how and technology.

Also push factors such as 'high production costs in the domestic market' and 'strict laws and regulations on the domestic market' are relatively important.

### *Reasons for international co-operation*

As shown in Figure 2.2, SMEs for the most part join forces in order to access new and larger markets. If enterprises join forces, co-operation can be seen as a means to facilitate the internationalisation process. It is **not** necessary that a foreign SME in the target market forms part of the co-operation, also local SMEs can co-operate to facilitate entering foreign markets. However, the local knowledge of a foreign enterprise from the target market could benefit all companies in the co-operation. Such an enterprise could bring in both local knowledge and serve as a sales platform.

A co-operative arrangement based on the motive of access to larger markets for one partner and the motive of access to know-how and technology for the other partner may become an interesting model of internationalisation for more SMEs in the future. Such an arrangement

could consist in one partner providing market access and the other partner providing insight into product development. This can be associated with the increasing co-operation between different businesses within the value chain.

Also the findings from the SME Policy Panel throw light on the reasons for SME to co-operate. In the SME Policy Panel SMEs were explicitly asked about the reasons for co-operation with *foreign* enterprises. Table 2.8 show the findings.

Access to know-how and technology is confirmed to be the most important reason, ranging from a high 59% for the smallest firm to as much as 75% for the largest enterprises.

**Table 2.8 Reason for SMEs in The Netherlands to co-operate with foreign enterprises**

	0-9 employees	10-99 employees	Total
Access to markets	53%	53%	53%
Access to labour	25%	13%	23%
Additional production capacity	26%	26%	26%
Access capital	16%	8%	14%
Access to know how and technology	59%	62%	60%
Widen the assortment of goods and services	56%	59%	56%
Reduce costs	37%	40%	38%
Other	11%	16%	12%

Source: EIM, SME Policy Panel 2004-2.

## 2.4 Barriers to international co-operation

One would expect that language or cultural misunderstanding present problems for SMEs to internationalise. Relation-ships are often found to be reinforced when the partners share common language, norms, values, social ties and common institutions<sup>37</sup>. The lack of such common cultural platforms is often the cause of weak relationships. Although primarily related to domestic co-operation, a number of studies have established that also geographical distance renders co-operation more difficult.

### *Barriers to co-operation*

The most important barriers to co-operation are shown in Figure 2.3 for both European SMEs and SMEs in The Netherlands. About three quarters of European SMEs identify barriers<sup>38</sup>, the three main barriers are:

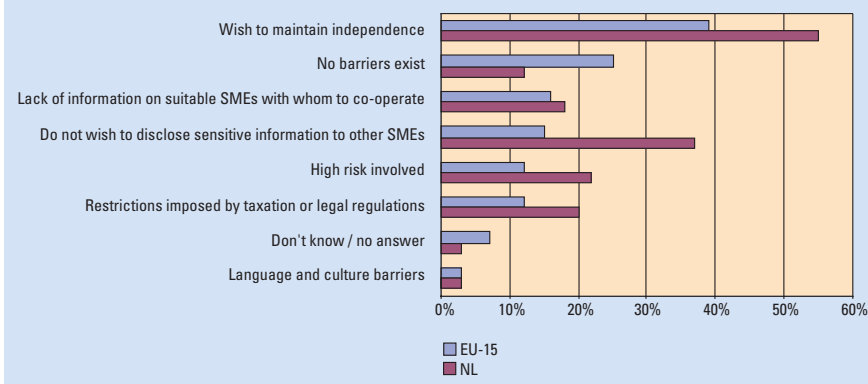
- Wish to remain (independent)?;
- Lack of information on suitable partners;
- Disclose of sensitive information in the process.

Only 3% of respondents report 'language' and 'cultural differences' as the main barriers to partnership. It should however be noted that these barriers relate to co-operation in general, not especially to international co-operation.

Furthermore, more in-depth analysis data has shown that there are no large differences between the perceived barriers to co-operation between SMEs that co-operate and those that

do not. Which suggests that enterprises that are not involved in co-operation have a reasonable perception of the barriers that might be involved. Below, when focussing specifically on barriers related to International co-operation, it will be shown for SMEs in The Netherlands that differences do exist, i.e. over and underestimation of barriers.

**Figure 2.3 Most important barriers to engaging in co-operation with other SMEs**



Source: EIM, 2004 based on: ENSR Enterprise Survey 2003.

Nearly three out of four SMEs see some sort of barrier to SME co-operation. In order to facilitate the interpretation of the barriers perceived by SMEs, two groups of barriers have been identified by factor analysis<sup>39</sup>:

- 1 Fear to lose independence (including: wish to maintain independence, do not wish to disclose sensitive information, high risk involved);
- 2 Institutional barriers (including: lack of information on suitable partners, language and cultural barriers, restrictions imposed by taxation or legal restrictions).

In The Netherlands, SMEs see relatively more barriers to getting involved in co-operation. Dutch SMEs ascribe much more weight to barriers such as 'wish to remain independent', 'do not wish to disclose sensitive information' and 'High risk involved'. As indicated above, these three factors combined indicate that Dutch SMEs fear to lose independence rather than being hampered by institutional barriers.

The percentage quoting no barriers at all is only half as large as in Europe.

Among the benchmark countries the wish to remain independent is also very important in Belgium (56%) and Denmark (56%).

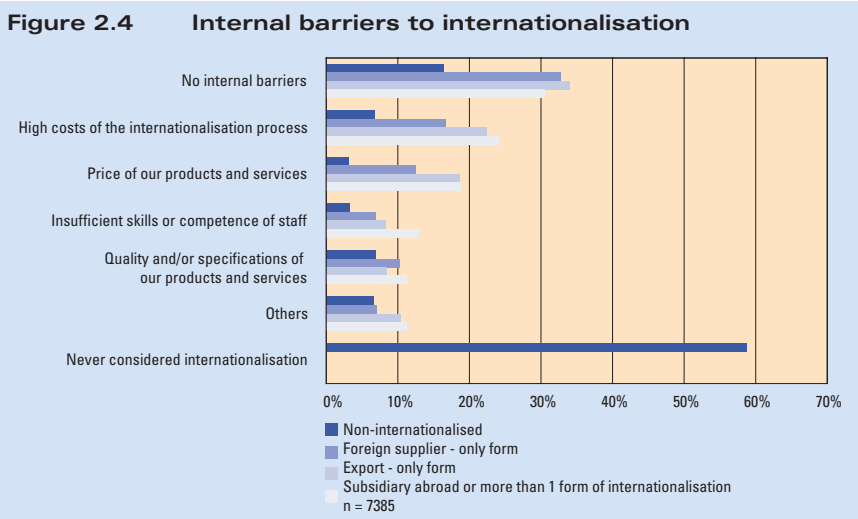
Earlier Observatory reports<sup>40</sup> on regional clusters found similar results. Smaller innovative enterprises are not keen to co-operate due to a fear to lose their autonomy. It is difficult for SMEs to find a balance between confidentiality (hiding information) and sharing knowledge and information, which is essential for successful networking.

### *Barriers to internationalisation*

Many SMEs (63% of European SMEs<sup>41</sup>) are not internationally active. The group of non-internationalised SMEs may be divided into two categories: those who are of the opinion that

internal or external barriers are too high, and those who do not even consider internationalisation. 59% of the non-internationalised SMEs have never considered internationalisation. When it comes to the group that never considered internationalisation, their hesitations are often not based on barriers as such. Some may consider internationalising irrelevant for their line of business and some believe the domestic demand to be sufficient both now and in the future. Some SMEs (its founders, the entrepreneur) may simply not have any ambition to grow beyond a certain size, or beyond the domestic market.

SMEs may face internal and external barriers to internationalisation. The most frequently cited internal barrier is the 'high costs of internationalisation'. These costs may include items such as doing market analysis abroad, purchasing legal consulting services, translation of documents, adaptation of products to foreign markets and travel expenses. In addition a higher business and financial risk may be perceived. This is mostly felt by SMEs with more complex international activities such as establishments abroad (24%). Nevertheless about one third mentioned no internal barriers at all. Other studies indicate a considerable lack of internal managerial planning activities in relation to the internationalisation process.



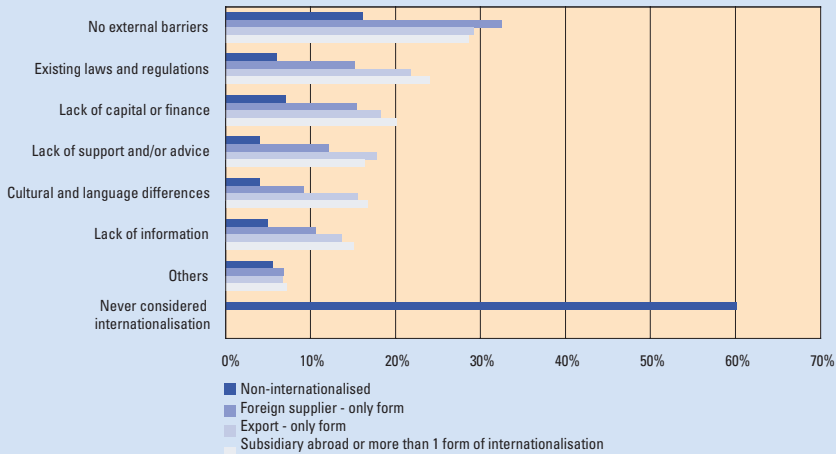
Source: ENSR Enterprise Survey, 2003.

The external barriers shown in Figure 2.5 are also relatively - i.e. compared to internal barriers - infrequent. The most cited external barrier to internationalisation is 'existing laws and regulations'. Perhaps the most interesting feature is that almost one third of the internationalised enterprises perceive no external barriers at all. Moreover, when considering the other categories or barriers it seems that the more complex the international activities undertaken by the SME are, the more often they perceive barriers. This indicates, that barriers are usually discovered, as the different types of international activities are developed.

'Lack of support/advice' or 'lack of information' are not very common barriers. This may reflect the relatively widespread existence of policy measures directed towards informing and supporting enterprises wishing to internationalise. Between 12 and 18% of the

internationalised SMEs perceive a lack of support/advice, and 10 to 15% perceive lack of information as an external barrier. Importing enterprises generally experience fewer barriers than enterprises that have a more outward oriented international strategy including e.g. exporting.<sup>42</sup> An explanation for this is that the financial risks for importing enterprises are smaller than for exporting enterprises (who have to assess the debt risk of unknown clients abroad). Importing enterprises also more often engage logistic service providers who are usually very experience and save the importing enterprise a lot of work. The most cited external barrier, however, consists of the existing laws and regulations, typically of the target countries.

**Figure 2.5 External barriers to internationalisation**



Source: ENSR Enterprise Survey, 2003.

The Figures 2.4 and 2.5 also illustrate the phenomena that it takes actual experience with internationalisation to identify (potential) barriers. SME's without international activities mostly refrain from indicating barriers because 'they never considered internationalisation'.

### *Barriers to international co-operation*

The enterprises that responded to the questions on international co-operation can be classified in three groups:

- Enterprises co-operating with one or more enterprises abroad;
- Enterprises without such a co-operation, but considering it;
- Enterprises without such a co-operation, and never considering it.



**Table 2.9 Barriers to co-operate with foreign enterprise, percentage of enterprises (that either have, or have considered international co-operation)**

Type of partner	0-9 employees	10 and more employees	Total
Large risks	14%	20%	15%
Language & cult barriers	31%	35%	32%
Protect information	21%	28%	22%
To remain independent	21%	26%	22%
Taxes & laws	37%	24%	35%
Lack of information on partners	29%	16%	27%
Other	4%	6%	5%
None	12%	11%	12%

*Note: Enterprises could mention the two most important barriers, so columns do not total.  
Source: EIM, SME Policy Panel 2004-2.*

SMEs that have - or have considered - international co-operation see 'taxes and legislation' and 'language and cultural barriers' as the major bottleneck followed by lack of information on suitable international partners.

Table 2.9 also allows some interesting observations that are contrary to what one would expect:

- The larger enterprises show more risk aversion than the smaller ones;
- Smaller enterprises do not report language and cultural differences as major barriers.

Other observations that are in line with expected results:

- Smaller enterprises report more bottlenecks in the field of taxation and legislation;
- Smaller enterprises more often lack information on (suitable) partners abroad.

Finally, Table 2.10 shows the difference between bottlenecks perceived by enterprises that actually are engaged in co-operation with foreign enterprises and enterprises that only considered embarking upon such co-operation.

**Table 2.10 Barrier to co-operate with foreign enterprise, percentage of enterprises that either have, or have considered international co-operation**

Barrier to co-operate	Actual international co-operation	Considered intern. co-operation	Total
Large risks	9%	21%	15%
Language & cult barriers	28%	35%	32%
Protect information	23%	21%	22%
To remain independent	24%	20%	22%
Taxes & laws	29%	40%	35%
Lack of information on partners	21%	31%	27%
Other	3%	6%	5%
None	19%	6%	12%

*Note: Enterprises could mention the two most important barriers, so columns do not total.  
Source: EIM, SME Policy Panel 2004-2.*

Enterprises that have no actual experience in co-operating with foreign enterprises, more frequently perceive some bottlenecks to be important:

- Large risk;
- Taxes and laws;
- Lack of information on potential partners;
- Language and cultural barriers.

The two issues that are 'preferences of entrepreneurs' rather than external bottlenecks that are quite often mentioned by enterprises that actually co-operate across borders are:

- The reluctance to share sensitive information and
- The wish to remain independent.

To summarise: Not many SMEs see internal problems (e.g. insufficient skill with staff) or external problems (e.g. laws and regulations or insufficient access to capital) as barriers to internationalisation, the most important 'barrier' is the wish to remain independent.

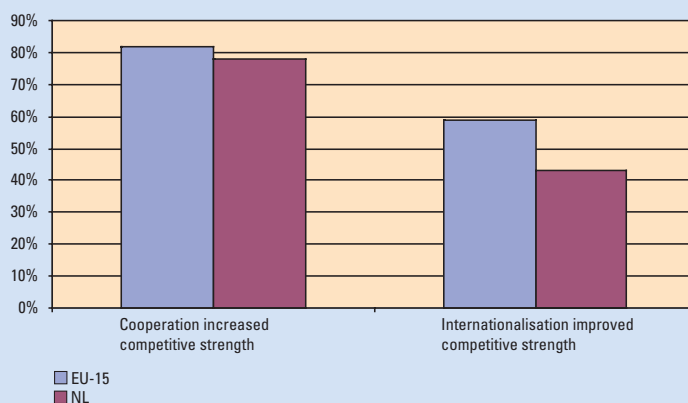
## **2.5 Influence of international co-operation on competitive position**

One of the biggest pitfalls when analysing SMEs' co-operation is that the mechanisms that produce the benefits are vaguely specified and empirically still ambiguous. Studies cannot show adequately how co-operation or network structures influence inter-firm exchanges, and it is difficult to measure value creation and profit induced by the co-operation. There are also numerous indirect effects where the causal effect of one factor is impossible to isolate. Another important pitfall is that very close and detailed studies are required to take into account the real objectives of the entrepreneur. Analysis of statistical data will in general not be able to discern success of objectives such as independence, risk reduction or future market potential. In order to assess the perception of entrepreneurs, in the ENSR Enterprise Survey 2003 and the SME Policy Panel questions were included that asked whether (international) co-operation increased the competitive strength of these enterprises.

### *Internationalisation leads to more competitiveness*

The ENSR survey along with national studies support the theory that internationalisation has a positive impact on competitiveness.<sup>43</sup> Especially the more complex forms of internationalisation (subsidiaries abroad and SMEs that are involved in more than one form of international activities) result in an increase of competitiveness. Importing SMEs and SMEs involved in complex international activities have increased their turn-over more than non-internationalised enterprises. Moreover, internationally active SMEs often grow faster than SMEs that are only active on the national market.<sup>44</sup> However, co-operation as an activity is perceived by the SMEs to have an even greater positive effect on competitiveness than internationalisation (Figure 2.6). This finding strongly underlines the fact that internationalisation has to be viewed in a very broad perspective including not only trading but also international collaborative activities.

**Figure 2.6 Perceived impact of (international) co-operation on competitive strength**



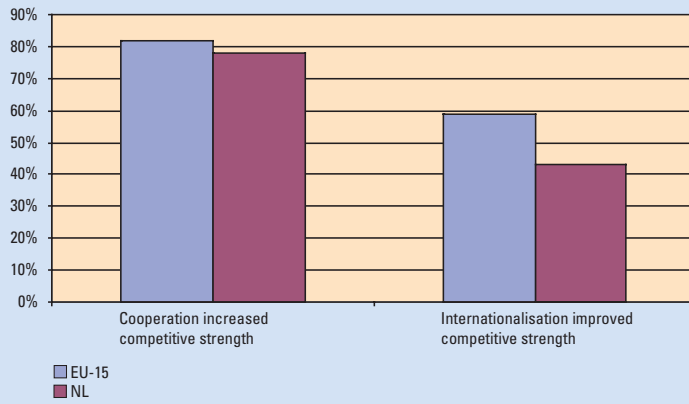
Source: EIM, 2004 based on: ENSR Enterprise Survey 2003.

Also in the SME Policy Panel enterprises that co-operate with foreign enterprises have been asked to gauge the effect of this co-operation on their competitive position. Figure 2.7 shows the results by size class.

The results confirm that nearly all enterprises perceive their competitive strength has improved because of international co-operation (83% of the smallest enterprises, and 93% for the somewhat larger firms).

Another study in The Netherlands<sup>45</sup> showed that enterprises that often co-operate have better business results and lower costs. The expected profit and turnover developments are also higher than those of enterprises that do not co-operate. However, it should be noted that when taking into account the characteristics of the entrepreneur, the enterprise and the environment, the results could not be directly related to co-operation as such. Regardless of all the difficulties in measuring the actual contribution of co-operation to the competitive strength of SMEs, the general perception is that SMEs indeed benefit from co-operating. It should be noted that co-operation is not the only nor, in all cases, the most appropriate way to achieve competitive strength.

**Figure 2.7 Perceived impact of international co-operation on competitive strength**



Source: EIM, SME Policy Panel 2004-2.

## Notes Chapter 2

- 1 European Commission, Observatory of European SMEs, 2003/No. 5; SMEs and co-operation, Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Office for Official Publications of the European Communities, Luxembourg 2003. Available in PDF format at the website of the European Commission: [http://europa.eu.int/comm/enterprise/enterprise\\_policy/analysis/observatory.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm).
- 2 European Commission, Observatory of European SMEs 2003/Report No. 4, Internationalisation of SMEs. Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Office for Official Publications of the European Communities, Luxembourg 2003. Also available in PDF format at the website mentioned above.
- 3 Fletcher, R., A holistic approach to internationalisation, *International Business Review* 10, 25-49, Pergamon, 2001.
- 4 Overweel, M.J. en C.C. van de Graaff, *Het belang van importeren voor het MKB (The importance of import for SMEs)*. EIM, Zoetermeer, 2002 and S.J.A. Hessels, M.J. Overweel and Dr. Y.M. Prince, Internationalisering van het Nederlandse MKB, bestaande en gewenste inzichten (Internationalisation of Dutch SME, existing and required insights), EIM Zoetermeer, March 2005.
- 5 See for example European Commission, reference #1 above or Rosenbrand, M.E., FR. Dirks and J. Meijaard, Kansrijker door samenwerking. Kenmerken en resultaten van samenwerking door kleine ondernemingen (More opportunities through co-operation, characteristics and results of co-operation by small enterprises), RZO en EIM, 2003.
- 6 See for example European Commission, reference #2 above or Hessels, J. and H. Stigter, Internationalisering nu en in de toekomst (Internationalisation now and in the future), EIM, 2004 and Hessels, Overweel and Prince (reference #4).
- 7 The SME Policy Panel (MKB Beleidspanel) is a regular survey among a panel of SMEs in The Netherlands by EIM Business & Policy Research. In the second survey of 2004 a set of questions was included for this report. 1884 enterprises answered questions on co-operation among enterprises (incidence, national vs. international, reasons, difficulties and results).
- 8 The ENSR Enterprise Surveys are implemented in the framework of The Observatory of European SMEs. This Observatory was established by the European Commission in December 1992 and implemented by EIM and its European partners (the ENSR network) to improve the monitoring of the economic performance of SMEs in Europe. The ENSR Enterprise Survey 2003 covered 7837 enterprises in 19 countries (the 15 old Member States of the EU, Iceland, Norway, Liechtenstein and Switzerland) and contained sections on co-operation as well as on internationalisation of SMEs. In the report weighted results are used to correct for the disproportional stratified sample used. See also: [http://europa.eu.int/comm/enterprise/enterprise\\_policy/analysis/observatory.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm).
- 9 It should be noted that in the Observatory of European SMEs, the European definition of SMEs (i.e. <250 employees) is used. In contrast, in the SME Policy Panel the Dutch SMEs definition (<100 employees) is used.
- 10 Wallenkint, J., A Managerial. Perspective on Small-Firm Network Organizations. An Overview of the Field and a Study of Practice. Department of Business Administration and Social Science. Division of Industrial Organization, 2001:46, 2001.
- 11 See for example the study focussing on 38 clusters across Europe - 2 in each of the nineteen countries covered - published in the series of the European Observatory of SMEs. This report looks at the diverse situation in respect to knowledge of clusters in the 19 countries and attempts to make comparisons between these clusters. European Commission, Observatory of European SMEs, Report 2002/No. 3: Regional clusters in Europe. Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Brussels, 2002.
- 12 Camagni, R., Local 'milieu', uncertainty and innovation networks: towards a new dynamic theory of economic space. In Camagni, R. (red) *Innovation networks: Spatial perspectives*, London: Belhaven Press (K), 1991.
- 13 In the Observatory report SME co-operation is understood to mean the interaction between independent SMEs for a specific purpose that extends beyond one single task. In the survey the topic was introduced as follows: In the next set of questions we are focusing on co-operation (for a common purpose) between independent Small and Medium sized Enterprises (SME). Co-operation goes over a longer time period and has a wider scope than one single task or one single purchase. We distinguish between formal and non-formal SME co-operation. Formal co-operation is regulated by an agreement or contract, while the terms of Non-formal co-operation are not specified in a written document, but based on verbal agreement, on previous experience or simply on trust.
- 14 10% of SMEs that do co-operate have only 1 partner, 18% 2 partner, 15% 3 partners, 9% 4 partners, and 12% of co-operating SMEs have only 5 partners. Source: ENSR Enterprise Survey 2003.
- 15 Source: ENSR Enterprise Survey 2003 (reference #8) and European Commission, reference #1.
- 16 See: European Commission, reference #2.
- 17 Gankema, H.G.J., H.R. Snuif en K.A. van Dijken (1997), 'The Internationalisation Process of Small and Medium Sized Enterprises: an Evaluation of the Stage Theory', in: *Entrepreneurship and SME Research: On its Way to the next*

*Millennium*, 185-199.

- 18 Hessels, Overweel and Prince (reference #4) and Clercq, Dirk De en Niels Bosma (2004), *Antecedents of international commitment: the role of firm development stage, knowledge and growth orientation*; (based on a sample of enterprises in Belgium (N=2184) and The Netherlands (N=3505) and European Commission, reference #2.
- 19 Another possibility is that enterprises may have started to internationalise with exporting, but that subsequently a production facility was established or acquired in the target market.
- 20 With direct exporting (manufacturing) enterprises invoice directly to a customer abroad, with indirect exporting the goods are for example sold to an export trading company. Similarly to national accounting procedures the margin is ascribed to the trading enterprise, whereas the input value of the trading firm is considered to be indirect export by the manufacturing enterprise.
- 21 Peeters, H.H.M. en K.L. Bangma (2003), *Kleinschalig Ondernemen 2003 (Small-scale Entrepreneurship 2003)*, EIM, Zoetermeer, as quoted in reference #4.
- 22 MKB-Nederland (2000), *Vol gas naar het buitenland. Een pleidooi voor een krachtige exportstimulus voor het MKB (Full speed abroad. A plea for a strong export incentive for SMEs)*, Delft.
- 23 Ministerie van Economische Zaken (2001), *Ondernemerschapmonitor, voorjaar 2001 (Entrepreneurship monitor, spring 2001)*, Den Haag.
- 24 See Figure 2.2 in reference #2.
- 25 Overweel, van de Graaff, reference 4.
- 26 See European Commission, reference #2 and Overweel, van de Graaf, reference #4.
- 27 As an example one may refer to the recent establishment of a large number of car manufacturing plants in the border region of the Czech Republic and Slovakia (Volkswagen/Skoda, PSA Peugeot and others. Smaller sub-contractors (have to) follow.
- 28 Jolanda Hessels and Maarten Overweel, *Buitenlandse investeringen door het MKB, Toenemende investeringen in lagelonenlanden of op kousenvoeten naar buurlanden? (Foreign direct investments by SMEs, subtitle: increasing investment in low cost countries or only carefully in neighbouring countries)*, EIM mini-rapportage, EIM, Zoetermeer, 13 October 2004, 7 pages.
- 29 See Peeters c.s., op cit, reference #22.
- 30 Laar, Mindel van de (2001), *Directe investeringen van Nederlandse bedrijven in Centraal Europa, Oost-Europa en Azië (FDI of Dutch enterprises in Central and Eastern Europe and Asia)*, Universiteit Maastricht.
- 31 See Rosenbrand et. al., op cit, reference # 5.
- 32 OECD, *Global Industrial Restructuring: Implications for Small Firms*, OECD Working Paper 2002/4 by Kentaro Sakai, February 2002.
- 33 Contractor, F.J. & Lorange, *The growth of alliances in the knowledge-based economy*, *International Business Review* 11, 485-502, Pergammon, 2002.
- 34 ENSR Enterprise Survey 2003 (reference #8).
- 35 European Commission, reference #2.
- 36 See Wallenkint, reference # 10.
- 37 Isaksen, A., *Regional næringsutvikling og framvekst av spesialiserte produksjonsområder. (Regional business development and growth of specialised production areas)* PhD thesis, University of Oslo. Agder Research Foundation Skriftserie No. 5/1994.
- 38 The answer category 'no-barriers exist' was not read out by the interviewer.
- 39 Factor analysis identifies variables that tend to vary in consort when all responses are compared. These variables are therefore assumed to reflect different aspects of the same concept. Here two such groups of variables (factors) have been found, which each explains around 20% of the variance in the responses from the firms. See: European Commission, op cit. reference 1.
- 40 European Commission, *Observatory of European SMEs, 2002/No. 3; Regional Clusters in Europe*; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Luxembourg, Office for Official Publications of the European Communities, 2002.
- 41 ENSR Enterprise Survey 2003 (reference #8).
- 42 See European Commission, reference #2 above and Overweel c.s., op cit, reference #4.
- 43 European Commission, reference #2.
- 44 OECD Policy Brief (2000), *Small and Medium-sized Enterprises: Local Strength, Global Reach*, OECD.
- 45 See Rosenbrand et. al. reference # 5.



## 3 Policy: ambitions, objectives and instruments

By: Rob C. Augusteijn, Koen de Pater and Johan de Vries

### 3.1 Introduction: going international, a national challenge

Being innovative and result-oriented, entrepreneurs are constantly looking for new opportunities, new sources, new partners and new markets. Their playing field is not just the Netherlands, but Europe, the World.

Internationalisation of enterprises contributes to strengthen the capacity for economic growth and competitive power in Europe, thus achieving a sustainable improvement in prosperity in the Netherlands and in Europe. In view of the economic situation, it is necessary for Europe to assume a stronger competitive position, that's why in the year 2000 the Member States of the European Union (EU) reached an agreement in Lisbon which stated that the EU must become the most competitive and dynamic knowledge economy in the world within ten years.

Internationalisation can be described as: 'products can be produced anywhere, using resources from anywhere, by a company located anywhere, to a quality found anywhere, to be sold anywhere'. (John Naisbitt, *Global Paradox; the bigger the world economy, the more powerful its smallest players*, New York, 1994)

The importance of innovativeness is evident on micro, meso and macro level. According to the OECD, internationally operating SMEs more often realise increase in sales and growth than other SMEs. Thus for a relative small country as the Netherlands with an open economy, the importance of internationalisation goes without saying. The combination of innovativeness and internationalisation means that the result - in terms of productivity, of international value chains and of competitive and earning power - is more than the sum of the parts.

The combination of entrepreneurship, innovativeness and internationalisation has many faces. Exploring new markets to export or import products and/or services, or investing in new business, in new production facilities, for example penetrating developing markets like China and Indonesia, or on developed markets like Europe and America, or by moving to low wages countries, looking for efficiency and flexibility by outsourcing are obvious. However innovative internationalisation also means exploring new sources of knowledge and skills and market power.

To make innovative internationalisation possible requires free and transparent markets, for accessibility of essential production factors, for the absence of impediments by legislation and regulations. In other words: it asks for government policy to remove unnecessary barriers, create the necessary conditions and create a level playing field.

But to make adequate use of all the different opportunities of innovative internationalisation demands entrepreneurship and entrepreneurs with vision, skills and guts. It is the responsibility of the entrepreneur to become, and remain, internationally successful. He or she must face the challenges of internationalisation; explore foreign markets, make strategic decisions and search for partners and sources.



Co-operation is a key factor. Co-operation with other companies, with knowledge institutes, in informal networks or in formal strategic alliances and clusters. Co-operation in R&D to develop new technologies and products as well as co-operation in production, trade and marketing to combine components, products and services.

The mission of the Ministry is to promote sustainable economic growth in the Netherlands. Entrepreneurship and innovation are key policy areas.

It is of great importance to the Dutch economy that entrepreneurs look beyond their national borders to innovate and to grow. For that reason the Ministry of Economic Affairs (Ministerie van Economische Zaken) pays considerable attention to promoting international enterprise and R&D co-operation between Dutch and foreign businesses because of the many benefits that international technological partnerships brings. Innovative entrepreneurship and internationalisation, the subject of this publication, is on the crossroads of different but complementary lines of policy and instruments.

As an illustration of innovative international enterprise, this chapter outlines three SMEs that make use of subsidy schemes for technological innovation. They are active in a wide range of sectors and value chains, but there are similarities in the ways in which these innovative businesses operate. For them, international enterprise is partly the result of a strategic choice to combine unique competences and a specific market. The competences include specific technological knowledge and relational or 'network' competences. Their market is a niche market for knowledge-intensive products and services, with relatively few potential customers. This combination of specific technology and small niche markets makes it virtually essential to engage in international business and co-operation. The Dutch market is too small; increasing market size can only be achieved by 'going international'. In order to do this successfully, one needs to seek co-operation for strengthening the technological and relational competences and to enable innovation. This involves co-operation in international chains and networks, vertically and horizontally with other businesses as well as knowledge institutions.

The vertical product chain is, as it were, a trio of business, customer and supplier, within which the innovative product is designed and realised in an iterative way with the business acting as the hub. The added value of the business in the chain lies in its technological knowledge and role as networker/intermediary.

Horizontal co-operation with similarly highly specialised sector partners can be used extremely successfully to provide customers with complete solutions and, with it, to enhance the network and hub function.

All three businesses have come up against only a few obstacles to international enterprise.

## **Case Agriom: international service provider for horticulture development with a hub function**

Agriom B.V., Achterweg 58a, 1424 PR De Kwakel, [www.agriom.nl](http://www.agriom.nl)

**Market and competences** Agriom - Agrarische OntwikkelingsMaatschappij [Company for Agricultural Development]- is a consultancy firm in plant breeding and the development of new varieties in a range of horticultural crops. Agriom is the first in the chain, preceding even 'the young plant' and 'the breeder'. It employs twelve people, three of whom are researchers. The director/owner is an expert in plant breeding and has acquired his business skills and experience working in other businesses. The company focuses virtually entirely on high-value research as its core competence and not on production activities. A deliberate and strategic choice has been made for a small, flexible business and for high-quality service instead of large-scale production.

Agriom promotes itself through exhibitions, the Agricultural Council and through its extensive network. The company is situated in its market, i.e. in amongst the growers (Aalsmeer) and not among the researchers (Wageningen). Today the market is predominantly international: Europe, America, Africa and Southeast Asia. The customers/clients are often Dutch horticulturalists/growers who have emigrated abroad. There is a clear trend towards more direct orders from clients who are close to the consumer, such as retail chains whose deliberate aim is to eliminate links in the supply chain.

**Internationalisation** During its early years Agriom exported seeds, flower bulbs and other horticultural supplies to Southeast Asia in order to generate cash flow for expanding its research activities. This gave rise to international co-operative ventures focusing on development. These ventures are important for the further development and expansion of turnover and knowledge.

**Co-operation** Agriom engages in advice and research for individual businesses as well as groups. The service it provides can vary from advice to the complete planning and implementation of a breeding project, always involving co-operation based on interaction between Agriom and the client. Clients often demand exclusivity, and so new products are protected by Agriom through the application for a 'breeding right', a type of patent.

**International co-operation** An important reason for internationalisation and international co-operation is the migration of Dutch horticulture. For example, in rose cultivation there is a shift from The Netherlands to Africa. In order to avoid becoming too dependent on only a few parties in The Netherlands, international co-operation is a good solution. In Germany, Agriom goes further than ad-hoc co-operation. Here Agriom, together with two competing growers, has set up a business that focuses specifically on a single crop.

The Dutch ornamental flower cluster is wide-ranging and has a good reputation abroad. For these foreign clients, Agriom deliberately fulfils a hub function in a network of all kinds of businesses within the cluster, and therefore also collaborates with them within the cluster. As regards acquisition, the Product Board for Horticulture plays an important role as broker, intermediary and facilitator.

**Innovation** As far as innovation is concerned, a distinction can be made between developing and developed countries: for clients in developing countries the innovation initiative comes from Agriom, whereas for clients in developed countries the initiative is more through interaction between Agriom and the client.

## **3.2 Ambitions and objectives**

### **3.2.1 Enterprise Policy<sup>2</sup>**

#### *Fostering a competitive enterprise environment*

Economic activity and good entrepreneurship are the motors of economic growth. It's the responsibility of the government to create conditions for and eliminate barriers to enterprise development.

Strong enterprise is crucial to the development of the Dutch (and European) economy. Recent figures show a modest rise in the number of start-up companies in the Netherlands. The decline that set in during 2001 now seems to have been halted. Even so, the Netherlands is lagging behind other European countries in the creation of new enterprises. And many new enterprises grow too slowly or do not reach maturity. That's why the goal of government's enterprise policy is to get more and better entrepreneurs.

Entrepreneurship is necessary, both in quantitative and in qualitative terms. Entrepreneurs listen to the market, to the customers, differentiate, diversify and supply tailor-made products and services. That requires a climate that is attractive for entrepreneurship and investments, without unnecessary entry-barriers to the market, with low administrative burden. Companies must be able to take advantage of economies of scale offered by the extension and on-going economic integration of the European Internal Market.

#### *International enterprise and dynamic markets*

Internationalisation, ICT and individualisation lead to more competition, because consumers and companies (and government) can easily compare international products and prices. Not only will international competition become more serious, it will also spread to more and more sectors. Only an economy with a climate that gives room to economic dynamism and entrepreneurship can keep up with international competition.

### **3.2.2 Innovation Policy<sup>3</sup>**

An important objective of the Ministry of Economic Affairs is to take the Netherlands to the top in Europe. Sub-objectives are a better innovation climate, more innovative companies and exploitation of innovative opportunities.

#### *Fostering innovative power*

The goal is to strengthen the innovative power of the Dutch economy. Innovation is the key to achieve sustainable economic growth and to resolve social bottlenecks. Innovation is the development and application of technological knowledge to commercialise new and improved products, processes and services. Innovation must strengthen the Dutch economy. Innovation is primarily the concern of businesses. They determine or at least affect the innovative power of the Netherlands. The Ministry of Economic Affairs tries to influence this role of businesses in a positive way and takes care of good conditions.

#### *Strengthening the climate for innovation*

The Netherlands has to become an attractive location for innovative businesses. The government has to provide a favourable business environment: e.g. good macro-economic policy, less restrictive laws and regulations. International knowledge will have to be utilised

more effectively and the Netherlands will have to show its knowledge internationally.

### *Knowledge economy and innovation*

The Ministry of Economic Affairs aims to make the Netherlands one of the most attractive knowledge economies for innovative development. That is why the government, despite the difficult budgetary situation, is investing € 800 million in education and knowledge. But money alone is not enough. It is also a question of what trade and industry and knowledge institutions can do themselves to contribute to a greater innovative capacity. A coherent strategy and the input of all parties involved are therefore essential.

### *Dynamics: encouraging more companies to be innovative.*

#### *Stimulate new innovative business activity*

An important prerequisite for dynamism in the knowledge economy is new innovative activity. The high-tech start-up policy has now become a fully-fledged part of the innovation policy. This means: structural 'investment' in a policy for all high-tech start-ups, for which purpose the TechnoPartner programme has been developed and implemented. TechnoPartner, set up in October 2004, is characterised by an integral approach: from information supply, creating networks, coaching and financing to facility sharing. The objective is more and better-quality high-tech start-ups.

#### *Exploit the potential of small and medium-sized enterprises*

Most SMEs do not have R&D facilities so they have to use other sources of (technological) knowledge, e.g. (technological) knowledge of other enterprises or 'knowledge institutions'. Existing knowledge can play an important role in developing new products, processes or services. That is why the Ministry of Economic Affairs stimulates the dissemination of knowledge and the use of knowledge by SMEs.

#### *Attract knowledge-intensive business activity to the Netherlands*

Knowledge is a crucial competition factor. Companies, both Dutch and foreign, invest where the business climate is favourable and where they have access to excellent knowledge. Through technological matchmaking and linking with strategic partners, foreign companies come into contact with this knowledge and the Netherlands in its turn can benefit from the knowledge of these foreign companies. Technological matchmaking has proved to be an important factor to attract foreign knowledge-intensive business activity.

#### *Link up to international knowledge clusters*

Stimulating collaboration - national and international - is the basis of the innovation policy. International R&D collaboration and transfer of knowledge are important for innovations. The government encourages Dutch knowledge institutions and companies to participate more in international knowledge clusters and joint research projects. The Netherlands is committed to this, for example by stimulating participation of Dutch enterprises and organisations in the European Union's Framework Programmes and in the EUREKA network.

#### *International science, technology and innovation policy<sup>4</sup>*

The international aspects of Dutch science, technology and innovation policy are oriented towards the European Union on the one hand and towards bilateral activities with a number of countries on the other.

Actions in the context of the European research and innovation area are: setting up Technology

Platforms, reviewing the framework of state support for R&D, and reviewing the opportunities for making national tools available for international collaboration. The Technical Scientific Attachés' network<sup>5</sup> will be used as actively as possible on these key points.

### **Case Van Baal: building up a production specialism in the automotive sector**

Van Baal B.V., Computerweg 20, 3821 AB Amersfoort, [www.vanbaal.nl](http://www.vanbaal.nl)

*Market and competences* Van Baal B.V. is a business with more than 20 employees that manufactures metal parts as well as designing machines for producing them in the automotive sector. Van Baal was set up in 1960 as a tool manufacturer, specialising in making dies for metal processing. This gave rise to a production department for the heating industry. The business then split into two separate enterprises: Van Baal Techniek makes tools and machines, whereas Van Baal Productie manufactures specialised metal components, also using machines developed by Van Baal Techniek.

The move into the automotive sector was not so much a deliberate choice, but had to do with the fact that Van Baal was familiar with aluminium that was beginning to make inroads in this sector. Knowledge and expertise was gradually being acquired on the processing of aluminium in an automotive context. Van Baal then took the deliberate decision to specialise in order for the business to survive as an SME in this sector. During the first few years after moving into the automotive market, Van Baal built machines for manufacturing aluminium bumpers. Later Van Baal began producing its own bumper parts and supplying them to the bumper manufacturer. These were mostly the smaller assembly parts such as brackets, for which it was more attractive to the client, because of the parts' importance and batch size, to have Van Baal produce not the machine but the parts themselves. Later Van Baal entered another niche market by producing components such as decorative trims in steel as well. The difficult thing about these parts is that they are visible to the customer, which means that they have to meet very stringent quality requirements (fit, surface, finish). Van Baal supplies all major car makes, but always indirectly through a supplier of complete subsystems.

*Internationalisation* Van Baal focuses on specific small batches and prototypes of parts. Over the years it has built up (specific) knowledge and expertise with particular parts (such as door frames and window profiles) that is difficult to imitate. It made the deliberate choice to acquire knowledge in these specific areas. The customers for automotive products - both parts and machines - are mostly located in Germany. The company therefore needs to operate at an international level, because the domestic market is too small for such highly specialised products. Contact with customers is relatively easy through trade fairs and because of the small number of firms active in this sector of industry.

*Co-operation* Co-operation in aluminium bumpers arose because the bumper manufacturer was looking for a supplier of tools and machines. This led to technical co-operation, because the technical specification of machines is a reciprocal process between what is wanted and what is feasible and in what way. Specific knowledge from both parties is required, and so extensive discussion is involved, during both the enquiry and design phases. The earlier Van Baal is involved in the process, the more influence it can exert on the specifications, particularly the method of production. Another aspect is that the larger the client, the more detailed the specifications are and the less freedom Van Baal has.

Also purchasing is done largely on a collaborative basis; only a small element of this is off-the-shelf

purchasing. There is a regular circle of a few dozen suppliers, who often suggest ideas themselves on how to improve products. Sometimes a client specifies where certain parts have to be purchased. Since clients also form a well-defined regular group, in practice these chains are more or less permanent. Co-operation is in a team, the aim being to achieve long-term co-operation as this benefits the whole chain: it ensures reliability and certainty. There is also co-operation with sector colleagues because it is impossible for one business to do everything: each enterprise has its own specialism. For this reason there is fairly open communication with competitors, also as regards techniques, which leads to a mutual exchange of knowledge.

*Invest, innovate* The aim is to supply direct to the car manufacturer by creating the right contacts and developing specific knowledge. This means investing in more capital intensive production, know-how and contacts. Van Baal needs to show in specific areas what it is good at, which makes references especially important.

Initiatives for innovations originate from both Van Baal and the client. In the automotive sector, product specifications and associated production equipment are often fixed and so nothing much can be changed except possibly a variation in the production method. Innovation is therefore above all in the process, involving technical modifications and introducing new insights into the design of machines, in order to remain competitive on price. This requires investment in the latest techniques and people.

### **3.3 Instruments**

International co-operation by and opportunities for innovative SMEs and start-ups receive attention in various instruments of the Ministry of Economic Affairs and its agencies. This paragraph contains an overview of the instruments for which internationalisation is a goal or an important aspect as well as some European instruments.

On 30 May 2005, the Minister of Economic Affairs sent a letter to parliament ('herijking') announcing a streamlining of the government schemes to promote innovation and international activities. The schemes as mentioned in this booklet will be subject to changes in 2005 - 2006.

#### **3.3.1 Research & Development**

The instruments directed at Research & Development (R&D) are implemented by SenterNovem<sup>6</sup>. This agency of the Ministry of Economic Affairs has analysed the international contacts of Dutch innovative technology-companies in various public programmes<sup>7</sup>.

##### *Technological Co-operation scheme*

Technological Co-operation (Technologische Samenwerking Internationaal/TSI) was a general grants scheme to stimulate R&D co-operation between companies. The scheme consisted of a generic part and specific elements for international co-operation, co-operation with emerging markets, co-operation in the maritime sector and co-operation in ICT breakthrough projects. The proposed projects were appraised and prioritised based on the criteria of co-operation, technological innovation, sustainability and economic perspective. The projects that best satisfy the criteria received grants until the budget was exhausted. In the year 2004 the scheme was integrated into the new scheme "Innovation Subsidy for Collaborative Projects" (see box below).

### *Innovation Subsidy for Collaborative Projects (IS)*

This scheme (Innovatiesubsidie Samenwerkingsprojecten) subsidises technological collaboration in R&D concerning innovative sustainable products, processes or services. SenterNovem has been commissioned by the Ministry of Economic Affairs to implement the programme.

The scheme in short:

- A subsidy for a Research and Development project that a company executes together with one or more knowledge centres and/or other companies.
- National and international collaborative alliances are eligible for subsidy.
- There are four evaluation criteria for R&D projects: technological innovation, sustainability, collaboration and economic perspective.
- There are four submission periods (tenders) annually for R&D projects.

Projects with EUREKA status can apply for subsidy under the IS scheme.

The Dutch EUREKA secretariat is located at SenterNovem.

In each project, a Dutch company cooperates with one or more foreign partners. Most foreign partners are located in Europe (esp. Belgium, France, Germany and the United Kingdom) and the United States. Co-operation with partners in China, Brazil and South Africa is gradually increasing. One has to bear in mind that the number and size of projects and thus the number of foreign partners, depend not only on the interest of companies but also on the available budget. In 2003, 41 projects were started; in 2004, 36 projects. It is not only the number of projects that counts as the programme also organizes matchmaking events and company missions to other countries to meet potential partners.

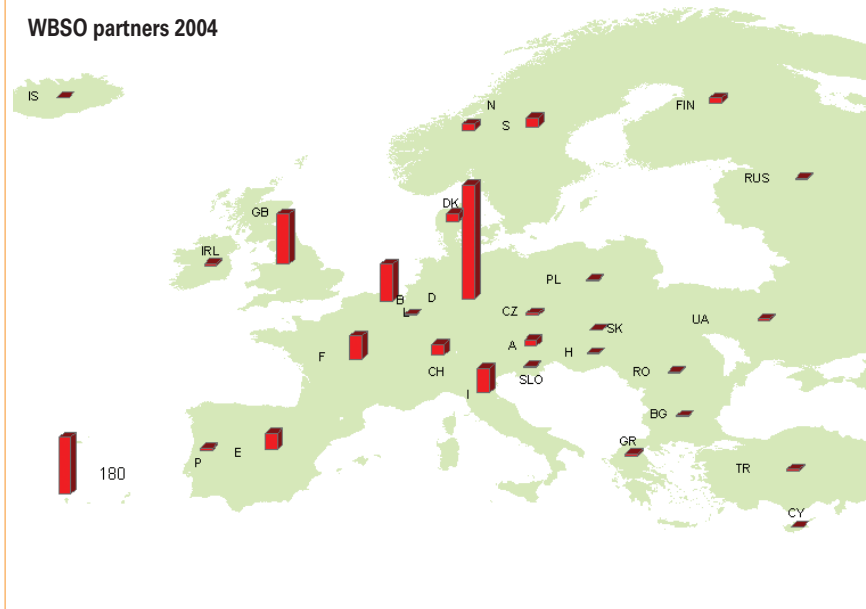
### *Research and Development (Promotion) Act (WBSO)<sup>8</sup>*

This Act provides a fiscal facility for companies; knowledge centres and self-employed persons who perform R&D work. Non-profit organisations qualify only if they perform R&D on the instructions and at the expense of a Dutch company.

Under the Act, a contribution is paid towards the wage costs of employees directly involved in R&D. The contribution is a reduction of tax on wages and social security contributions and an increase in the tax deductions for self-employed persons.

In 2004, in 1300 WBSO grants given, the applying company stated that it would be working together with a foreign partner. This number has gradually gone up since 2001. 80% of the partners are located in Europe, most of them close by: Germany, the United Kingdom and Belgium. Outside Europe, most partners are in the United States.

**Figure 3.1 European partners from Dutch companies in WBSO**



### **3.3.2 International co-operation**

The instruments directed at international co-operation are implemented by EVD<sup>9</sup>, Agency for International Business and Co-operation.

#### ***Agency for International Business and Co-operation (EVD)***

EVD has a mission to promote and encourage international business and international co-operation. As a State agency and a partner to businesses and public-sector organisations, EVD aims to help them achieve success in their international operations. Knowledge of the market and good contacts are of major importance to the starting position of a company in foreign markets. EVD offers Dutch companies a great deal of information on foreign markets and opportunities for international commerce. A growing network of organisations, government institutions and companies has come to rely on the EVD for information about foreign markets, governments and trade and industry. Its task is to support Dutch businesses operating in foreign markets. A guide for the entrepreneur who wants to start exports can be found on the website [www.internationaalondernemen.nl](http://www.internationaalondernemen.nl). But EVD also pays attention to the private sector in emerging markets and developing countries.

**PESP, the Programme for Economic Co-operation in Projects<sup>10</sup>**, is a programme that strengthens bilateral economic relations with non-OECD countries and Hungary, Poland, the Czech Republic, Turkey, Mexico, South Korea, and the Netherlands Antilles with the aim of increasing the opportunities for Dutch companies to obtain orders in these far away countries. Dutch companies and consortiums can submit proposals for activities that may lead to export transactions. The activities may be feasibility studies, project identification and investment preparation studies. These activities must result in early familiarisation of the foreign party



with the offers of Dutch companies and an increased probability of the Dutch business community acquiring orders in the project implementation phase. PESP is not for market research or acquisition activities of individual companies.

**PSB, Programme for Starters in Foreign Markets<sup>11</sup>**, supports small and medium-sized enterprises (SMEs) in the first steps on the road to exports. Chambers of Commerce and/or trade associations in the Netherlands help companies to develop an export strategy to serve as a basis for using PSB elements. These include a market exploration, organisation of visits, participation in fairs, export training courses, development and production of presentations in a foreign language and the appointment of an export employee. PSB is intended for Dutch SMEs (with not more than one hundred employees) that are embarking on exports for the first time. Subject to certain conditions, the programme is also open to companies that already have limited exporting experience.

**PSO, Programme for Co-operation with Central and Eastern Europe<sup>12</sup>** seeks to transfer economic knowledge from the Dutch business community to the new Member States in Central and Eastern Europe, through investments and other means, so as to facilitate the transition to sustainable market economies in the region. The programme supports (commercial) cooperative ventures between companies in the Netherlands and Central/Eastern Europe. The Ministry of Economic Affairs and the responsible ministry in the recipient country sign a Memorandum of Understanding (MoU) that covers one or more years in order to formalise the arrangements.

**PSOM, Programme for Co-operation with Emerging Markets<sup>13</sup>**, contributes to sustainable economic development in a number of developing countries by using the knowledge and capital of Dutch companies and organisations. The programme offers companies a stepping-stone to a more structured commercial presence in these countries. First, the sectors requiring attention are identified in consultation with the countries concerned. Dutch companies are then invited, through a public tender procedure, to submit proposals for projects in those sectors. The projects must be predominantly pilot projects that pave the way for local investments or long-term trade relations.

### *International Enterprise Action Programme and Dutch Trade Board*

Recently the Ministry of Economic Affairs has started the International Enterprise Action Programme. This programme contains the policy and accompanying actions relating to international enterprise. Promoting international activities of Dutch companies and strengthening their position on international markets are the goals. Among other things by the establishment of the Dutch Trade Board, that must lead to concentration of forces. This board will coordinate trade-missions and promotion-events, and will make recommendations to the Ministry of Economic Affairs.

## **Case: Mosaic Systems: onto the international market with unique membrane know-how**

Mosaic Systems, Brugsteen 5, 4815 PL Breda, [www.mosaicsystems.nl](http://www.mosaicsystems.nl)

**Market and competences** Mosaic Systems is a two-man enterprise that specialises in separating and purifying biological components. In order to do this, it designs and supplies a module in which a resin (a substance that causes the component to be separated to bind to it) is incorporated in a substrate. The business developed from the Membrane technology subject group at the University of Twente, as a result of research which the professor felt had some commercial opportunities and for which he sought an entrepreneurial partner. He found this in Business Factory, a company that initiates new businesses. This resulted in a small-scale business comprising a scientist and a commercial partner.

Initially Mosaic Systems focused on Life Science applications with clients in areas such as the dairy industry, natural colourants and bio-pharmaceuticals. The market in all these segments is international. Ultimately the aim is to supply a number of good and popular products 'off the shelf'. The market approach is technology-push: Mosaic Systems identifies potential clients and then tries to enter into a development relationship with them. Mosaic Systems has found that in this niche market it is relatively easy to develop customer relations in this way, an important aspect here being the focus on Life Sciences. Such businesses try very hard to remain at the cutting edge of technology and are therefore relatively easy to interest in new techniques. As well as analysing the market and approaching it by telephone, Mosaic Systems also develops contacts at international trade fairs, through partners and via clients.

**Internationalisation** The technology can be used in all kinds of markets where products need to be separated from a process flow. There are however a limited number of potential clients in each submarket, each client only requiring a few products. The small market size demands an international dimension and so international enterprise is essential for marketing the product.

**Co-operation** Co-operation is pursued in three ways: with the client and resin supplier (vertical), with sector colleagues (horizontal) and with knowledge institutions.

Through vertical co-operation with the resin manufacturer, the client decides which resin is suitable for its function. This is done in an iterative process. The aim is to reduce the number of iterations over time through the learning process, which in turn will shorten the development period, and for a number of popular products will eliminate this development period altogether so that the products can be supplied off the shelf. Tailor-made products will continue to be produced, though, simply because of the variety and specific properties of the resins.

There is also horizontal co-operation with sector colleagues in separation technology. This is because certain products are complementary, and the client is often in search of a total solution for bioprocessing. Mosaic Systems collaborates with the University of Twente for research and a production facility. Thanks to this collaboration, Mosaic Systems has access to scientific knowledge and for the time being does not need to invest in its own production and research facilities. The relationship with various institutions including the University of Aachen has allowed Mosaic Systems to participate in a project within the European Framework Programme.

**Innovation** The incentive for innovation originates partly from the client and partly from the development of science in this area (University of Twente).

### 3.3.3 High-tech start-ups

High-tech start-ups are new companies, not older than 5 years, with founders that often have a higher level of education. They develop and commercialise innovative products, processes or services based on their own (public or private financed) scientific/technological research and inventions or by making new combinations of existing technologies. By doing so they contribute to the innovativeness, productivity and growth of the economy.

Techno start-ups are often confronted with considerable R&D-efforts and high risks which makes raising venture capital a big problem, they do not have track-records, and they often lack entrepreneurial skills.

#### *The TechnoPartner Programme*

Given the economic importance of high-tech start-ups, specific policy for this kind of innovative enterprises is justified. The Dutch TechnoPartner programme encourages innovative entrepreneurship and offers a cohesive package of actions, viz.:

- A knowledge exploitation scheme (SKE<sup>14</sup>), to stimulate utilisation of scientific knowledge by techno start-ups. The scheme consist of several modules like:
  - a pre-seed facility that gives high tech start ups the option to put more time and energy into the phase prior to the actual start;
  - a patent facility that enables the professionalization of the patents policy within the Dutch knowledge institutes;
  - modules for the professionalization of the tracking and tracing of ideas;
  - coaching programmes to help start ups with entrepreneurial skills.
- A seed facility to stimulate and mobilise the bottom end of the Dutch Venture Capital market, so that high-tech start-ups can satisfy their capital requirements in the early phase.
- A platform to answer questions and provide links for techno-starters, research institutes and other parties, and to make an inventory of the obstacles faced by high tech start ups.

#### *TechnoPartner goes international*

The quality of publicly financed knowledge in Europe is high. Unfortunately, much of this knowledge and R&D-(results from knowledge-institutes) is insufficient utilised and not or not sufficiently converted into prosperity.

This contrast is known as 'the European Paradox'. High-tech start-ups play an important role in resolving this paradox, as they move on the borderline between science and commerce and bring newly developed technologies to commercial maturity in new companies.

On the other hand the international market becomes the relevant playing field much sooner for high-tech start-ups than for other start-ups. The competitive situation on the international market will, increasingly, become a determining factor for the success of high-tech start-ups. More and more, international collaborations between knowledge institutes, the established business world and high-tech start-ups will be realised.

To improve the international options for high-tech start-ups the TechnoPartner programmes objectives are:

- Making the Programme internationally known through active participation in expertgroups and networks (CREST OMC-SMEs and start ups) and conferences<sup>15</sup>.
- Better utilisation of European (subsidy) programmes and networks by Dutch high-tech start-ups and by the TechnoPartner programme.
- Exchange of knowledge and experience of (international) stakeholders in the area of

knowledge exploitation.

- Exploring co-operation concerning start-ups with a.o. Flanders and North Rhine-Westphalia.
- Organising matchmaking events for start ups in the US with Angel Investors and Venture Capitalists for risk capital.

### 3.4 The European theatre

The international Dutch science, technology and innovation policy is oriented towards the European Union on the one hand and towards bilateral activities with a number of countries on the other. The Dutch government stimulates participation of Dutch enterprises in the EUREKA network and European Union's Framework Programmes.

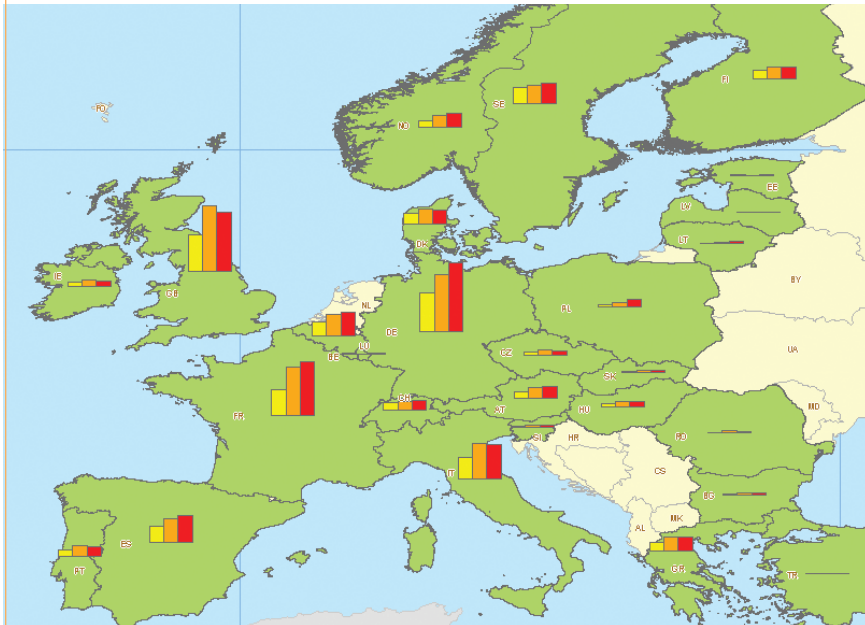
#### *The European Framework Programmes*

The European Union's Framework Programmes for research and technological development provide additional R&D funds and ensure that the Netherlands also participate in the development of high quality knowledge and R&D projects within the European context. The Framework Programmes provide access to scientific and technological knowledge generated by the European Union as well as third countries, to European networks in different scientific and technological areas and to large-scale, advanced technical facilities.

**EU-Liaison**, 'the guide to European R&D subsidies', is a part of SenterNovem aimed at strengthening the participation of Dutch companies and organisations in R&D programmes of the European Union, and to stimulate innovative co-operation in Europe. EU-Liaison provides guidance and impartial advice about the opportunities that exist in European R&D programmes, organises training courses and searches for partners.

Within the Framework Programme hundreds of Dutch firms and knowledge-institutes took part in technological co-operation-projects. The European Commission has mapped for the years 2000 and 2002 where the foreign project-partners came from<sup>16</sup>. Most partners of Dutch organisations come from our neighbours, especially the United Kingdom, Germany and France. Half of the foreign partners came from these three countries. (e.g. Germany 2002 = 2200 partners). It should be noted that the European programme attracts mainly knowledge institutes and not many companies; the European Commission does not split up these partners per country.

**Figure 3.2 European partners within the 5<sup>th</sup> EU Framework Programme, 2000-2001-2002**



### *The EUREKA network*

Launched in 1985, EUREKA is a pan-European network for market-oriented R&D bringing together industry and re-search institutes from 35 member countries and the European Union<sup>17</sup>. EUREKA supports the competitiveness of European companies through international collaboration, in creating links and networks of innovation. The objective is to bring high quality research and development efforts to the market and to use the multiplying effects of co-operation. EUREKA offers a platform for short-term as well as strategic collaboration, and a frame for co-operation for small and large companies alike. It helps to forge partnerships that produce marketable results utilising advanced technologies to strengthen European competitiveness. Over the years EUREKA has helped industry and research institutes to cooperate in more than 3000 projects. Many of these companies have experienced significant increases in their annual turnover through the subsequent exploitation of results.

### *The Dutch chairmanship of EUREKA*

During the period from mid-2004 till mid-2005 the Netherlands is chairman of EUREKA. During its chairmanship the Netherlands organises and hosts a number of EUREKA meetings. These meetings are used to approve new projects and to discuss policy issues in the EUREKA context. ([www.eureka-chair.nl](http://www.eureka-chair.nl))

The Netherlands is an active member within the EUREKA network<sup>18</sup>. The Ministry of Economic Affairs operates a subsidy scheme to stimulate Dutch businesses to collaborate within the EUREKA network. Subsidy can be obtained for EUREKA projects on the basis of the Innovation Subsidy for Collaborative Projects (Innovatiesubsidie Samenwerkingsprojecten/IS-scheme, described above).

### *The Innovation Relay Centre*

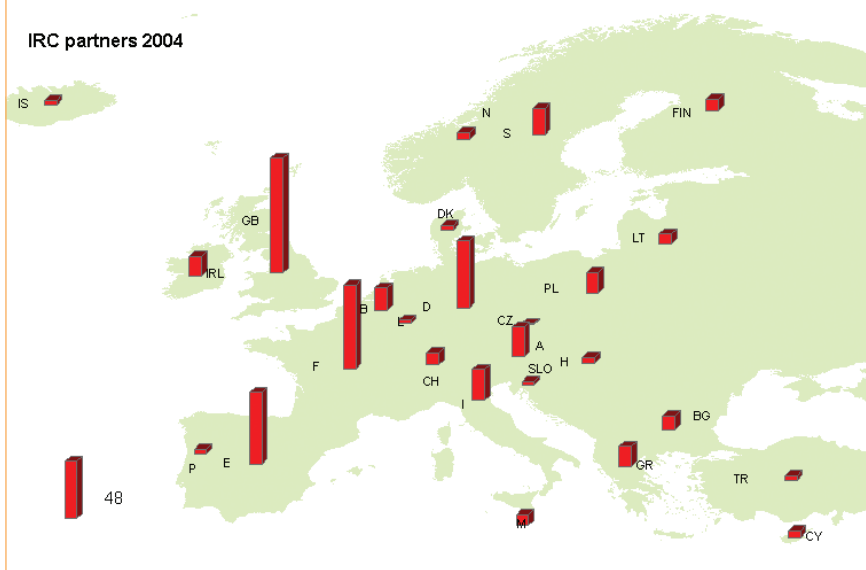
IRC Netherlands (IRC-NL) encourages European technological co-operation by bringing companies into contact with each other, based on the demand for and/or supply of technology. IRC Nederland is a collaborative venture between the European Commission and the Ministry of Economic Affairs. More than 200 offices throughout Europe are linked to the IRC network, with about 1000 technology brokers. In the Netherlands, IRC-NL is part of Senter/EG-Liaison and Syntens. Through the Internet, but also through publications in various trade journals and fairs, IRC-NL draws the attention of organisations to (foreign) requests for and offers of new technological knowledge. IRC-NL records the foreign reactions to requests of Dutch partners and the Dutch reactions to requests of foreign partners. These contacts are then followed up and IRC-NL offers support to Dutch organisations in bringing about international technological co-operation.

In 2004, IRC-NL brought 150 foreign parties into contact with Dutch companies. Conversely, 380 Dutch organisations were introduced to foreign parties.

These potential partners are located across Europe, but most of them in the United Kingdom, France, Germany and Spain. One has to bear in mind that the numbers are influenced not only by the interest of Dutch companies, but also by the level of activity of the foreign IRC-offices.

These contacts can lead to actual co-operation in various forms. The most formalized way is a contract; usually, 10 to 20 contracts are concluded per year.

**Figure 3.3 The potential partners abroad, linked through IRC to Dutch companies**



### **3.5 International technology co-operation, the overall picture**

Europeanization and more generally internationalisation are trends in virtually all areas. In recent recommendations, the Dutch Advisory Council for Science and Technology Policy (AWT)<sup>19</sup> also observed that in R&D there is a continuing autonomous trend towards

internationalisation. This worldwide development is taking a variety of forms, such as international exploitation of knowledge and technology, cross-border participation between public and private parties, and cross-border investment in research capacity by multinationals. The Dutch government - in particular the Ministry of Education, Culture and Science and the Ministry of Economic Affairs - is aiming to support this development through a variety of policy tools. Judging from these tools, the international partners for innovation of Dutch companies appear to be mostly close by: in Germany, the United Kingdom, Belgium and France. Outside Europe, partners for innovation are mostly located in the United States. In other continents, the numbers of partners are still very low, but seem to be increasing.

## Notes Chapter 3

- 1 "Small and Medium-sized Enterprises: Local Strength, Global Reach", OECD, 2000.
- 2 The policy on entrepreneurship is described in "Action for entrepreneurs!" Paper to Parliament, Ministry of Economic Affairs, The Hague, December 2003
- 3 The policy on innovation is described in "Action for innovation", Paper to Parliament, Ministry of Economic Affairs, The Hague, October 2003. The action plan for innovation is in fact the Netherlands' link to the Lisbon Strategy. In the year 2000 the Member States of the European Union (EU) reached an agreement in Lisbon, which stated that the EU must become the most competitive and dynamic knowledge economy in the world within ten years. The Netherlands is making a solid contribution to this objective through its new innovation policies.
- 4 "Science, Technology and Innovation in the Netherlands. Policies, facts and figures." Ministry of Economic Affairs, The Hague, June 2004
- 5 TWA-network, the Technical Scientific Attachés' network in the USA, Japan, Singapore, Belgium (EU), UK, Germany, France, and Italy, gathers information about technology and technology policy for Dutch companies, knowledge institutions, universities, and government bodies, and makes contacts between Dutch and foreign organisations.
- 6 SenterNovem, an agency of the Dutch Ministry of Economic Affairs, implements policies and thus contributes to innovation and sustainability.
- 7 The analysis must be regarded with care: the figures do not always have the same basis and sources, and they are based on voluntarily given information from companies on subsidised activities and projects.
- 8 WBSO = Wet Bevordering Speur- en Ontwikkelingswerk (Law to promote research and development).
- 9 Websites: [www.evd.nl](http://www.evd.nl), [www.internationaalondernemen.nl](http://www.internationaalondernemen.nl), [www.hollandtrade.com](http://www.hollandtrade.com).
- 10 PESP = Programma Economische Samenwerking Projecten (economic co-operation programme projects).
- 11 PSB = subsidieregeling Programma Starters op Buitenlandse markten (subsidy programme for starters in foreign markets).
- 12 PSO = Programma Samenwerking Oost-Europa (Eastern Europe co-operation programme).
- 13 PSOM = Programma Samenwerking Opkomende Markten (emerging markets co-operation programme).
- 14 SKE = Subsidieprogramma Kennis Exploitatie.
- 15 Conference Investing in Research and Innovation, realising the potential of public private interaction (Noordwijk october 2004); Conference Promoting Innovation and Competitiveness: a Transatlantic Dialog (Scheveningen, april 2005).
- 16 RTD Annual Reports, more recent figures are not yet available.
- 17 EUREKA  
*Member Countries:* Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Monaco, The Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, Republic of San Marino, Serbia And Montenegro, Slovak Re-public, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, European Union  
*EUREKA National Information Points (NIPs):* Albania, Bulgaria, Ukraine  
*EUREKA Associated Country:* Morocco
- 18 The Dutch secretariat is located at SenterNovem.
- 19 The Advisory Council for Science and Technology Policy (AWT) advises the Dutch government and parliament on policy in the areas of scientific research, technological development and innovation.





# 4 *Myths surrounding the internationalisation of smaller private firms*

Paul Westhead, Mike Wright, Deniz Ucbasaran

## 4.1 Context for Supporting Enterprise

The entrepreneurial function is a vital component in the process of economic growth (Organisation for Economic Co-Operation and Development (OECD), 1998). Some small and medium-sized enterprises (SMEs) with a focus on wealth creation are exploiting opportunities in international markets. To encourage this process and to secure greater international competitiveness, governments throughout the European Union are concentrating their attention on the development of policy measures aimed at both new and established private SMEs (Department of Trade and Industry, 2004). Moreover, to address the new firm displacement issue, policy development is encouraging new private SMEs to trade internationally from the outset. The policy challenge relates to the inability and/or reluctance of the majority of private SMEs to become exporters. The promotion of further exporting by existing exporting SMEs has also become an area of critical policy interest (Julien et al., 1997). Chapter 3 of this report highlights an extensive range of initiatives such as the Programme for Starters in Foreign Markets (PSB) designed to foster internationalisation for 'export capable' and inexperienced exporters. The decision made by a firm (and entrepreneur) to export is regarded as an important strategic choice (Melin, 1992) that warrants additional research and policy attention. Consequently, there is a need for greater understanding of the factors associated with firms (and entrepreneurs) that create and/or identify opportunities in foreign markets.

International entrepreneurship is a relatively new and emerging field (Giamartino et al., 1993; Wright and Ricks, 1994) still seeking a focus. The novel contribution to knowledge as well as policy debates is also still not clearly positioned by international entrepreneurship scholars (McDougall and Oviatt, 2000; Acs et al., 2003; Young et al., 2003). Whilst there is a considerable pool of knowledge relating to the internationalisation of large and multi-plant companies (Coviello and McAuley, 1999; Roper and Love, 2002; Etemad, 2004), until recently there has been comparatively limited information relating to the internationalisation of new and smaller private firms. Several recent studies have begun to explore the complex array of factors associated with the reasons 'why' and 'how' smaller private firms internationalise. On the downside, many of these studies are fraught with methodological problems (Coviello and Jones, 2004) relating to definitions, sampling and the mis-specification of empirical models. Further, several strands have emerged in the literature that have developed without close 'dialogue' with one another. This has led to the emergence of a set of myths held by some academics and policy-makers in the field of internationalisation. Utilising a review of the current literature and the evidence and discussion presented in Chapters 2 and 3 of this report, this chapter questions some of these myths. If these myths are perpetuated, and become unequivocally accepted, there is a risk that inappropriate support towards private firms may be provided. The aim of our review of the emerging internationalisation literature is to stimulate policy discussion. We seek to complement the other contributions in this report and offer additional insights that may help inform policy towards the internationalisation of SMEs.

Before doing so, it is worth considering the definition of internationalisation underpinning this review. There is no agreed definition of international entrepreneurship (Young et al., 2003), or internationalisation (Bell and Young, 1998). Internationalisation has been viewed as the process of increasing involvement in international markets (Welch and Luostarinen, 1988). Zahra and George (2002, p.261) defined international entrepreneurship as "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage". As acknowledged in the earlier chapters of this report, a distinction can be made between inward and outward activities. Inward processes relating to internationalisation (i.e., importers, licensees and franchisees) have received relatively limited attention, despite the belief that many firms begin their first international activity on the inward side (Korhonen et al., 1996; Welch, 2004). Most internationalisation studies generally focus on the outward processes associated with exporting, licensing, franchising and foreign direct investment (FDI), with exporting being the main mode of internationalisation for SMEs. Consistent with the literature, this review will focus on the outward processes relating to the internationalisation (mainly exporting) of smaller private firms.

In the following sections, we identify and discuss the following 10 myths with regard to the internationalisation of private SMEs:

- Myth 1 All private SMEs (and entrepreneurs) want to internationalise.
- Myth 2 Informational obstacles are the key barriers to private SME internationalisation.
- Myth 3 Owners of private SMEs mainly cite proactive reasons for internationalisation.
- Myth 4 The domestic environmental context shapes the decision of a private SME to internationalise.
- Myth 5 Private SMEs internationalise following a sequential series of stages and at each stage resources and learning are accumulated.
- Myth 6 Many new private SMEs can internationalise from the outset.
- Myth 7 Private SMEs will select a joint venture or franchising mode to enter the largest foreign market.
- Myth 8 Internationalisation studies should focus on the firm rather than the entrepreneur as the unit of analysis.
- Myth 9 Private SMEs solely leverage their own internal resources to internationalise.
- Myth 10 Private SMEs that internationalise report superior levels of performance.

By highlighting these myths, we seek to create greater awareness of the implicit views that may be held by policy-makers and entrepreneurs. With reference to the evidence base, alternative perspectives for consideration are highlighted. Implications associated with the above myths are then discussed. In the final section of this review, our recommendations for policy are summarised.

## **4.2 Myths Surrounding the Internationalisation of Smaller Private Firms**

### **4.2.1 *Myth 1: All Private SMEs (and Entrepreneurs) Want to Internationalise***

Given the potential job generation and wealth creation benefits associated with internationalisation, the myth that all private SMEs/entrepreneurs want to internationalise has emerged.

However, many firms (and entrepreneurs) do not want to internationalise because they are reluctant to commit their (limited) resources to enter foreign markets (Christensen 1991; Westhead et al., 2001a). In fact, most SMEs 'stay at home' (Acs et al., 1997). Westhead et al., (2002) found with regard to their sample of 'micro' (i.e., businesses that employ between 1 and 9 employees) and 'small' (i.e., businesses that employ between 10 and 49 employees) independent firms in Great Britain that only 31% were exporters. A significantly smaller proportion of 'micro' rather than 'small' firms were exporters (24% of 'micro' firms compared with 48% of 'small' firms). Further, among those firms that did export, the proportion of their sales derived from foreign markets was rather small (on average, 9% for 'small' firms compared with 4% for 'micro' firms). 'Small' firms, however, exported a significantly larger proportion of their sales outside the UK than 'micro' firms. A similar pattern was detected by Westhead et al., (2004) with reference to a sample of 377 independent limited liability companies located throughout the UK engaged in a variety of manufacturing, construction and service industries. They noted that only 33% of firms were exporters, while the mean proportion of sales from exporting was only 8%.

Empirical evidence reported in Chapter 2 suggests a similar pattern in The Netherlands where only 20% of SMEs were found to be exporters. The attitudes, resources and behaviour of the non-exporters warrant additional attention. Further, the majority of the non-exporters may not have the inclination and/or ability to export. Evidence reviewed below shows that the vast majority of non-exporting private firms do not export because they are focusing on their domestic market (Westhead et al, 2002). Indeed Chapter 2 shows that 59% of non-internationalised SMEs in The Netherlands have never considered internationalising. Consequently, while policy-makers may hold the belief that internationalisation is desirable, they need to acknowledge that attitudinal barriers need to be addressed if the pool of internationalising private SMEs is to be increased.

#### **4.2.2 *Myth 2: Informational Obstacles are the Key Barriers to Private SME Internationalisation***

Given the previous myth, many policy-makers have tried to develop a host of initiatives to encourage SME internationalisation, many of which focus on trying to reduce the informational obstacles to SME internationalisation. This is based on the myth that informational obstacles are the key barrier to SME internationalisation.

Information is required by entrepreneurs to create and/or discover opportunities in domestic and international markets. SME owners with limited information (and networks) may be unaware of opportunities in both domestic and foreign markets. However, empirical evidence suggests that the major reason why many firms do not export is because they make the decision to focus on servicing customer needs in local domestic markets. Informational obstacles (Leonidou, 1995; Morgan and Katsikeas, 1997a) do not appear to be the most frequently cited main obstacle to exporting. For example, Westhead et al., (2002) found that 61 'micro' firms (85%) compared with 18 'small' firms (78%) considered strategic obstacles to be the main reason for not exporting. Conversely, they detected that only 3 'micro' firms (4%) compared with 2 'small' firms (9%) considered informational obstacles to be the main reason for not exporting.

Similarly, evidence relating to The Netherlands reported in Chapter 2 suggests that the lack of information is not a common barrier. One explanation could be that this reflects the relatively widespread existence of policy measures directed towards informing internationalising enterprises (and entrepreneurs). An alternative explanation, as earlier purported, could be that many SMEs do not see information as the main obstacle to internationalisation. Indeed, Crick and Czinkota (1994) noted that exporting firms in the UK were largely unaware of government programmes available for assisting their export activity.

#### **4.2.3 *Myth 3: Owners of Private SMEs Mainly Cite Proactive Reasons for Internationalisation***

With reference to The Netherlands context, evidence reported in Chapter 2 suggests that SMEs cite proactive reasons to internationalise: the desire to access new and larger markets as well as know-how and technology. Consistent with myth 1, we suggest that the view that SMEs will internationalise for proactive reasons represents a myth. Myth 3 suggests that this view may not be universally applicable for SMEs located in a wider range of domestic national contexts.

Evidence suggests that many private firms internationalise due to unsolicited orders (Welch, 2004). Some SMEs report that they are 'pulled' into exporting by customers who demand their products/services abroad (O'Farrell et al., 1996). A report published by the European Commission (2003), in addition, highlights that the majority of SMEs in Europe started exporting due to an unsolicited order and/or an informal contact.

The reasons/motives for exporting have been examined along the dimension of proactive-reactive behaviour by the firm and internal-external environmental factors. Westhead et al., (2002) detected that reactive-external stimuli were the main stimuli reported by both exporting 'micro' and 'small' firms located in Great Britain. The reactive-external stimuli of being 'pulled' into exporting due to 'being contacted by foreign customers who place orders' or receiving a 'one-off order' was particularly important for 'micro' rather than 'small' firms. They also detected that a larger proportion of respondents in 'small' firms rather than 'micro' firms reported proactive-internal and proactive-external stimuli (i.e., 'export markets pro-actively targeted by other members of staff' and 'excess capacity 'pushed' the business into exporting'). The latter evidence is, in line, with the size issue evidence reported in Chapter 2.

Many SMEs become exporters without much rational analysis or deliberate planning. Further, the activities of national and local development agencies supported by the public purse are not regarded as being relevant by many smaller firms (Westhead et al., 2002). This evidence, in part, supports Morgan and Katsikeas's (1997b) assertion that the direct effects of national export assistance policy in encouraging export initiation and development in SMEs may be relatively minimal.

#### **4.2.4 *Myth 4: Domestic Environmental Context Shapes the Decision of a Private SME to Internationalise***

Myth 4 arises from the notion that firms accumulate resources in domestic markets and then leverage these resources (and learning) to internationalise their firms' activities (Wiedersheim-Paul et al., 1978). Dimitratos et al., (2004) assert that firms in Greece internationalise primarily to take into account the uncertainty of domestic environmental conditions. Further, some SMEs

may be located near to other firms to lever local demand through input-output multipliers (McNaughton and Brown, 2004). Local customers and other organisations can act as conduits to increase the pool of SMEs reporting the propensity to internationalise.

There is scant empirical evidence to suggest that domestic environmental conditions provide the basis for learning and knowledge accumulation that forms a positive platform for internationalisation (Préfontaine and Bourgault, 2002; Etemad and Wright, 2003; Blomstermo et al., 2004). In fact, hostile and resource-sparse domestic markets can 'push' smaller firms into exporting (Moen, 1999). Despite this view, with reference to a larger database of independent companies located throughout the UK, Westhead et al., (2004) found that SMEs' perceptions of environmental turbulence were not significantly associated with the propensity to export, or the intensity of internationalisation. Further, there was no support for an interaction effect between environmental turbulence and organisational strategies or organisational resources.

The importance of the domestic environment may, however, be sector and country specific. With reference to a longitudinal study conducted in Finland, Luostarinen and Gabrielsson (2004) concluded that Born Globals (BGs) (or international new ventures (INVs) drawn from large countries globalise mainly because of the demand-based pull forces in global markets for their products. Conversely, BGs drawn from small and open economies do so due to the push and pressure forces related to the smallness and openness of domestic markets, and the fear of expected future competition coming from BGs located in large countries. Similarly, Chapter 2 highlights important variations between small and open economies.

#### **4.2.5 *Myth 5: Private SMEs Internationalise Following a Sequential Series of Stages and at Each Stage Resources and Learning are Accumulated***

Myth 5 is based on unrealistic assumptions relating to the stage process modes of internationalisation. Stage model theorists view internationalisation of the firm as a unilinear evolutionary process, with incremental stages and a well-defined mode of operation at each stage (Johanson and Vahlne, 1977; Anderson, 1993). Each stage exposes the firm to higher levels of risk and the requirement of more resources to proceed. Further, each stage is characterised by 'typical' firm behaviour and associated internal commitment of the firm. Stage model theorists assume that firm development is shaped by limited information surrounding foreign markets, limited experience of international operations and an aversion to risk (Welch, 2004). Firms are seen as being able to move on to the 'next' stage if they acquire advantages such as knowledge. Previous experiences, knowledge and learning can impact on subsequent routines, which may lead to identification and exploitation of opportunities in foreign markets (Madhok, 1997).

A common underlying assumption is that firms are established in domestic markets prior to developing international strategies (Bell et al., 2004). Stage model theorists assume that the firm's pool of competencies, skills, resources and capabilities as well as 'experimental' knowledge is acquired initially in domestic markets. The ability of a firm to enter export markets is, in part, governed by acquired market knowledge and the ability to identify opportunities in foreign markets (Anderson, 1993). This knowledge increases gradually and impacts on internationalisation 'commitment decisions' (Eriksson et al., 1997). Further, stage model theorists assume that firms exporting for the first time, generally select foreign markets

which have some 'market and cultural similarity' with their domestic market in order to reduce risk (Wiedersheim-Paul et al., 1978; Boter and Holmquist, 1996; O'Farrell et al., 1996; Stöttinger and Schlegelmilch, 1998). However, following an experience learning curve (Ursic and Czinkota, 1984), some firms may subsequently actively seek out more geographically distant foreign opportunities.

Stage process models are now being questioned (Forsgren, 2002; Bell et al., 2004). Concern has been raised surrounding their ability to delineate boundaries between stages, or explain the diversity of processes, which are associated with the movement between stages (Anderson, 1993). SMEs may lack the resources for gradual 'stage' progression into the international arena over time, particularly within a time frame needed to exploit increasingly shorted-lived proprietary advantages (Dana and Wright, 2004). SME development can be non-linear and even chaotic. Some exporting firms may withdraw from exporting and re-enter exporting at a later point in time. In Chapter 2, it was highlighted that earlier European Observatory reports had detected that a sizeable share of European non-exporters had exported in the past. It may be the case that at least some of these SMEs export when there is limited demand in the domestic market, and then stop exporting when domestic market conditions improve. Crick (2004) has identified 'disappointed firms' (i.e., firm has exported in the past but it is not currently engaged in exporting and does not plan to export in the future) and 'disinterested firms' (i.e., firm has exported in the past but it is not currently engaged in exporting but it plans to export in the future). There may, therefore, be a need to focus on internationalisation 'epochs' (Oesterle, 1997) and 'states' rather than 'stages' (Bell and Young, 1998; Bell et al., 2003). The stage model perspective fails to consider the aspirations of entrepreneurs and the network context in which firms are embedded. Further, there is a need to integrate recent perspectives, which highlight the importance of more dynamic aspects associated with the acquisition and assimilation of new knowledge (Autio et al., 2000; Zahra et al., 2000). O'Farrell and Wood (1998), for example, suggest that a variety of demand and supply-side factors influence a firm's ability to internationalise and they should be considered.

#### **4.2.6 *Myth 6: Many New Private SMEs can Internationalise from the Outset***

Myth 6 is based on the assumption that a sizeable proportion of private SMEs can internationalise from the outset. Stage model theorists fail to appreciate that some new firms may trade internationally from the outset. International new venture (INV) theorists question the stage model theory view that SMEs seek to reduce risks and develop international relations first in countries closer in 'psychic distance'. Evidence from Finland suggests that the time from the establishment of a firm (i.e., the length of time in domestic markets) to the time of the first export delivery is becoming shorter (Luostarinen and Gabrielsson, 2004). Some technology and non-technology-based firms may ground their international competitive pattern on unique resources (i.e., human capital resources such as entrepreneurial capabilities relating to entrepreneurial orientation, alertness, information search and processing, cognitive mindset, etc.) (Obrecht, 2004). INVs or born globals (BGs) (Oviatt and McDougall, 1994, 1997; Madsen and Servais, 1997; Preece et al., 1999) generally offer products and/or services that involve substantial value added based on a breakthrough in process or technology (Knight and Cavusgil, 1996). Some of the latter firms may skip or follow a smaller number of stages of internationalisation (Wolff and Pett, 2000).

McDougall et al., (1994) have asserted that international entrepreneurs try to avoid domestic path-dependence by establishing ventures which have routines for managing multicultural workforces, for co-ordinating resources located in different nations and for targeting customers in multiple geographic locations simultaneously. INVs are viewed as organisations, which, from inception, seek to derive significant competitive advantage from the use of resources and the sale of output to multiple countries (McDougall et al., 1994). Further, INV theorists assert that many firms no longer regard international markets as simple adjuncts to the domestic market. SMEs with specific competitive advantages linked to their technological level and product and/or service characteristics, therefore, may be alert to opportunities in international markets from the outset (Zacharakis, 1997; Oviatt and McDougall, 1994, 1997). These opportunity-driven firms do not follow an incremental internationalisation path (Bell et al., 2001).

The notion of INVs has encouraged a growing policy belief that more new private firms can internationalise, and a Myth that this can be achieved from the outset. However, studies discussing INVs generally focus on unique sub-sets of the business population rather than total business population. Consequently, findings and relationships detected with regard to INVs may not be universally applicable to other 'types' of private new ventures.

A more fine-grained analysis indicates that INVs who can create and identify new internationalisation opportunities from the outset may be a distinct sub-group of SMEs. With reference to a random sample of 377 independent companies in the UK, Westhead et al., (2004) detected that younger and manufacturing firms were significantly more likely to be exporters, and report higher internationalisation intensities. Further, Bell et al.'s (2004) case study evidence relating to 15 'knowledge-intensive' and 15 'traditional' manufacturing firms located in three regions in the UK suggests that while 'traditional' firms may generally follow an incremental approach both domestically and internationally, 'knowledge intensive' manufacturing firms are more likely to have an international orientation from inception, and internationalise rapidly.

Recently, Clarysse et al., (2005) explored the behaviour of spin-outs of new ventures from universities located across Europe. This study specifically focuses upon a unique sample of highly innovative firms. They highlighted three support models: 'low selective model', 'supportive model' and 'incubator model'. Each model relates to a specific new firm formation objective. Clarysse et al., concluded that the 'incubator model', involving heavily resourced and intensive activities over a considerable period of time and based on world class science, was needed to promote firms that have the potential to internationalise. The 'low selective model' and the 'supportive model' involving minimal or modest resource inputs and activities were appropriate for those firms that have the inclination and/or ability to solely service local and regional domestic markets. To create spin-out firms that can internationalise, universities need to provide targeted resources. Also, they need to support the accumulation of capabilities that enable entrepreneurs to create and discover opportunities in international markets. A central feature of this policy is to develop networks and co-operation with global venture capitalists and trading partners. Further, a widespread problem arises where universities have the objective to create internationally significant spin-out firms but do not have a world leading research base to draw upon, invest insufficient resources, and are unable (or reluctant) to amass within the university the capabilities to facilitate the exploitation of opportunities in foreign markets. This view links to the innovation policy comments discussed in Chapter 3. The



TechnoPartner initiative, for example, is an interesting initiative, but there may be a need to target assistance toward firms (and entrepreneurs) that have technology base to be markedly more creative and innovative.

#### **4.2.7 *Myth 7: Private SMEs will Select a Joint Venture or Franchising Mode to Enter the Largest Foreign Market***

The mode of foreign market entry selected can influence the position in the selected foreign market(s), and a firm's ability to gain access to vital information and acquire resources (Holmlund and Kock, 1998). The modes of entry into foreign markets are likely to differ on key dimensions such as the amount of resource commitment, the extent of risk, the potential for returns and the degree of managerial control. Several stage model theories of internationalisation assume that firms start with no permanent exports, subsequently exporting via an export agent, then through a subsidiary and finally producing in a foreign subsidiary. Alongside these modes of entry into export markets, are several alternatives including joint ventures, franchising, networking, licensing, piggy-backing (i.e., sub-contracting), etc. (O'Farrell et al., 1998). In contrast to the stage process model view, studies focusing on new technology-based firms are suggesting that this type of firm is able, and/or is forced to develop its formal and informal networks from the outset. The development of network ties with external actors raises the probability that a new technology-based firm will select a joint venture or franchising mode to enter the largest foreign market. Growing enthusiasm for the INVs perspective and the network internationalisation perspective (Dana and Wright, 2004) has spawned myth 7 that all SMEs, irrespective of industrial activity, can select a joint venture or franchising mode to enter their largest foreign market. However, this may only be applicable to the internationalisation of a small sub-sample of private SMEs engaged in knowledge and technology-based activities.

Westhead et al. (2002) found that for both 'micro' and 'small' firms, the most important modes of entry were direct exporting, using an export agent and piggyback entry. Joint ventures, partnerships and franchising are very rarely cited by SMEs generally engaged in traditional manufacturing and service activities. Westhead et al. (2002) detected that the majority of surveyed 'micro' and 'small' firms had not conducted a systematic evaluation of alternative entry modes. The relatively few firms that actively choose their entry mode generally make their decision with reference to relative costs, flexibility, speed and marketing advantages and were typically taking advantage of ad hoc, one-off orders (O'Farrell et al., 1996). It appears that the mode of entry into international markets varies and is influenced by the characteristics and preferences of the firm (and entrepreneurial team). These preferences may reflect their limited social and business networks as well as their desire to have greater control over their resources. Indeed, evidence presented in Chapter 2 suggests that SMEs in The Netherlands want to remain independent and in control. Consequently, the latter SMEs are reluctant to cooperate with international partners. Further, although the majority of exporting SMEs rely on direct exporting, this should not be interpreted as supporting a stage process model view (i.e., that firms start off with direct exporting and with experience move on to more sophisticated modes) because the samples in the above studies include a range of SMEs with varying levels of internationalisation experience.

#### **4.2.8 *Myth 8: Internationalisation Studies Should Focus on the Firm Rather than the Entrepreneur as the Unit of Analysis***

The firm is the unit of analysis in stage process models. INV theory focuses on the accumulation of knowledge by the firm rather than the individual entrepreneur. However, during the early stages of private firm development, owner, not organisation, characteristics play a pivotal role in shaping export performance (Kunda and Katz, 2003). It may, therefore, be a myth that academic and practitioner attention should focus solely on the firm as the unit of analysis in internationalisation studies.

In many smaller private firms, the owner(s) of the business is the key resource. They can accumulate human capital and social capital leading to industry and management know-how; physical and financial capital needed to develop a venture; and the organisational capital that enables the competitive production of goods and services offered by a firm (Cooper et al., 1994; Greene and Brown, 1997; Hart et al., 1997; Brush et al., 2002) in both domestic and international markets. It is reasonable to assume that entrepreneurs (and entrepreneurial teams) can acquire and leverage foreign business knowledge, foreign institutional knowledge and internationalisation knowledge (Eriksson et al., 1997).

Previous experiences (Reuber and Fischer, 1997), resources (Bloodgood et al., 1996), capabilities, knowledge and learning mobilised by an entrepreneur (or entrepreneurial team) may impact on subsequent routines which may lead to the creation and discovery of opportunities, as well as the exploitation of opportunities in foreign markets (Madhok, 1997). There is, therefore, a need to consider the role of the owner/entrepreneur/entrepreneurial team in the internationalisation process. Moreover, there may be a case for placing greater emphasis on the entrepreneur in the design of policies to support internationalisation (Westhead et al., 2001b; 2005). The Enterprise Policy described in Chapter 3 recognises this viewpoint. Most notably, this discussion emphasises the importance of fostering a competitive enterprise environment, which will lead to the creation of 'more and better entrepreneurs'.

Recent attention has focused on the entrepreneur as the unit of analysis in studies of SME internationalisation. Human resources were found to be the most important resources associated with internationalised firms compared to their non-internationalised counterparts (Brush et al., 2002). Evidence shows that independent businesses with older principal founders, with more resources, denser information and contact networks and considerable management know-how were significantly more likely to be exporters (Westhead et al., 2001b). Moreover, businesses with principal founders that had considerable industry specific knowledge, as reflected in starting their businesses in the same industry as their last employers were markedly more likely to be exporters. Previous experience of selling goods or services abroad was also found to be a key variable associated with exporting firms.

#### **4.2.9 *Myth 9: Private SMEs Solely Leverage their Own Internal Resources to Internationalise***

Growing emphasis has been placed on the link between a firm's ability to enter foreign markets and its accumulated internal tangible and intangible resource stocks (Bloodgood et al., 1996; Autio et al., 2000). Variations in the availability of resources can influence the propensity, method and mode of foreign market entry. Size may convey greater resources that facilitate

internationalisation (Bonaccorsi, 1992), although the empirical evidence is rather mixed (see reviews presented by Aaby and Slater (1989) and Gemünden, (1991)). Firms can develop strategies that develop organisational resources, especially product or service quality (Roper and Love, 2002) and to a lesser extent technological resources, that are positively associated with the propensity to export and the intensity of internationalisation (Westhead et al., 2004). Actions associated with exporting activity may be associated with learning. The resources of experience and legitimacy can, therefore, be accumulated. Firms with prior export experience are likely to have a better understanding of foreign market forces and can be more competent in seeking, identifying and exploiting export market opportunities. The latter studies focus on the firm as the unit of analysis.

However, taking the firm as the sole unit of analysis (i.e., myth 8) may encourage myth 9 relating to the view that private SMEs solely leverage their own internal resources to internationalise. Inappropriate insights and policy recommendations may be associated with viewing the firm in isolation. There is growing consensus that there may be benefits associated with viewing the firm as part of a network(s). This viewpoint is highlighted in Chapter 2. Issues relating to co-operation, for example, are discussed. Participation in networks can aid internationalisation (Dana, 2001; Chetty, 2000; Dana and Wright, 2004; Hintu et al., 2004; Yeung, 2004). These inter-firm relationships impact on both market selection and the export mode utilised by SMEs (Bell, 1995). Networks may involve large and small firms in a symbiotic relationship that facilitates internationalisation (Dana and Wright, 2004). SMEs with smaller resource pools may be able to borrow size (Phelps et al., 2001) and resources from (larger) organisations located elsewhere. To retain existing customers in domestic markets, SMEs with limited resources may be 'pulled' into foreign markets by the internationalisation activities of larger network partners such as domestic clients who have established relationships with organisations in foreign markets or by external agents. To defend or maintain its position in a business network a firm, however, may be 'pushed' into becoming an exporter, particularly, if its major customers have entered foreign business networks. This is consistent with the 'piggy-back' mode of entry. Some SMEs internationalise because they are reactive exporters with a larger partner organisation obtaining the contract to service foreign customers (O'Farrell et al., 1996).

By joining networks and forming alliances, SMEs can expand their social capital. SMEs can subsequently utilise knowledge (Welch, 1992; Yli-Renko et al., 2002) and value-creating resources that cannot be created independently. For this to occur a receptive environment must be created and mechanisms for learning should be introduced for the members of the network to learn from one another and internalise what has been learned within the firm (Etemad, 2004). There is, therefore, growing appreciation that many SMEs are 'pushed' as well as 'pulled' into foreign markets, and the activities and resources of (larger) organisations can impact on the internationalisation behaviour reported by smaller private SMEs.

#### **4.2.10 *Myth 10: Private SMEs that Internationalise Report Superior Levels of Performance***

There is no consensus surrounding how to measure the effect of internationalisation on firm performance (Katsikeas et al., 2000). Most studies focusing on private SMEs have failed to explore whether exporting firms report superior levels of firm performance. We acknowledge that the latter view is not explicitly stated in the earlier chapters of this report. Nevertheless, we

believe this view is widely assumed although not directly stated (or validated) by academics and practitioners. The view that internationalising firms report superior performance is a widely received wisdom and can be regarded as myth 10. A review of the evidence, however, indicates no clear and consistent relationship between smaller firm's propensity to export and ability to report superior firm performance. The variety of performance indicators explored in studies makes comparison across studies difficult. Moreover, results may be affected by the sectors analyzed and the time frames of analysis. Indeed, many studies have failed to consider inter-industry differences between non-exporters and exporters.

McDougall and Oviatt (1996) noted that firms that had increased international sales exhibited superior performance in terms of both relative market share and return on investment (ROI). Further, Bloodgood et al., (1996) found that internationalisation was marginally significantly associated with ventures that reported higher profits. Burgel et al., (2001) detected that exporters reported higher levels of productivity and sales growth but not employment growth. These three studies focused on internationalising firms engaged in new technology-based sectors.

In contrast, Lu and Beamish (2001) found with reference to a sample of smaller listed Japanese firms covering 19 industries that the proportion of sales exported had a negative relationship with return on assets. With regard to a sample of private SMEs located in the UK engaged in a variety of manufacturing, construction and service activities, Westhead et al., (2001b) detected that the propensity to export was a significant positive influence only on operating performance relative to competitors. The propensity to export was not found to encourage subsequent sales and employment growth, or firm survival significantly. Similarly, Westhead et al., (2004) who utilised a weighted average performance score (Naman and Slevin, 1993) to control for industry differences found that the propensity to export variable was not significantly associated with superior weighted firm performance reported by firms located in the UK. A weak positive relationship was, however, detected in relation to the exporting intensity variable. On the downside, the latter studies relating to samples of firms generally engaged in traditional manufacturing and service activities suggest that the relationship between the propensity to export and firm performance may be context specific.

It should be noted that studying the relationship between internationalisation and firm performance could be fraught with a number of other methodological problems. For example, it may be difficult to establish a causal relationship between internationalisation and performance if studies rely on cross-sectional evidence. Even when longitudinal evidence is analyzed (Bloodgood et al., 1996; McDougall and Oviatt, 1996; Lu and Beamish, 2001; Westhead et al., 2001b), the results are still inconsistent. This may be partly due to the role of context discussed above and/or differences in the time lag used to explore the impact of internationalisation on performance. Lu and Beamish (2001) highlight the importance of time by demonstrating that increases in FDI activity are initially associated with a decline in profitability, but are associated with higher performance later on.

Another important consideration relates to the possibility that the relationship between internationalisation and performance is moderated by other strategic variables. This may be particularly relevant to SMEs in small open economies, whereby SMEs pursuing a growth strategy may be more likely to expand by entering foreign markets. With reference to the United States context, McDougall and Oviatt (1996) detected that increased international sales

in technology-based new ventures require simultaneous strategic changes in order to enhance venture performance. Further, Lu and Beamish (2001) find that exporting moderates the relationship FDI has with performance. They detected that pursuing a strategy of high exporting concurrent with high FDI is less profitable than one that involves lower levels of exports when FDI levels are high.

The evidence reviewed fails to suggest that internationalisation consistently enhances the performance of SMEs with regard to a variety of performance indicators. Moreover, the studies discussed highlight the need to consider industry context, timing issues and firm-specific strategic issues within multivariate statistical frameworks, and the need to consider selection bias issues within econometric models.

### **4.3 Implications**

Policy is increasingly aimed at encouraging more new and established private SMEs to internationalise, particularly from the outset. Inevitably, owners of smaller private firms concerned with uncertainty and risk will face attitudinal, resource, operational and strategic barriers to the internationalisation of their ventures. Assuming an interventionist stance, a case for more balanced support towards new venture creation and the development of established smaller private firms is suggested with reference to the internationalisation process. There is a need for awareness that knowledge relating to the SME internationalisation process is emerging, and not yet well established. If unfounded myths relating to the SME internationalisation process are perpetuated, the evidence base can become contaminated. This could lead to the formulation of inappropriate policies towards entrepreneurs, firms and networks seeking to internationalise their activities. The 10 myths discussed in this review have become "received wisdom" by some circles and their perpetuation may lead to confusion in the development of policy to encourage more 'export capable' and 'export committed' firms (and entrepreneurs). The implications of the myths are discussed, in turn, below.

Our discussion of myth 1 emphasised that it should not be assumed that all private SMEs want to internationalise, or have the ability to internationalise. There may need to be differentiation of policy to address these issues. Policy-makers may benefit from acknowledging that many SMEs do not want to internationalise. There is a need to consider carefully the different propensity to internationalise reported by SMEs. Evidence focusing upon size of firm differences confirms that a larger proportion of 'small' rather than 'micro' firms have the inclination as well as the ability to enter export markets. If policy initiatives were aimed at encouraging all firms to become exporters, there would appear to be a need to better understand the target groups for assistance. Initiatives for more resource constrained 'micro' firms may need to be tailored with care. Conversely, policy might, as a first step, usefully focus on aiding existing exporters to become 'export committed' exporters as well as more effective exporters.

While myth 2 suggested that informational obstacles were the key barriers to SME internationalisation, we suggest that many smaller private SMEs have insufficient pools of resources, which can lead to the creation of strategic obstacles. To circumvent strategic obstacles, many smaller private firms make the rational decision to service the requirements of customers located in local domestic markets. There may, thus, be a need to encourage owners of private SMEs to create advantages for their firms by accumulating idiosyncratic firm

resources. Internal sources (for example, skills relating to imagination and creativity as well technological sophistication and an ability to create and/discover opportunities) and external sources (for example, through networks) may be leveraged by more private SMEs as a source of competitive advantage in domestic as well as foreign markets. There may, therefore, be a need to target policy towards enhancing the resource profiles of different types of private SMEs.

Myth 3 questioned the notion that SMEs internationalise for solely proactive reasons. As earlier intimated, it may be necessary to fine tune assistance to private SMEs. Evidence suggests that 'micro' firms are more likely to internationalise for reactive reasons, particularly if they are pulled abroad by being contacted by foreign customers. The assistance required by 'micro' firms may not be the same as that required by 'small' firms. Assistance may be provided to firms (and entrepreneurs) that have a higher probability of citing reactive reasons for internationalisation. The advantages (and disadvantages) associated with reactive forms of internationalisation, such as unsolicited orders, may need to be drawn to the attention of owners of particularly 'micro' firms. The latter firms, for example, could be provided with assistance if they are asked to deal with the various types of unsolicited export order opportunities.

Myth 4 suggested that domestic environmental conditions crucially shaped the SME internationalisation process. Whilst not totally dismissing the importance of domestic environmental conditions, there is a body of evidence which highlights that some entrepreneurs (and firms) are leveraging resources located elsewhere. 'External resources' rather than solely 'local resources' can be utilised to ensure SME internationalisation. For example, as earlier intimated, many INVs clearly do not draw on the domestic environmental conditions and resources to internationalise. Also, some private SMEs engaged in traditional activities are associated with smaller resource pools. These firms may be able to borrow size and resources from (larger) organisations that are located outside the SMEs local domestic context. Moreover, a smaller private SME engaged in a sub-contract chain might be 'pushed' abroad by a major customer that already has extensive foreign networks and other resources. The latter firm, therefore, does not have to leverage domestic resources.

To encourage the supply of 'export capable' and 'export committed' firms, policy should proactively encourage entrepreneurs on a continual basis throughout the internationalisation process to key into domestic as well as external pools of resources and opportunities through the development of networks and co-operative arrangements. Evidence suggests that some INVs located in smaller open economies are 'pushed' into internationalisation because of the restrictive nature of local markets for their products. This suggests a need to provide owners of INVs with advice surrounding the nature of the market for the firms' products and/or services. In reality, inexperienced entrepreneurs who have not honed their alertness skills to opportunities and/or have not collected and processed information surrounding opportunities may be unaware of the array of opportunities in domestic as well as international markets. Owners of SMEs can be encouraged to broaden their entrepreneurial opportunity creation, discovery, pursuit and exploitation skills. Entrepreneurs with considerable international experience could, for example, provide a mentoring role for inexperienced entrepreneurs as part of a generic network building policy.

With regard to myth 5, we questioned the stage process model view of internationalisation. As highlighted in Chapter 2, some private SMEs internationalise and then decide to withdraw, but subsequently decide to re-enter foreign markets. High internationalisation intensities may be reported, for example, by 'born-again-global firms' (Bell et al., 2003). Entrepreneur, product, firm and industry specific factors may shape the nature and speed of internationalisation (Bell and Young, 1998), as well as external environmental variables in domestic and overseas markets. Entrepreneurs (and firms) may have to deal with critical incidents, which can impact a firm's behaviour relating to the internationalisation (Bell et al., 2001). This also links to the finding noted earlier in the report that many entrepreneurs (and firms) discover barriers/hurdles to internationalisation only after experiencing the internationalisation process.

There is a need to appreciate more widely that the owners of smaller private SMEs are engaged in a dynamic and non-linear learning experience with regard to the internationalisation process. There may be a need to provide customised support to entrepreneurs/SMEs who are at various points along the internationalisation experimental learning continuum. This suggests a need to provide support for entrepreneurs/firms who are experienced as well as those with no or little internationalisation experience. Owners of established private SMEs could be provided with assistance to address attitudinal, resource, operational and strategic barriers to internationalisation. When targeting assistance, policy-makers should also acknowledge that while exporting firms may cite a number of barriers to internationalisation, the more experienced exporters may perceive themselves to be better equipped to overcome these barriers. In parallel with policies focused on new firm creation, internationalisation policy may, therefore, need to assist repeatedly some entrepreneurs/SMEs to develop their internationalisation activities. This suggests a need to develop further the Programme for Starters in Foreign Markets currently being implemented in The Netherlands (see Chapter 3) to include those firms that have some international experience but which face problems in exploiting opportunities to further increase the share of their sales that they export. Issues related to the potential 'learning race' between large and small partners, in addition, should be drawn to the attention of owners of smaller firms. Mechanisms to protect the intellectual property of smaller private firms should be developed. The provision of further information and networking opportunities may enable more entrepreneurs to hone their opportunity creation, discovery, pursuit and exploitation skills, which can be leveraged to pursue internationalisation opportunities.

Myth 6 questioned the notion that many new private SMEs can internationalise from the outset. Insights from studies of INVs, however, may not be relevant to explain the internationalisation and non-internationalisation behaviour reported by the majority of established smaller private firms. It seems clear that while some SMEs internationalise at an early stage of their development and do not have to be well established in domestic markets before exporting abroad, it is important to identify the characteristics of the subset of firms for whom this is applicable. The methods of best business internationalisation practice reported by successful INVs should be more widely disseminated. This could encourage more 'export capable' and 'export committed' firms. Moreover, the dissemination of information relating to actual local role models could encourage entrepreneurs who have withdrawn from internationalisation as well as those with no internationalisation experience to (re)consider the internationalisation route.



The discussion surrounding myth 7 suggested that only the knowledge and technology-based subset of firms were likely to enter foreign markets through joint ventures or franchising modes. However, evidence suggests that SME with relatively limited social and business networks generally tend towards a direct exporting mode without a systematic evaluation of different entry modes. Advice surrounding the strengths and weaknesses associated with various modes of internationalisation entry appears to be warranted. The advantages of joint ventures, franchising, networking and licensing, for example, should be brought to the attention of a broader pool of entrepreneurs/SMEs. Moreover, there may be a role for policy to support institutions that encourage the latter internationalisation modes. Policies to develop network institutions and relationships may be associated with several beneficial outcomes for entrepreneurs/SMEs considering their international activities. There may be a need to fine tune policy so that it is focused on those entrepreneurs and firms that have the knowledge and technology base with the potential to be more creative and innovative. Policy may need to be differentiated to meet the aspirations and needs of different types of entrepreneurs and firms. Evidence from The Netherlands suggests there is a case to encourage knowledge and technology based entrepreneurs and firms to be more actively keyed into collaborative networks. The latter networks, for example, can be leveraged to circumvent various resource and operational barriers to smaller private firm internationalisation. Moreover, policy may need to support collaborative networks that have a global rather than a European or domestic reach.

Myth 8 emphasised the need to consider policies that focus on the role of the entrepreneur to complement those devoted to the firm (Westhead et al., 2005). The entrepreneur (or the entrepreneurial team) is generally the key resource of a private firm and there may, therefore, be a need for policy to give greater recognition of the heterogeneity of entrepreneurs (Westhead et al., 2003). Some entrepreneurs have previously held equity stakes in two or more independent businesses. The latter experienced habitual entrepreneurs may have 'experimental' knowledge in domestic as well as international markets. Most notably, habitual entrepreneurs may have acquired and assimilated new knowledge relating to the internationalisation process. Conversely, the majority of SME owners are inexperienced novice entrepreneurs owning a business for the first time (Westhead et al., 2003). The Enterprise Policy described in Chapter 3, which is aimed at getting more and better entrepreneurs, may need to be fine-tuned to reflect the different experiences, knowledge and learning reported by inexperienced novice entrepreneurs and experienced habitual entrepreneurs. This would be an important development beyond the implicit emphasis on new firm start-ups by new inexperienced entrepreneurs. For example, entrepreneurs who own more than one business simultaneously (i.e., portfolio entrepreneurs) are generally more experienced and they may have more resources available to internationalise and identify more opportunities to internationalise. These entrepreneurs may be those most able to deliver wealth gains from internationalisation and policy assistance might usefully be targeted toward portfolio entrepreneurs (Westhead et al., 2005). Conversely, to increase the stock of 'export capable' entrepreneurs/SMEs it may be appropriate to support inexperienced novice entrepreneurs to address barriers to their internationalisation process.

Support may also be targeted to the needs of entrepreneurs/SMEs engaged in specific sectors. Spin-off firms from universities may warrant special attention. Academic inventors may not possess the resources and capabilities to internationalise a venture. The latter entrepreneurs should consider the identification of equity (and non-equity) partners who can provide the expertise to develop a technology-based venture into international markets. Technology



transfer offices (TTOs) in universities seek to support the commercialization process and coach inexperienced academic entrepreneurs. The TTOs can shape the spin-off venture development process. There is a case to select only TTOs who have previously worked in successful and rapidly growing ventures, and those that have prior internationalisation experience. These points raise a wider agenda relating to the development of training programmes and incentives mechanisms to promote academic entrepreneurship (Lockett and Wright, 2005; Wright et al., 2005). However, with respect to internationalisation, there may be a need to target support on the subset of university spin-off firms that have the inclination as well as the potential to grow significantly in global markets.

Myth 9 questioned the view that firms solely utilise internally generated resources to internationalise. Resource constrained SMEs, however, can develop networks and leverage these networks to identify and exploit opportunities in foreign markets. While many firms in The Netherlands appear to be concerned about the loss of independence from international co-operation, firms may need to recognise that co-operation is important for business survival as well as the creation of competitive advantage (see Chapter 2). The development of informal co-operation, rather than a focus solely on the formation of formal links, may be a means of reducing perceptions that co-operation is in some way threatening. To fine tune support, the profiles of entrepreneurs/SMEs perceiving co-operation to be a threat to continued independence should be identified. Support could then be targeted to the latter firms. Spin-off firms from universities and other high technology ventures, for example, may benefit from the development of networks leading to the identification of venture capital partners who have expertise in internationalising technology-based ventures in specific sectors.

Our discussion of myth 10 suggested that the link between internationalising firms and superior firm performance appears to be related to the type of sector firms were engaged in as well as firm-specific strategies and methodological issues. For example, technology-based firms that had internationalised generally reported superior performance, but this was not necessarily the case for firms in more mature sectors. Policy concerns for wealth and job creation and a focus on maximizing returns on investments may, therefore, require the targeting of assistance to technology-based firms with the potential to trade internationally. It should be noted, however, that while studies may have identified a positive correlation between internationalisation and technology-based firm performance, it can be very difficult to establish a statistically significant causal link.

As a final point, it is important to recognise that research relating to SME internationalisation is associated with several methodological problems. Some studies are not keyed into debates relating to the internationalisation of private smaller firms as opposed to larger multinational firms. Further, there are a number of concerns surrounding the size and representativeness of samples, the techniques used, and the validity and reliability of measures used. The design of measures to promote small private firm internationalisation needs to consider carefully the evidence upon which these policies are based. Additional research in this area is warranted to provide an evidence base, which can guide policy with regard to resource allocation decisions and the targeting of groups for assistance.

#### 4.4 Policy Recommendations

In summary, we make the following policy recommendations:

- Policy encouraging smaller private firm internationalisation needs to take a broad perspective within which a direct emphasis on encouraging co-operative arrangements is one element. By including other measures, entrepreneurs (and firms) may be enabled to develop their own co-operative arrangements.
- There is a need to understand better the target groups for assistance in order to tailor policies to firms' specific needs. Policy might focus on aiding existing exporters to become 'export committed' exporters as well as more effective exporters.
- There is a need to target policy towards enhancing the resource profiles of different types of private SMEs.
- It is necessary to fine tune assistance to SMEs by providing assistance to firms (and entrepreneurs) that have a higher probability of citing reactive reasons for internationalisation.
- Policy should encourage entrepreneurs on a continual basis throughout the internationalisation process to key into domestic as well as external pools of resources and opportunities through the development of networks and co-operative arrangements.
- Entrepreneurs with considerable international experience should be encouraged to provide a mentoring role for inexperienced entrepreneurs.
- There is a need to provide support for entrepreneurs/firms who are experienced as well as those with no or little internationalisation experience, through further development of the Programme for Starters in Foreign Markets.
- Policy should be directed towards the provision of further information and networking opportunities to enable more entrepreneurs to hone their opportunity creation, discovery, pursuit and exploitation skills, which can be leveraged to pursue internationalisation opportunities.
- Policy should seek to disseminate more widely the methods of best business internationalisation practice reported by successful international new ventures (INVs).
- Policy advice surrounding the strengths and weaknesses associated with various modes of internationalisation entry appears to be warranted.
- Policy needs to be fine-tuned to reflect the differences between inexperienced novice entrepreneurs and experienced habitual entrepreneurs. Policy assistance may be targeted towards experienced portfolio entrepreneurs who can deliver wealth gains from internationalisation while increasing the stock of 'export capable' entrepreneurs/SMEs by supporting inexperienced novice entrepreneurs to address barriers to their internationalisation process.

- Policy needs to target support on the subset of university spin-off firms and other high technology firms that have the inclination as well as the potential to grow significantly in global markets.
- Both formal and informal co-operation should be strengthened by reducing perceptions that co-operation is in some way threatening. Policy support should be targeted toward entrepreneurs (and firms) that perceive co-operation to be a threat to their continued independence. Case study examples of successful co-operative behaviour between entrepreneurs and various actors (i.e., financial and trading) should remove attitudinal barriers to the keying into networks that can remove resource and operational barriers to internationalisation.
- Policy should be aimed at developing technological co-operation schemes that encourage owners of smaller private firms to key into the knowledge and resources held by larger private and public sector organisation with mutually beneficial outcomes for all parties involved.
- Policy assistance may have the greatest impact on wealth and job creation if it is targeted to technology-based based firms with the potential to trade internationally, rather than to all technology-based firms.

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