



SCALES-paper N200415

The effect of EU enlargement on the internationalisation of SMEs in the European Union; a Dutch perspective

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Zoetermeer, October, 2004

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THE EFFECT OF EU ENLARGEMENT ON THE INTERNATIONALISATION OF SMEs IN THE EUROPEAN UNION; A DUTCH PERSPECTIVE

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Abstract

The enlargement of the European Union took place on May 1st 2004. It is expected that the process of enlargement will have effect on SMEs in the EU-15 countries, for example by providing additional trade and investment opportunities. This study focuses on current internationalisation and future international commitment of SMEs from the 'old' Member States in the new EU Member States. The stage theory, which is the prevailing model of the process of internationalisation of enterprises, was tested among a sample of Dutch SMEs with respect to their activities in the new EU countries. This theory suggests that enterprises follow a gradual, incremental pattern in internationalising their activities and presupposes that enterprises that have more experience with internationalisation and foreign markets are more likely to increase their commitment in foreign markets. The results of our study indicate that the pattern for Dutch SMEs is broadly in line with the stage theory. The results reveal that firms demonstrate a pattern of gradually increasing commitment in the new EU countries. Current experience with international activities in the region seems to be a key influence encouraging SMEs to be more involved in this region. The effect only slightly weakens if we take the positive link between human capital of the business owner into account.

1. Introduction

Traditionally, research on internationalisation of enterprises is strongly focused on large multinational enterprises. Currently there is more attention for SME internationalisation as it is acknowledged that SMEs are increasingly involved in international markets. The increasing commitment of SMEs in the international market place is rooted in for example technological changes (especially in the field of information and communication technology and transport) and the liberalisation of international trade (European Commission, 2004a).

With respect to internationalisation of enterprises geographical distance is of importance, as firms tend to internationalise within their region. For example the largest share of Dutch exports and foreign investment is directed to nearby countries. In this respect regional economic cooperation also plays a crucial role. Regional economic cooperation is an important reason for an increase in economic and investment activity within a particular region, for example because it results in the reduction or removal of trade barriers within that region. Nowadays most trade of EU Member States takes place within the borders of the European Union. In this sense the European Union clearly forms a trade bloc. Processes of regional economic integration may be of particular relevance for SMEs. SMEs are usually even more oriented towards nearby countries, for example because they usually experience more internal constraints to international growth, such as limited capital, management, time and experience, than larger enterprises (Buckley, 1989). Therefore, it is expected that the enlargement of the European Union will be of particular relevance for the internationalisation of European SMEs.

In recent years the enlargement of the European Union and its perceived consequences has become a highly discussed subject. It is anticipated that new business opportunities will arise in the new EU Member States for individual enterprises from the 'old' EU Member States. One of the consequences of the enlargement is that the economic environment for SMEs will improve. The removal of barriers to the flow of goods, services, capital and labour provides new market opportunities for SMEs. Developments within the new EU Member States, such as an expected growth of GDP and the availability of relatively cheap skilled labour in these countries, are also expected to provide opportunities for enterprises from the EU-15. A number of studies have addressed the relevance of the enlargement for SMEs in the EU-15 (e.g. European Commission, 2004b; RWI & EPRC, 2000). However, there is a lack of empirical studies that assess the international activities and opportunities for SMEs.

The dominant view in the literature with regard to internationalisation of SMEs is the stage theory of internationalisation (Johanson & Vahlne, 1977; 1990). According to this view firms increase their commitment to international activities through a developmental and sequential process. In general, the stage theory suggests that firms undertake international activity incrementally through subsequent phases of commitment (Anderson, 1993; Barkema, Bell, & Pennings, 1996; Eriksson et al. 1997; Johanson & Vahlne, 1977; 1990). The reasoning is that incremental efforts build experience and confidence, which may lead to further commitment. This commitment may range from export activities to high international production involvement. In our research we relate international commitment to the economic effects that are expected to occur as a result of the enlargement of the European Union (i.e. an increase in trade, foreign investment and migration of labour). The stage theory was originally developed to explain outward internationalisation such as exports and outgoing foreign direct investments. In our analysis we also include inward modes of internationalisation (i.e. importing activities).

Our study focuses on explaining future international commitment among SMEs in the new EU Member States. Future international commitment is defined as the extent to

which firms perceive new or additional future opportunities for undertaking international activities in the new EU Member States, whereas current international involvement is defined as the extent to which enterprises are currently undertaking international business activities in the new EU Member States. We combine the stage theory of internationalisation (Johanson & Vahlne, 1977; 1990) and the resource-based view (McDougall et al., 1994; Bloodgood et al., 1996) and relate these views to economic integration within one particular region. First, in order to test whether the stage theory is appropriate for explaining internationalisation of the firm, we examine whether enterprises are gradually increasing their involvement in the new EU Member States. If the stage theory of internationalisation holds, we would expect that firms that are currently involved in the new EU Member States are more likely to show (new) future international commitment in this region as compared to other firms. Second, we examine the effect of resource-based factors on future international commitment. That is, we investigate the extent to which the business owners' human capital (i.e., age and education of the entrepreneur) has an impact on the firm's future international commitment in the new EU Member States.

We draw our analysis on SMEs located in the Netherlands. The data relate to a representative sample of Dutch SMEs. Small European countries provide an interesting setting in which to examine the effects of EU enlargement on the internationalisation of enterprises, because in these countries it is often a necessity for enterprises to undertake international business activities given the limited size of their domestic markets (e.g. Van Elk & Overweel, 1991; Braunerhjelm, 2000). However, the data reveals that many SMEs do not undertake business activities in the new EU Member States or are not planning to do so in the future. This confirms previous findings that even within small countries many enterprises do not internationalise their activities (e.g. Autio et al., 2000; Eriksson et al., 1997)

2. Theory and hypotheses

2.1. Stage theory and effects of economic integration

For individual countries economic integration is a means of securing access to a wider market and reinforcing growth in order to attain a higher level of national welfare (Jovanovic, 1998). The European Union is an example of one of the biggest achievements in economic integration. Since its existence integration within this region has both deepened and widened. Integration is an evolving and continuing process. Recently ten new Member States have joined the EU.¹

Formal international economic integration is an important factor for explaining an increase in international economic and investment activity, for example because it results in the reduction or removal of trade barriers. Many studies have addressed the impact of EU enlargement on enterprises in the EU-15 (e.g. European Commission, 2001, European Commission, 2004b; EEAG Report, 2004; De Mooij, 2000). The main types of possible integration effects on the enterprise sector in the EU-15 that are identified in these studies are: an increase in exports of goods and services; an increase in imports of goods and services; an increase in foreign direct investment into the new EU Member States and an increase in labour migration from the new Member States. These possible effects imply that increased international commitment of EU-15 enterprises in the new EU Member States is expected. At the level of the individual firm these possible effects can be classified into the following categories: exporting of goods

¹ Cyprus, Czech Republic, Estonia, Poland, Hungary, Latvia, Lithuania, Malta, Slovakia and Slovenia.

or services, importing of goods or services, investing or producing abroad and attracting foreign labour. In short, the enlargement of the European Union is likely to affect the process of internationalisation of firms in the EU-15.

The stage theory is the dominant paradigm for explaining the process of internationalisation of enterprises (e.g. Johanson & Vahlne, 1977; 1990; Eriksson et al., 1997). This theory suggests that the internationalisation process of an enterprise evolves in a sequential and developmental way leading from low to high commitment in foreign markets. This means that firms are likely to start their internationalisation with activities that involve less risk, such as export, before they will be involved in a more substantial commitment in foreign markets, such as producing abroad. Thus, as enterprises have more experience with internationalisation and foreign markets they are more likely to increase their commitment in foreign markets.

The relevance of the stage theory for SMEs has been confirmed by some national studies. For example, studies on the internationalisation of Swiss and Spanish SMEs show that the internationalisation of these firms is consistent with the stage theory (Hollenstein, 2002; Pla Barber, 1998; Merino de Lucas, 2001). However, the stage model has also been subject to criticism. For instance, Cannon and Willis (1983) criticized the superficial approach towards “time” in classifying firms according to subsequent stages of internationalisation. Christensen and Lindmark (1993) argued that the stage models are strongly orientated towards problems faced by larger size firms rather than emergent and young firms. Furthermore, the results of some empirical studies do not correspond with the idea of the stage theory. A Norwegian study, for example, reveals that more than 40 per cent of internationalised SMEs follow a pattern that is not in line with the stage theory (Havnes & Hauge, 2002). Besides, the stage theory has been challenged by empirical studies that point to the existence and growth of the number of young enterprises that are involved in international activities from inception. These enterprises are commonly marked as international new ventures (McDougall et al., 1994) or born globals (Knight & Cavusgil, 1996; Madsen & Servais, 1997). However, the stage theory and the born globals perspective do not necessarily contradict, as internationalisation may also be gradual for born globals, even though it follows a compact, rapid progress (European Commission, 2004a). Also, the existence of born global does not seem to be representative for SMEs in general as they are typically found in global niche markets. Consequently, the stage theory still is the prevailing model of internationalisation.

The stage theory assumes that firms first target markets they understand best, i.e. markets with a short physic distance (Johanson & Vahlne, 1977, 1990). Physic distance is thought to be a relevant factor for international operations (Wiedersheim-Paul, 1972). The concept of physic distance may prove useful with respect to the extension of international activities to new or emerging markets. This concept is defined as factors that prevent or disturb the flows of information between enterprises and markets. Examples of such factors are differences in language, business-culture and political systems. Physic distance, however is not constant but may change as a result of developments in communication and information systems, trade and other means of social exchange. An event such as the enlargement of the European Union is likely to reduce the physic distance between the ‘old’ and new EU Member States.

According to the stage theory a firm gains “experiential knowledge” when it undertakes international activities. When the experiential knowledge of a firm increases, it is more likely that this firm will make additional market commitment (Johanson & Vahlne, 1977; 1990). The stage theory considers this market experience to be to a large extent country-specific. In our research we decided to link market experience to markets with rather similar conditions. We focus on the new EU Member States in Central and

Eastern Europe² as being one specific area. Even though the individual countries vary greatly, we have several good reasons for taking them together in our research. First of all, these new EU Member States all have gone through a rapid transformation from central planned economies to market economies. Furthermore, the countries have much in common with respect to their level of economic development, such as a low level of GDP and low average wages compared to the EU-15. Besides, similar effects (such as an increase in trade and inward foreign investment) are likely to take place in all these countries. Finally, enterprises that undertake international activities in this region experience similar problems in these countries such as administrative barriers and corruption.

The term international may be used to either refer to the actual undertaking of business activities abroad or to an attitude of an enterprise towards international activities (Kindleberger, 1969). Attitudes and actual behaviour are closely related to each other. On the one hand attitudes form the basis for deciding to actually undertake international business activities. On the other hand experience with international activities is likely to affect the attitudes of business owners towards internationalisation (Johanson & Wiedersheim-Paul, 1975). In other words, current international experience in foreign markets is likely to positively affect the perceived future international opportunities of firms. The stage theory presupposes a positive link between the intensity of international involvement and the amount of relevant knowledge about the foreign markets that is present within the enterprise (Johanson & Vahlne 1977; 1990). Experience with doing business in the region supplies enterprises with increased knowledge of foreign markets, which will result in further international commitment. So, the stage theory predicts that SMEs that are already internationally active in the new EU countries are likely to increase their foreign commitment in these markets further. It is also expected that SMEs that are currently more involved in the region (i.e. involved in more than one country or mode of internationalisation) are more likely to increase their international commitment in the region than enterprises that are less involved (i.e. only involved in one country or mode of internationalisation). In our research design, we therefore formulate the following hypotheses:

Hypothesis 1: SMEs that are already internationally involved in the new EU Member States are more likely to increase their international commitment in this region than other SMEs (= stage theory effect).

Hypothesis 1a: SMEs that currently have a larger scope of international activities in the new EU Member States are more likely to increase their international commitment in this region than enterprises with a currently more limited scope of international activities.

Research on internationalisation of SMEs has traditionally mainly focused on exporting activities of enterprises (e.g. Bloodgood et al., 1996; McDougall and Oviatt, 1996). More recently there is more attention for imports and other inward modes of internationalisation in studying the phenomenon of internationalisation (Korhonen, 1997; 1999; Liang & Parkhe, 1997). Research has found that the majority of enterprises are involved in outward (e.g. export, foreign direct investment) as well as inward (e.g. import) activities in the international market (Fletcher, 2001). Traditionally the stage theory does not include imports in its analysis. This theory was especially developed with outward internationalisation in mind. It is increasingly recognized that inward and outward modes

² Cyprus and Malta are not included in our analysis.

of internationalisation are interrelated processes and that foreign purchasing for example may stimulate enterprises to start exporting (Korhonen, 1999; Van De Graaf & Overweel, 2002). The logic behind this idea is that the step to start exporting may be smaller when an enterprise already has business contacts in foreign countries. A firm that is involved in importing maintains a channel to a foreign market through which it gets information about this market. Therefore, we decided to include inward as well as outward modes of internationalisation in our analysis.

2.2. *Resource-based resources*

Although the stage theory recognizes that crucial market-specific knowledge is embedded in individuals and acquired through personal experience, it does not reckon specifically with the aspirations and resources of entrepreneurs or business owners. However, especially for SMEs the role of the entrepreneur is thought to be important for the process of internationalisation (Miesenböck, 1988; Van Elk and Overweel, 1991; De Jong and Overweel, 1998). However, only few studies have empirically explored the relationship between the characteristics and experience of the business owner and the propensity for the business to undertake international activities (e.g. Westhead, 2001). Therefore, this study will also use a resource-based view (McDougall et al., 1994; Bloodgood et al., 1996) to identify some factors that encourage SMEs to internationalise their activities. The resource-based theory draws on the view that the resources of the entrepreneur have an important impact on the ability to internationalise business activities (Chandler & Hanks, 1994). It assumes that resources accumulated by entrepreneurs throughout their life, or the entrepreneurs' overall human capital, may have a positive influence on the propensity to develop international activities. For example, a higher level of education of the entrepreneur may result in stronger international commitment (Westhead, 1995). Age may also be a decisive factor as older entrepreneurs are likely to have wider social and business contacts and more experience to enable their businesses to sell goods and services abroad (Westhead, 1995). For our research, this leads to the following additional hypotheses:

Hypothesis 2: A firms' future international commitment in the new EU Member States is positively related to the entrepreneurs' human capital.

Hypothesis 3: The stage theory effect with regard to a firms' future international commitment in the new EU Member States will be weakened when the effect of human capital is accounted for.

3. Empirical analysis

3.1. *Sample*

The analysis is based on a representative sample of 1,750 Dutch SMEs. The business owners were interviewed on this particular subject during March 2004. This resulted in detailed information on the activities of Dutch SMEs in the new EU Member States as well as on their future plans for international business activities in this region. In the analysis we only include enterprises for which the enlargement of the European Union is potentially relevant. Of all the enterprises in our sample 51% (895) indicated that the enlargement of the European Union is of no relevance for their businesses. Therefore, our final sample consists of 855 Dutch SMEs.

3.2. Measures

In the following paragraphs we explain how we measured the different variables.

Dependent variable

Future international commitment was assessed by asking the entrepreneurs whether they perceive future opportunities for undertaking international activities within the new EU Member States. Answers were categorised into the following categories: (a) no perceived new future opportunities in the new EU Member States and (b) perceived new future opportunities in the new EU Member States. In the logistic regression equations the dependent variable takes the value 0 for no perceived new future opportunities and the value 1 for perceived new future opportunities.

When enterprises indicated that they were planning to undertake future international business activities in the new EU Member States we asked them in which modes of internationalisation they were planning to be involved. Taking into account the estimated effects of EU-Enlargement on EU-15 enterprises answers were classified into the following categories:

- 1 Importing goods or services
- 2 Importing labour
- 3 Exporting goods or services
- 4 Producing or investing abroad

Predictor variables

Current international involvement was assessed by asking the entrepreneurs whether they are currently undertaking international business activities in the new EU Member States. Enterprises were categorised into the following categories: (1) currently undertaking international activities in the new EU Member States, (2) no current international activities in the new EU Member States.

When enterprises indicated that they were undertaking international business activities in the new EU Member States we asked them in which of the following modes of internationalisation they were involved:

- 1 Importing goods or services
- 2 Importing labour
- 3 Exporting goods or services
- 4 Producing or investing abroad

We also asked enterprises with current international commitment to indicate whether they are doing business in one or more of the following new EU Member States: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

The scope of internationalisation was measured by assessing whether SMEs belonged to one of the following categories (1) involved in one mode of internationalisation, (2) involved in more than one mode of internationalisation; and also by making a distinction between: (1) involved in one new EU Member State and (2) involved in more than one EU Member State.

Human capital: education and age of the entrepreneurs were identified as components of the entrepreneurs' human capital. The respondents were assigned into two categories of human capital: (1) aged over 40 & higher education, (2) aged below 40 and/or no higher education.

Control variables

We also included some control variables in order to check whether these controls may weaken the effect of our hypothesized predictors:

Sector of industry: The firms were assigned to one of the following five industries: (1) manufacturing, (2) trade, (3) transport, (4) business services, and (5) other industries. 'Other industries' was used as a base case in the regression analysis (and was therefore not included in the regression equation). So four industry dummies were used to represent the industry.

Firm size: We distinguished three size classes for the SMEs in our sample: (1) 0-9 occupied persons, (2) 10-99 occupied persons and (3) 100-250 occupied persons.

Starting year: Four groups were distinguished: (1) 1970 or before, (2) 1971-1990, (3) 1991-1998 and (4) 1999-2003.

Gender: This variable takes the value 0 for females and the value 1 for males.

3.3. Data analysis

Considering the nature of the dependent variable we used binary logistic regression analysis to estimate the effect of our predictor and control variables on the level of future international commitment in the new EU Member States. We constructed four models. In the first model we entered only the control variables. The first model is the benchmark against which to test our hypothesized relationships. The second model includes the control variables as well as the predictor variable 'current international involvement'. The third model includes the predictor variables for scope of internationalisation, as well as the control variables. The fourth model includes both the predictor variables 'current international involvement' and 'human capital' and control variables.

4. Results

The bivariate correlation coefficients between our variables are presented in Table 1. We found that current international commitment is positively related to a firm's future international commitment ($r = 0.329$; $p \leq 0.01$). Human capital also shows a significant positive bivariate correlation with future international commitment ($r = 0.151$; $p \leq 0.01$). It can be seen that there are only significant industry effects on future international commitment from the categories 'transport industry' (positive correlation) and 'other industries' (negative correlation). Other variables that show a significant positive bivariate correlation with future international commitment are firm size ($r = 0.104$; $p \leq 0.01$) and gender ($r = 0.156$; $p \leq 0.01$). An interesting observation is the positive correlation between the starting year of the enterprise and future international commitment ($r = 0.087$; $p \leq 0.05$). In other words younger firms are more likely to undertake future international activities in the new EU Member States compared to older firms. This may confirm the born global perspective (Knight & Cavusgil, 1996; Madsen & Servais, 1997), which argues that younger firms increasingly engage in international activities.

(Insert Table 1 about here)

In our analysis we focused on enterprises that are internationally involved in the new EU Member States. With respect to *current international involvement* it appears that 16% of the enterprises in our final sample (855) are currently internationally active in the new EU Member States. Many of these enterprises are active in trade. Enterprises in business services, manufacturing and transport are also internationally committed in the new EU Member States (see Table 2). Regarding *future international commitment* 25%

of the enterprises in our final sample have indicated to perceive additional or new future opportunities for international commitment within the Central European region.

(Insert Table 2 about here)

Table 3 shows the results of the regression analyses. The first column pertains to the analysis where only the control variables were included in the model. We found that larger enterprises are more likely to undertake international business activities in the new EU Member States than smaller ones ($p \leq 0.05$). We also found that the starting year is positively related to new future international commitment ($p \leq 0.01$), meaning that younger enterprises are more inclined to be involved in the Central European region than their older counterparts. Further we found that males show higher future international commitment than females ($p \leq 0.01$). Also it can be seen that for our industry categories manufacturing industry ($p \leq 0.05$) and transport industry ($p \leq 0.01$) have a positive impact on future international commitment.

(Insert Table 3 about here)

The results of the model that includes the predictor variable 'current international involvement' and the control variables are presented in the second column of Table 3. We found a positive effect of the firms' current international involvement on future international commitment ($b=1.68$; $p \leq 0.01$). Nagelkerke's R-square increased from 0.104 in the first model to 0.204 in the second model suggesting that a higher part of the variance is explained when 'current international involvement' is added. In comparison to the first model no significant effect is found for manufacturing industries and firm size. The model indicates that even when controlled for industry, size class, starting year and gender, firms that are currently internationally committed in the new EU Member States are more likely to show future international commitment as compared to firms that are currently not undertaking international business activities in this region. Therefore, we found support for hypothesis 1 stating that current experience has a positive influence on future international commitment in the new EU Member States. Table 4 further illustrates this finding: whereas 59% of the enterprises that are currently active in the region intend to increase their international commitment in the future, only 20% of the enterprises without current international involvement in the region have plans for undertaking future international activities.

(Insert Table 4 about here)

The third model in Table 3 includes the predictor variables for scope of internationalisation and the control variables. It can be seen that no significant effect is found for any of the variables for scope of internationalisation on future international commitment. The F-test for inclusion of these two variables reveals that the model fit does not improve significantly. Therefore, these variables are omitted in the next regression model. Using univariate analysis similar results were found (see correlation matrix, Table 1). Table 4 shows that 82% of the enterprises that are active in the new EU Member States is only involved in one mode of internationalisation within the region. Currently, SMEs are mainly either exporting goods or services to or importing goods or services from the new EU Member States. Enterprises that are currently involved in more than one mode of internationalisation more often perceive new or additional future opportunities in this region than enterprises that are only involved in one mode of

internationalisation, however there is no statistically significant relation. Furthermore, it can be seen in Table 4 that currently 56% of the SMEs that are undertaking business activities in the new EU Member States are doing business with more than one country in the Central European region. Although individual countries in the region are said to be rather diverse it appears that enterprises that are doing business in this particular region have a tendency to be active in other countries in the region as well. This may also reveal the integrative forces that stem from the formal integration process of the European Union. Most Dutch enterprises that undertake international activities in the new EU Member States are active in Poland (69%), the Czech Republic (53%) and Hungary (27%). In general SMEs are involved in two or three countries in the region. Although enterprises that are currently active in more than one country more often intend to increase their international commitment in the region than firms that are only committed in one country in the region, the relation is not statistically significant. In sum, we found little support for hypothesis 1a.

(Insert Table 5 about here)

The fourth model in Table 3 also includes human capital in the analysis. We found that business owners' aged over 40 with higher education are more likely to show future commitment to international activities compared to their less educated and/or younger counterparts ($b=0.63$; $p \leq 0.01$). Table 6 also clearly demonstrates the differences in attitudes towards future international commitment for the two identified groups. Thus, we found support for hypothesis 2.

(Insert Table 6 about here)

The fourth model in Table 3 also shows that including human capital in the equation only slightly weakens the effect of current international commitment. When human capital is added the estimate of the variable 'current international commitment' decreases from 1.68 (in the second model) to 1.64 (in the fourth model). Therefore, we only found weak support for hypothesis 3.

Interestingly, although beyond the scope of this paper, enterprises that are currently involved in the new EU Member States and that intend to display new international commitment in this region, expect to be increasingly involved in higher modes of internationalisation (see Table 7). For example, most of the enterprises that are currently involved in inward modes of internationalisation intend to start exporting to the new EU Member States or to start investing abroad. This may indicate that most of the importing SMEs perceiving future opportunities are planning to move to another stage in the internationalisation process.

(Insert Table 7 about here)

5. Conclusions and discussion

In this study we combined the stage theory of internationalisation (Johanson & Vahlne, 1977) and the resource-based view (McDougall et al., 1994; Bloodgood et al., 1996) in order to better understand a firm's international commitment within a particular region. Future international commitment was defined as the extent to which firms are planning to undertake international business activities in the new EU Member States. Specifically, we examined how the stage theory and resource-based factors are related to a firm's intended future international commitment. We found that (1) the pattern of

internationalisation of Dutch SMEs is broadly in line with the stage theory, (2) human capital has a positive influence on future international commitment and (3) human capital only slightly weakens the effect of the stage theory.

Our results confirm the expectations of the stage theory that additional or new foreign market commitment is affected by the firm's current international business activities (Johanson & Vahlne 1977; 1990). Whereas the stage theory and other existing literature on internationalisation of enterprises are strongly focused on export and other outward modes of internationalisation, we also included inward modes of internationalisation in our analysis. We realize that our observation that importing enterprises are planning to move to a new, higher stage was only based on a small sample of SMEs. More research is needed in order to better understand the complex relationship between inward and outward modes of internationalisation and to assess whether inward modes are indeed a first step towards undertaking outward-oriented activities.

The positive relationship between resource-based factors and future international commitment indicates that the human capital of the business owner affects the future international possibilities he sees for his firm. The rationale for the positive relationship between the entrepreneurs' human capital and future international commitment partly lies in the idea that the knowledge and experience of the entrepreneur may diminish uncertainties that are embedded in decisions to start or expand international activities. In our analysis we applied a rather crude measure including only two variables for assessing human capital of the business owner. This may explain the result that human capital only slightly weakens the stage theory effect. In future research, therefore, the definition of human capital should be extended to include other indicators such as the amount of international experience and international know-how of the entrepreneur or his staff or the management know-how available within the firm.

The results indicate that young enterprises are more likely to undertake business activities in the new EU Member States than older ones. This finding could suggest that recent developments, such as technological changes, may have changed the business environment in which enterprises operate, in that it has become easier for young firms to make international commitment. It may also indicate that younger firms are less firmly rooted in traditional patterns and more flexible in adjusting to new circumstances such as the EU enlargement. This finding is also in accordance with the view that the stage theory and born globals perspective do not necessarily contradict but may rather complement one another (European Commission, 2004a).

Although many of the firms in the sample had not made any foreign commitment at all in the new EU Member States or were not planning to do so, the results point to an increased future involvement of SMEs in the new EU Member States. The term international may refer to the actual undertaking of business activities abroad or to an attitude of an enterprise towards international activities (Kindleberger, 1969). We asked entrepreneurs about their attitudes in terms of perceived future opportunities. Although attitudes form the basis of actual behaviour it is also true that these attitudes yet have to be translated into actual decisions to undertake international activities.

6. Limitations, future research and implications

This study has some limitations. First, we did not assess for how long the enterprises that are currently undertaking business activities in the new EU Member States have been active in the region. Therefore, it was not possible to take into account the element of time in the internationalisation process of SMEs. Another limitation of our study is that the enterprises were questioned at only one point in time and therefore it is not possible

to assess whether enterprises that have indicated to plan future activities will actually increase their international involvement within the region. Using an analysis over a longer period of time would provide better insight into the actual internationalisation behaviour of firms in the new EU Member States.

On the basis of existing literature one would expect an important influence of human capital on international commitment. We decided to include human capital in our analysis as this is expected to be of special importance for SMEs in their internationalisation strategy. The results of our study reveal that the entrepreneurs' human capital does seem to be a positive factor with respect to undertaking international activities in the new EU Member States. However, the results also indicate that human capital is not a very decisive factor. Therefore, future research should extend the definition of human capital (e.g. by including human capital of the staff) and should also focus on other factors that may have a decisive influence on internationalisation, such as innovation or intended job growth.

In our study we only identified modes of internationalisation that are based on the most likely effects that EU Enlargement is expected to have on EU-15 enterprises according to existing literature. As a consequence we did not focus on other modes of internationalisation such as international licenses or detachment of personnel by SMEs. Future research could also take into account these and other modes of internationalisation.

Elaborating on existing research we included inward as well as outward modes of internationalisation in our analysis. According to the stage theory, the experience gained in a limited set of foreign activities (e.g. export) allows a firm to make more substantial commitment in foreign markets (e.g. investing and producing abroad) (Johanson & Vahlne, 1977, 1990). If this reasoning holds, one would also expect that enterprises that are currently only importing from EU Member States will commit themselves to more substantial modes of internationalisation in the future (i.e. exporting etc.). The results indeed indicate that importing firms are planning to be involved in more committed forms, but these results are only based on a very small sample of enterprises and therefore need to be tested further in future research.

Although the focus of our study was not on assessing the specific economic impact of the EU enlargement on the 'old' Member States, it is important to note that the majority (56%) of SMEs that are currently involved in the new EU Member States are exporting and also plan to increase their exports to these markets in the future. This is remarkable as so called low-wage countries are often mainly associated with increased competition for enterprises in EU-15 countries and with attracting foreign investments and the replacement of employment from EU-15 countries.

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Table 1:
Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Future international commitment													
2 Current international involvement	0.329**												
3 Scope of internationalisation: number of modes	0.126	not relevant											
4 Scope of internationalisation: number of countries	0.097	not relevant	0.205										
5 Human capital: aged over 40 and higher education	0.151**	0.071*	0.261*	0.224**									
6 Industry: manufacturing	0.035	0.071*	0.119	0.079	0.040								
7 Industry: trade	-0.039	0.128**	-0.69	0.098	-0.167**	-0.234**							
8 Industry: transport	0.154**	0.124**	0.068	0.036	-0.036	-0.102**	-0.171**						
9 Industry: business services	0.018	-0.078*	-0.027	-0.128	0.226**	-0.220**	-0.368**	-0.160**					
10 Industry: other industries	-0.091**	-0.176**	-0.084	-0.144	-0.062	-0.227**	-0.380**	-0.166**	-0.357**				
11 Firm size	0.104**	0.122**	0.072	0.112	0.161**	0.014	-0.101**	0.141**	-0.058	0.068*			
12 Starting year	0.087*	0.006	0.064	-0.085	-0.027**	-0.107**	-0.012	0.020	0.135**	-0.054	-0.255**		
13 Gender	0.156**	0.101**	0.043	0.137	0.020	0.011	0.015	0.001	0.046	-0.069	0.102**	-0.031	
Mean	0.260	0.160	0.180	0.560	0.310	0.120	0.280	0.070	0.260	0.270	1.241	2.580	0.844
Standard deviation	0.441	0.370	0.386	0.498	0.463	0.328	0.450	0.254	0.437	0.444	0.561	0.951	0.364
Minimum	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.000	1.000	0.000
Maximum	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	3.000	4.000	1.000

** p ≤ 0.01, * p ≤ 0.05

Table 2:
Enterprises that are currently involved in new EU Member States across sector of industries

<i>Sector of industries</i>	<i>Structure of SMEs in the Netherlands</i>	<i>Structure of SMEs that are currently involved in new EU Member States</i>
Manufacturing	9%	17%
Trade	30%	41%
Transport	6%	14%
Business Services	25%	18%
Other industries	31%	10%
<i>Total</i>	<i>100%</i>	<i>100%</i>

Table 3:
Binary logistic regression results

<i>Dependent variable →</i>	<i>Future International commitment</i>			
Current international involvement		1.68**	2.18**	1.64**
Scope of internationalisation: number of modes			-0.38	
Scope of internationalisation: number of countries			-0.38	
Human capital: aged over 40 and higher education				0.63**
Industry: manufacturing ¹	0.72*	0.37	0.34	0.31
Industry: trade	0.29	-0.15	-0.17	-0.13
Industry: transport	1.43**	1.09**	1.06**	1.13**
Industry: business services	0.43	0.32	0.31	0.15
Firm size	0.35*	0.21	0.20	0.15
Starting year	0.28**	0.29**	0.28**	0.30**
Gender	1.25**	1.15**	1.13**	1.20**
<i>Nagelkerke R²</i>	<i>0.104</i>	<i>0.204</i>	<i>0.208</i>	<i>0.221</i>
<i>- Δ -2 Log likelihood</i>	<i>857**</i>	<i>795**</i>	<i>793**</i>	<i>785**</i>

Standardized regression coefficients; ** p [two-tailed] ≤ 0.01, * p [two-tailed] ≤ 0.05;

+ p [two-tailed] ≤ 0.10

¹ Industry category "other industries" used as base case

Table 4:
Future international commitment and current international involvement

	Current international involvement		Number of modes of internationalisation		Number of countries of internationalisation	
	YES	NO	More than one mode	One mode	More than one country	One country
% Within total sample	16%	84%				
% Within current international involvement			18%	82%	56%	44%
Future international commitment	59%	20%	72%	56%	63%	53%
No future international commitment	41%	80%	28%	44%	47%	37%
<i>Total</i>	<i>100%</i> <i>(N=134)</i>	<i>100%</i> <i>(N=669)</i>	<i>100%</i> <i>(N= 25)</i>	<i>100%</i> <i>(N=109)</i>	<i>100%</i> <i>(N=73)</i>	<i>100%</i> <i>(N=60)</i>
	<i>Chi-square 86.79, df 1, p-value 0.00</i>		<i>Chi-square 2.16, df 1, p-value 0.14</i>		<i>Chi-square 1.27, df 1, p-value 0.26</i>	

Table 5:
Enterprises that are currently involved in new EU Member States across modes of internationalisation and countries

	% of Dutch SMEs that are currently involved in new EU Member States
Modes of internationalisation	
Importing goods or services	43%
Importing labour	13%
Exporting goods or services	56%
Producing or investing abroad	10%
Countries	
Czech Republic	53%

Estonia	19%
Hungary	27%
Latvia	22%
Lithuania	18%
Poland	69%
Slovakia	22%
Slovenia	13%

Table 6:
Future international commitment and human capital

<i>International commitment</i>	<i>Human capital: aged over 40 & higher education</i>	
	NO	YES
Future international commitment in new EU Member States	22%	37%
No future international commitment in the new EU Member States	78%	63%
<i>Total</i>	<i>100%</i> <i>(N= 561)</i>	<i>100%</i> <i>(N=242)</i>
	<i>Chi-square 18.68, df 1, p-value 0.00</i>	

Table 7:
Current and future modes of internationalisation of enterprises that are currently involved in the new Member states and that intend to be international commitment in this region in the future (N=79)

<i>Modes of internationalisation</i>	<i>Current international involvement</i>	<i>Future international commitment</i>
Importing goods or services	45%	4%
Importing labour	13%	19%
Exporting goods or services	61%	81%
Producing or investing abroad	11%	23%