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ABSTRACT

The changing skill needs being experienced by small European firms because of increasing internationalization were examined in a survey of owners/managers and employees of 85 small manufacturing businesses in Greece, Spain, Ireland, Italy, the Netherlands, Austria, and the United Kingdom and case studies of an additional 16 businesses that have been particularly successful in becoming internationalized. The study confirmed that export and other cross-border activities constitute the first step toward internationalization and that, in most cases, it also constitutes natural progress in business growth or even survival. The main difficulties encountered in the small firms' international operations were access to suitable contacts abroad, market access, and market information. Having employees with two to four of the following key competencies was deemed key to successful internationalization: (1) foreign language skills; (2) knowledge of other markets/tastes; (3) communication skills; (4) information technology-based competencies; (5) negotiation skills; and (6) a capacity to work with international information systems and databases. The following are among the types of training services and technical support needed by small firms engaged in international business: group training programs; workshops on small exporters' best practices; and intensive foreign language courses. The study institutions' addresses are appended. (Contains 41 tables.) (MN)

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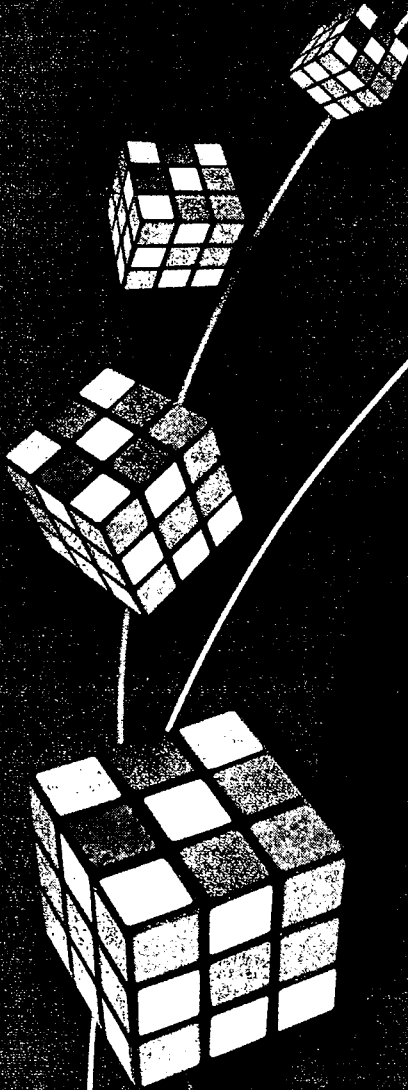
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Internationalisation and changing skills needs in European small firms

Synthesis report

Joseph Hassid

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Foreword

This research sets out to examine the skills needs of small firms in an increasingly globalised world economy. Owners/managers and employees from 85 small businesses in, Greece, Spain, Ireland, Italy, the Netherlands, Austria and the United Kingdom have participated in this research through questionnaire surveys, whereas another 16 businesses, which were particularly successful at becoming internationalised, have become the object of in-depth case studies.

Subsequently, the findings have been compared with the results of the questionnaires completed by and the interviews held with training and related service providers in the abovementioned countries. In this way, the cycle of training demand and offer has been investigated.

The research has confirmed that export and other cross-border activities form the first step towards internationalisation and that in most cases it constitutes natural progress in business growth or even survival. Only seldom is internationalisation a result of a long-term strategy.

Another interesting finding is that the investigated SMEs do not in general attribute their success in the export business to the post-1992 European Union single market although they acknowledge its indirect facilitating influence. Businesses successful at becoming internationalised achieved their success because of the persistence, commitment and flexibility of their owners/managers.

The research has been conducted in firms with up to 50 employees in the manufacturing sector only. In this way we tried to avoid a large dispersion of context.

At present, Cedefop is carrying out a complementary study on the skills needs of small firms in the service sector in the same countries, because it wishes to compare the training needs in the secondary and tertiary sectors.

Seven nation reports presented in a similar way have been drawn up by a research consortium under the scientific coordination of Professor Joseph Hassid of the University of Piraeus in Greece. At national level, this research has been conducted by:

- Ms Chara Gontzou, Ms Chara Messini and Mr George Zacharakis from the University of Piraeus, Greece;
- Mr Alfonso Echanove from the Instituto de Marketing del País Vasco in Bilbao, Spain;
- Mr Tom Martin and Ms Candy Murphy from Goodbody Economic Consultants Ltd in Dublin, Ireland;

- Professor Enzo Pontarollo and Ms Laura Solimene from the Institute for Research in Labour and Industrial Economics of the Università Cattolica del Sacro Cuore in Milan, Italy;
- Dr Erik Poutsma from IT-WORCS and the Nijmegen Business School in the Netherlands;
- Dr Märkus Wachter from the Austrian Tourism Consultants in Vienna, Austria;
- Ms Sandra Carey from the University of Hertfordshire and the International Development Consortium in the United Kingdom.

The findings of the seven studies have been merged into the present synthesis report drawn up by the scientific coordinator. It should be noted that originally this report contained an annex with a short harmonised presentation of the main national and EU human resources development and internationalisation-supporting programmes which have finally been omitted because they are too voluminous.

The reader of this report will notice that the conducted research has been action-oriented and that conclusions are followed by proposals for taking measures at either European, national, sectoral or local level.

In this context, the weaknesses of the supporting services and their implications for training policies and arrangements are analysed in Chapter 6 followed by recommendations for overcoming the mismatch between training offer and demand in Chapter 7. It is not only the content but also the delivery modes that condition the success of a training—understood in the broad sense of the term—activity. The small firms clearly rejected high technology skill acquisition methods such as video and CD-ROM.

Six competences have been determined as crucial for the successful internationalisation process of a small firm, namely the knowledge of foreign markets, communication skills, negotiation skills in international environments, foreign language skills, working with international systems and databases and information-related capabilities. All these are fully analysed in the corresponding chapter.

The research has been presented to the social partners of the sector, namely the UEAPME—European Association of Craft, Small and Medium-Sized Enterprises and the ETUC, to international organisations such as the International Labour Organisation, to the European Commission, to both the Education and Culture DG and the Enterprise DG and to the European Parliament.

It found a very positive response especially from the UEAPME itself which proposed to diffuse it among its members as a highly relevant document.

From our side we would like to thank all who have contributed to the present study, the small firms: both employers and employees who have participated in the research, the support services which have had lengthy and sometimes difficult discussions with the experts and the researchers who have worked far beyond their contractual obligations.

Tina Bertzeletou
Project Manager

Dr Stavros Stavrou
Deputy Director

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Introduction

The creation of a single market in Europe builds on the well-grounded belief that the removal of constraints on economic activity between Member States will serve to boost economic prosperity. Measurement of the economic impact of policies designed and implemented at various levels must therefore start by determining whether measures taken strengthen trade and investment flows between the Member States. Furthermore, one must also consider which constraints remain and how their importance could be reduced.

In Cedefop's framework plan and aims for the present study, it was pointed out that nowadays businesses, even small ones and those that operate locally, need to understand and even respond to the impact of the European Union integration.

The factors underlying the realisation of such SME needs are many. In particular:

- (a) the single market has, and will continue to have, an important impact on people, countries and economies. Market unification—in which the introduction of a single currency is only one of the contributing factors—is a challenge that should be accepted by European business, as it will provide a more stable framework for doing business abroad;
- (b) the political changes which have taken place in central and east European countries since the beginning of the 1990s, have influenced economic relations between the EU and the central and east European countries as trade and investment relations have intensified;
- (c) the new information and communications technologies (such as electronic commerce) have revolutionised trade itself.

All these developments need to be taken into account and small firms need to be informed in a timely and accurate manner because competitiveness relies on their ability for rapid adjustment and adaptation.

Indeed, several researchers have concluded that, overall, the single market has benefited large companies more than small ones. Large companies seem to perceive the positive consequences more keenly than smaller firms. It has also been argued that, for small firms, the most serious barriers in export markets in the tradable goods sector are not so much lack of competence as lack of knowledge, commitment and persistence within the firms themselves.

In order to identify probable differences in the attitude of small firms in different EU Member States towards internationalisation of their activities, corresponding differences in support infrastructure and resulting needs for

further training policy intervention were investigated in seven different regions representing both the north and the south of European Union. The results of the investigations are summarised in this synthesis report.

Extensive bibliographical reviews were undertaken in all participating countries and were supplemented by further desk research and field work. The latter included questionnaire surveys and in-depth interviews with owners and employees of small firms, as well as with training and other support service providers. In addition, a number of case studies were conducted in each of the seven regions. A harmonised methodology was implemented throughout the study and the results have been reported in seven autonomous national reports. The present synthesis report attempts to present an overall account of the findings of the national investigations. The reader must be warned that this attempt is made at the substantial risk of losing interesting insights into the situation prevailing in individual countries. These may be regained only by referring to the original national reports compiled and presented in the context of the specific Cedefop project.

The team responsible for the preparation of the national reports consisted of the following experts:

- Chara Gontzou, Chara Messini and George Zacharakis, of the University of Piraeus in Piraeus, Greece;
- Alfonso Echanove, of Instituto de Marketing del País Vasco in Bilbao, Spain;
- Tom Martin and Candy Murphy, of Goodbody Economic Consultants in Dublin, Ireland;
- Enzo Pontarollo and Laura Solimene, of University Cattolica del Sacro Cuore in Milan, Italy;
- Erik Poutsma, of Nijmegen Business School in Nijmegen, The Netherlands;
- Märkus Wachter, of the Austrian Tourism Consultants in Vienna, Austria;
- Sandra Carey, of the University of Hertfordshire and International Development Consortium (UK) in London, United Kingdom.

The members of the team and the scientific coordinator of the study wish to acknowledge the assistance of the owners and employees they contacted in the countries surveyed. In addition, they benefited from discussions with senior staff of a number of training and support service providers to whom they also express their gratitude.

Finally, we should like to express our sincere thanks to Tina Bertzeletou of Cedefop for her overall support and encouragement and, in particular, for her positive contribution in the various phases of the project and the discussions on interim results, their interpretation and implications for the European SME training and support policies. We would also like to acknowledge the very helpful comments received from Professor Stavros Stavrou, Deputy Director of Cedefop, on the final text of the synthesis report.

Professor Joseph Hassid
University of Piraeus
Scientific coordinator of the Cedefop study.

Executive summary

The survey, whose results are reported here, was carried out in seven EU countries. The countries covered are Greece, Spain, Ireland, Italy, the Netherlands, Austria and the UK. The analysis attempts to provide answers to crucial questions related to the required competences enabling efficient internationalisation by small firms, the extent to which such firms possess them, and the types of initiative that could contribute to an improvement in the situation.

The survey covered a sample of small firms employing less than 50 persons from various industries. It was based on interviews with firms' owners and their key employees. A number of case studies were also prepared. The firms' survey was supplemented by a survey of service providers' views, so that both sides of the market for small firms supporting services are considered.

Internationalisation indicates a process in which businesses seek, in an ongoing fashion, to improve their performance by expanding their operations beyond a given domestic market. In the past two decades, the process of internationalisation has become widespread. Firms are continuously seeking new markets for their products and have scattered the activities that are part of their production processes over many countries.

Estimates of the number of small and medium-sized firms engaged in international activities suggest that this may correspond to 4 % of the total number of SMEs in manufacturing and services.

Statistics for the European Union member countries confirm the predominance of small firms (defined in this case as those employing less than 50 persons). The average small firms' share in employment stands at 52 % while their corresponding share in the total number of enterprises is approximately 99 %.

The European integration programme has had a favourable effect on SME's exports (in particular those of very small enterprises) as compared to their larger counterparts.

All policies which improve national firms' competitiveness and their potential for exploiting opportunities emerging in foreign markets are 'good' policies. The same policies also improve the ability of firms to resist competition in their home markets from foreign companies. The two types of benefits, when combined strengthen each other and reinforce the rationale for active policy-making.

In all the countries surveyed in the context of this study many measures have been implemented in order to improve the export potential of firms.

With particular reference to training services, two factors are regarded as negatively affecting their quality and effectiveness:

- (a) the overall tendency is for programmes to be designed without prior investigation of actual small firms' training needs;
- (b) the subsidy element inherent in many programmes weakens the service provider's efficiency and the trainees' interest.

The results of the survey among the owners of small firms suggest that the so-called 'pull' factors are substantially more important in convincing small firms to go international than the 'push' factors. The attractiveness of foreign markets is particularly important, while government encouragement is evaluated as substantially less important.

The firms surveyed consider that increased competition in the home market is the main immediate impact of internationalisation. This impact, however, does not fall equally on all small firms. The resulting pressures are transmitted by a variety of mechanisms and are perceived in a variety of ways, depending on each country's industrial and institutional context.

Expansion of activities beyond the boundaries of the home market and the implied contact with different socioeconomic as well as cultural environments may require some review of the adequacy of firms' work organisation to meet the new emerging needs. Internationalisation implies some redistribution of responsibilities and hiring of new specialised personnel or intensified internal consultations. It is also noted that the emergence of needs for skills not required in the past, but at a scale not allowing full utilisation of a specialised person's time, leads to the development of outsourcing of specialised services.

More than half of the firms surveyed consider that operating in international markets is more difficult compared to operating in home markets.

The most important types of difficulties in small firms' international operations are:

- (a) access to suitable contacts abroad;
- (b) market access;
- (c) market information.

In the case of internationalised small firms, some 'strengths' must be present in order to counterbalance the 'difficulties' encountered in their international operations.

Typical strengths are:

- (a) the owner's commitment, persistence and confidence;
- (b) product quality and adaptability;
- (c) personal relations.

On the other hand, small firms' weaknesses relate to:

- (a) lack of availability of advertising budgets;
- (b) the owners' and employees' resistance to change;

- (c) cost reduction capability;
- (d) language skills.

Based on their experience the surveyed small firms were requested to indicate the factors which they consider as keys to success in exporting. At the top of the list are the following factors:

- (a) finding the right agents/distributors;
- (b) choosing the right export market(s);
- (c) being committed, confident and persistent;
- (d) using fast communications;
- (e) having foreign languages abilities.

Most of the above priority keys to success may be secured provided the small firm possesses a relatively limited number of two to four key competences among the following:

- (a) foreign language skills;
- (b) knowledge of other markets/tastes;
- (c) communication skills;
- (d) IT based competences;
- (e) negotiation skills;
- (f) capacity to work with international information systems and databases.

The small firms owners' personal appreciation combined with the results of their consultations with senior employees seem to be the most important procedures for identifying firms' weaknesses. Furthermore, their assessment of the effectiveness of alternative mechanisms through which internationalisation-related competences could be developed reveal their preference for practical, results-oriented mechanisms (on-the-job training etc.). The firm itself is considered to be the most effective mechanism for training and provision of other support services.

Reasons for which small firms are reluctant to increase their employees' participation in out-of-the firm training programmes are usually associated with:

- (a) cost of programme;
- (b) unsuitable organisational arrangements;
- (c) small number of employees and lack of interest on their part.

The views expressed by owners and employees of small firms on the competences related to key success factors are very similar, and the same applies to the assessment of the relative effectiveness of various types of training.

Efficient mechanisms for linking the demand and the supply sides of the market for training and other support services to small firms are essential for securing availability of services, supply of varying types, and terms preferred by potential users. At the same time, firms must be constantly aware of the

services provided, so that they can efficiently deploy the resources available for their personnel development.

During the survey a number of service providers were given the opportunity to express their views on a range of issues. The main results of this part of the study were the following.

- (a) In contrast to owners of small firms, who assessed the main impact of internationalisation to be increased competition in the home market and changes in consumer tastes, service providers emphasise the increasing complexity of the economic environment, and the more complex legal and fiscal conditions, as well as competition.
- (b) With reference to difficulties associated with operating in international markets, service providers agree that such operations are more difficult than corresponding operations in the home market, without necessarily being compensated by superior profitability.
- (c) The characteristics regarded by owners of small firms as strengths in international operations also appear at the top of service providers' lists.
- (d) While agreeing on what constitute keys to success in international operations, service providers attach more emphasis to the crucial aspect of choosing the right export market.

Our survey results suggest that there is a disagreement—between owners and service providers—over the question of which are the most effective support transfer mechanisms. Service providers see most of the implemented mechanisms as effective and stress the effectiveness of their small firms specific training advice and direct support. Divergence is also found in the criteria for selection of training programmes. While both groups agree on most of the criteria used by small firms, service providers play down the importance of the cost!

The review of the prevailing situation in internationalisation support training programmes addressed to small firms (and associated support schemes) plus the results of interviews with owners/employees and representatives of training and support service providers, indicate important implications for training and support services policies. In particular, these are as follows.

- (a) Training policies must constitute part of larger support packages and their effectiveness should be assessed as being conditional on the overall package effectiveness.
- (b) Small firms owners' personalities, their educational background and their limitations are all essential parameters in the design of support schemes.
- (c) Training topics must be selected in a way to allow participants to participate actively in the training process, rather than simply attend lectures.

- (d) Small firms' owners are, almost as a rule, most difficult to satisfy. All organisational and scientific aspects of training programmes must be used continuously; as to the preferred mechanisms and procedures for efficiently acquiring required competences, small firms appear to favour a development of these competences by way of on-the-job training. They prefer to learn by doing, preferably from other companies and particularly from those that have experienced the same difficulties.

A number of recommendations may be made to intermediate agents, public or private sector service providers, national governments and even the European Commission, on how the study's conclusions, together with the rest of the material and findings of the research undertaken, could be best transformed into specific actions. The main objectives should be:

- (a) actions promoting awareness of changes in their economic and institutional environment as well as technological developments;
- (b) actions aimed at reducing the cost of training and of other support services to the small firm, as well as at minimising staff problems associated with training skills implementation;
- (c) a need for policy-makers to develop and implement initiatives which will help small companies to become proficient in the identification of skills shortages/deficiencies among managers and employees;
- (d) actions specifically addressed to bridging the demand and supply sides of the training and other support services market;
- (e) actions which will increase small firms' access to schemes promoted by the European Union.

In line with the above general directions, training services and technical support specifically for the international business in which small firms are involved could include actions such as:

- (a) improved statistics on small firms' trade performance;
- (b) setting-up of reference libraries on foreign markets;
- (c) group training programmes;
- (d) consultancy services customised for small firms;
- (e) workshops on small exporters' best practices;
- (f) transnational personnel placements;
- (g) intensive foreign languages courses.

1. Internationalisation and the small firm: some background considerations

Internationalisation, like the closely related but more general concept of globalisation, indicates a process in which businesses seek, in an ongoing fashion, to improve their performance by expanding their operations beyond a given domestic market.

As pointed out in a recent OECD study, for firms generally, the concepts of internationalisation/globalisation seem to reflect⁽¹⁾:

- (a) the ability to move flexibly and to identify and take advantage of opportunities anywhere in the world;
- (b) the ability to source inputs, distribute products/services and move capital across borders;
- (c) a lack of a home or national base (in the sense of not being committed to maintaining headquarters or a presence in a specific home country);
- (d) being present (usually as establishments, alliances or parts of networks) in a number of different countries;
- (e) having management that brings and acts internationally/globally;
- (f) the ability to market products/services successfully in different nations (although the products/services may be adapted to specific markets).

Globalisation the OECD suggests, is a fuzzy, imprecise concept. There are degrees of globalisation for any firm, from an extreme situation of sourcing all its inputs from a local area and selling all its outputs within this area (domestic firm), to the other extreme (fully globalised) with the majority of inputs sourced across borders and with the large majority of outputs also traded across borders. Domestic firms are also distinguished from fully globalised ones in the spread of their establishments and affiliates. The former operates a single establishment in the home market while the latter functions through multiple establishments or affiliates in many countries. Somewhere along this scale OECD defines 'internationalised' firms as those for which the following two sets of characteristics may be detected:

- (a) more than 10 % but less than 40 % of inputs sourced internationally and more than 10 % but less than 40 % of revenue from across borders;
- (b) establishments or close affiliates in at least four different nations.

⁽¹⁾ OECD, *Globalisation and small and medium enterprises*, Paris, 1997, p. 21.

While it seems reasonable to have definitions established, it is, at the same time, doubtful whether the above quantitative criteria can be applied. Few countries collect statistics for exports/imports broken down by firm size. Even fewer firms are willing to disclose details concerning the origin of their inputs and/or destination of their outputs. There are, therefore, inherent problems in measuring the degree of a firm's globalisation. It may, however, be easier to distinguish between internationalised and globalised firms using a different approach.

According to this approach, an internationalised firm evolves into a globalised one to the extent that it is prepared to review and revise its international exposure. It does this by continuously assessing opportunities emerging in its home market, the foreign markets in which it has already some presence, and other foreign markets where the potential for expansion is not impeded to a significant degree. In addition, such a firm is in a position to relocate its operations or parts of operations, irrespective of whether the locations selected are in the same country or in different countries, and is prepared to change locations, even in the short run, in response to changes in relative prices.

In the past two decades, the process of internationalisation/globalisation has become widespread. Firms are continuously seeking new markets for their products and have scattered the activities that are part of their production processes over many countries and/or have integrated them globally. In order to do so they have found the markets where their products may be sold at the best possible prices and, at the same time, have identified the location at which each part of production may be carried out most efficiently. They are also prepared to change locations as soon as efficiency may be improved by moving elsewhere.

As an example, consider an Irish-owned firm in a pre-globalisation world⁽²⁾. Assume it is a manufacturing firm, with its plant also located in Ireland. The management activities necessary to run the firm are carried out in Ireland. A distribution centre is located near its headquarters and its company-owned trucking fleet carries the company's products to customers exclusively located within the national boundaries. This is a domestic firm by all accounts.

Consider now the following two phases of the company's evolution. First, the company, having identified opportunities in the English and Northern Irish markets, starts exporting to these two markets. The company becomes internationalised and the extent of its internationalisation increases as exports to the two foreign markets absorb a progressively larger share of its total production.

⁽²⁾ The example has been adapted from: *United Nations Statistical Commission report E/CN.3/1997/2* (pp. 4-5).

Second, let us assume that there has been a buy-out by a holding company of Irish interests located in England. The head office is moved to England, together with all management activities carried on at the head office, in close proximity to the new owners. The manufacturing activity continues to be carried out in the same plant in Ireland for reasons related to the availability of raw materials and a good quality labour force. However, in recognition of the need to better serve the entire North American market with the products manufactured by the plant—in response to opportunities identified through the new owners' affiliates in that market—the distribution centre has been moved to the United States so as to be closer to the US and Mexican markets. It remains under Irish management and ownership but is incorporated in the United States. The multiplicity and the complexity of company decisions—all aiming at improved efficiency—are typical of a globalised firm.

Several developments have made it possible for firms to operate in the manner described: to become internationalised, to increase their internationalisation and, in some cases, to develop into globalised firms. The most important of these developments are the following:

- (a) reductions in trade and investment barriers; firms can make the best economic decisions about where to operate without taking into consideration political barriers to trade and investment;
- (b) changing transportation and communications technologies; improvements in transportation and communications shorten the distances and lower the costs of transfer between the constituent parts of a production network;
- (c) the rapid industrialisation of some developing countries; developing countries can now support sophisticated production facilities and still supply relatively low-priced labour.

Estimates of the number of small and medium-sized firms engaged—to varying degrees—in international activities in various countries are presented in Table 1.1, derived from the OECD study mentioned above.

According to these estimates, the approximate number of small and medium-sized firms consistently engaged in international activities (such as exporting) corresponds to 4 % of the total number of SMEs in manufacturing and services. Of this 4 %, only a minority of 4.4 % may be defined as extensively or truly globalised. In other words 95.6 % of these firms are, in OECD terminology, either mainly domestic firms (with less than 10 % of their inputs or their output traded beyond their home market borders) or, at best, internationalised (in the sense explained earlier in this chapter). There are only a few fully globalised small firms (OECD estimates them at less than 1 % of SMEs mostly in globalised or high tech industries). Their total number is in the

region of 30 000 to 40 000 firms, mostly established in Italy, the UK, Japan, and Germany.

Table 1.1 **Estimated number of 'globalised' SMEs**

	Manufacturing	Services (1)	Approximate number of known ISMEs (2)	Approximate number of globalised ISMEs (3)	Percentage of globalised SMEs (4)
Australia	46 000	485 000	4 500	500	1
Belgium	49 000	144 000	40 000	3 400	7
Canada	54 000	755 000	10 000	1 000	2
Denmark	38 000	250 000		1 100	2-4
Finland	6 000	120 000	6 000	60	1
France	267 000	2 023 000		3 000	1
Germany	418 000	1 083 000		4 000	1
Greece	8 000	6 000		80	1
Ireland	5 000	8 000	1 250	50	1
Italy	527 000	640 000	250 000	8 000	1.5
Japan	856 000	5 600 000	214 000	6 000	< 1
Netherlands	27 000	52 000	50 000	270	1
Portugal	14 000	16 000		100	< 1
Spain	229 000	1 563 000	73 000	1 000	< 1
Sweden	43 000	187 000	48 000	400	1
Switzerland	72 000	209 000	11 000	700	1
United Kingdom	251 000	2 189 000	92 000	6 200	2.5
United States	322 000	4 500 000	100 000	3 220	1
Total OECD	3 232 000	19 830 000	892 750	39 080	

Source: OECD, op.cit.

NB: Data generally refer to 1991-92. The SME definitions are not fully comparable.

(1) Services include all non-agricultural, non-mining and non-manufacturing activities.

(2) ISME: SMEs consistently engaged in international activities, such as exporting.

(3) Globalised SMEs, are extensively or truly globalised.

(4) Ratio of globalised SMEs over manufacturing SMEs.

For firms in the European Union Member States, the possible impact of the single market programme on firms' activities, their strategies concerning internationalisation and their overall efficiency, has, in recent years, been a favourite topic for many researchers. The completion of the single market was expected to lead to more international competition and more international cooperation. The European Commission itself has reported that: 'although it is true that larger companies have benefited the most from the new opportunities opened by the single market, this is due to the fact that smaller

companies are less involved in cross-border operations' ⁽³⁾. At the same time, however, the same report notes that 'SMEs operating internationally, prior to the implementation of the single market, feel that single market measures have improved their performance by encouraging them to raise quality, or adapt themselves to stronger competition'. An analysis by the European Observatory for SMEs, based on surveys among small firms in all EU member countries, devised a grouping of small firms reflecting basically their assessment of the balance between opportunities (large selling market, simplified international collaboration, lower production costs, etc.) and threats (greater competition, more regulation, etc.). It also included the same firms' assessment of the impact of specific European single market measures, such as those in the field of product harmonisation, simplified custom procedures, VAT regulations, etc.

The grouping resulted in seven single market profiles, separated as follows. Two groups on which the European single market has a very limited impact, three groups seriously confronted by the European single market and two groups with high export quotas but not yet seriously confronted by the specific aspects of the European single market programme. (For an elaborated description see: The European Observatory for SMEs, *The fourth annual report*, 1996 and *The fifth annual report*, 1997 ⁽⁴⁾.)

Groups on which the European single market has a very limited impact are as follows.

'Sheltered local players' are predominantly very small enterprises. They are largely found in the services sector (small craft and retail trade, mainly). This profile is characterised by enterprises focused on the local market, stating that foreign competition was not relevant for them. They are called sheltered because they have not faced increasing international competition during the last five years. On balance, they do not perceive the European single market as an 'opportunity'.

'Indifferent local players' are rather similar to sheltered local players. The main difference lies in the fact that they are not completely sheltered from international competition. Almost one out of five met increased international competition during the last five years. They are, therefore, somewhat more confronted by the European single market. However, they are even less challenged by it, compared to the sheltered local players, as they do not see the European single market, on balance, as an opportunity and an even larger share of these enterprises see it as a threat.

⁽³⁾ European Commission, *The 1996 single market review*, Luxembourg, 1997.

⁽⁴⁾ The groups analysis is derived from the national report for the Netherlands prepared in the context of the present Cedefop study.

Groups, seriously confronted by the European single market are the following.

'Skilled Europeans' are found in all sectors and all size-classes. They experienced a substantial increase in international competition and have been most affected by technical, physical and tax measures. All enterprises have been confronted with tax measures and many among them with more than one measure. However, they are hardly challenged by the European single market, as they do not see it as an opportunity. This is undoubtedly connected to the fact that confrontation with tax measures leads to increased costs. This group of enterprises has the highest export quota, is the one most confronted with international competition and the least challenged. The group consists mostly of enterprises in the southern periphery which is the country group most affected by the European single market.

'Challenged product harmonisers' is a group confronted by the technical measures of the European single market programme aimed at the harmonisation of norms and standards. The vast majority of these enterprises had to adapt their products: 86 % of the enterprises changed the technical specifications of more than 10 % of their products, far above the average of the other profiles. They are seriously confronted and challenged by the European single market. On balance they see the internal market as an opportunity and their international business contacts have increased during the last five years.

'Challenged international traders', are confronted even more by the European single market programme than the group just described. One third of this group had to adapt its products, half of them have been confronted with tax measures and they have all experienced the consequences of the physical measures. The majority of them see the single market as an opportunity and two thirds of them have increased their international business contacts. These enterprises are somewhat over-represented in trades and are on average relatively large.

The next two market profiles have, like the three previous ones, high export quotas. However, in contrast, they have not yet been seriously confronted by specific aspects of the European single market programme.

'Optimistic internationalisers' have been only slightly affected by technical, physical or tax measures. However, they have experienced the most impressive increase in international competition. They also increased their international business contacts. Almost remarkably none of them see any threat in the European single market. They are somewhat over-represented in industry and under-represented in services. Together with the 'Challenged product harmonisers' and the 'Challenged international traders', these enterprises are the youngest.

'Exposed competitors' are as little affected by technical, physical and tax measures as local players, but they are seriously affected by increasing international competition. As they see few opportunities in the European single market, and have increased their international business contacts relatively modestly, they are exposed to increased international competition without benefiting much from the opportunities that the European single market offers.

In Table 1.2 we show the distribution of small firms surveyed among these seven single market profiles. The vertical axis measures intensity of single market impact (much impact, little impact and no impact), while the horizontal axis measures the balance between opportunities and threats.

Table 1.2 **European small firms' single market profiles**

Confronted with	Challenge by:			Total
	More by opportunities than by threats	More by threats than by opportunities	Not challenged	
Feel considerable direct impact of single market measures	Challenged product harmonisers (4 %) Challenged international traders (13 %)	Skilled Europeans (6 %)	—	23 %
Feel little impact of single market measures	Optimistic internationalisers (12 %)	Exposed competitors (28 %)	Indifferent local players (17 %)	57 %
Feel no impact of single market measures	—	—	Sheltered local players (20 %)	20 %
Total	29 %	34 %	37 %	100 %

NB: Excluding hotels and catering and travel agencies.

Source: ENSR enterprise survey, 1997.

As shown in the table, the single most important group (accounting for about one third of the total number of small firms surveyed) is the 'exposed competitors' group (28 %) which includes firms little affected by single market arrangements, but seriously threatened by increased international competition. On balance this group does not expect to benefit much from opportunities emerging because of the progressive integration of the internal market and whatever additional internationalisation moves these firms make, these would have taken place anyway. This result, combined with quantitative findings (to be presented later) that small (and especially very small) firms seem to have increased their exports substantially in the 1992-98 period,

suggests that the alleged positive impact of the single market programme on the internationalisation of European small firms has been unevenly distributed among such firms, presumably as a result of individual firm-specific strategies being implemented.

2. European small firms: the statistical evidence

2.1. An overview of the European scene

Researchers attempting to investigate and interpret differences in industrial structure and business performance across countries, are traditionally constrained in their efforts, by the lack of internationally comparable statistical information. The development of transnational agencies, and the gradual convergence of definitions and data collection/analysis methodologies in their national counterparts, have reduced the problems but the situation is still far from ideal.

Discrepancies in statistics for small firms may stem from differences in the definition of enterprises, the way they are registered, the treatment of establishments, and the extent and/or the detail of reporting required.

Table 2.1 summarises the available statistical data relating to a number of indicators for non-primary sector private enterprises in the European Union. The indicators refer to number of enterprises, employment, average enterprise size, turnover per enterprise, value added per occupied person and share of labour costs in value added. All information is presented according to the size-class of the enterprises (using the standardised EU classification). Table 2.2 analyses the information on the first two indicators (number of enterprises and employment) by country, while Diagram 1 combines the available measurements of the proportion of small firms in the total number of enterprises and in total employment.

The statistics presented confirm the predominance of small firms (defined in this case as those employing no more than 50 persons) in all European economies. In no case does the proportion of firms of this size in the total number of private enterprises fall below 97 % and in 13 out of the 15 EU Member States this percentage is between 98 and 99 %. In terms of employment the situation differs since the presence of large firms is associated with employment percentage much higher than that for the number of enterprises. The average small firm proportion of employment stands at 52 %, with 9 of the 15 EU States a lower figure.

Diagram 1 shows two quite distinct clusters of countries, with the south European countries (Greece, Spain, Italy and Portugal) and Belgium positioned above the EU average in proportion of numbers and employment. The Netherlands, Germany, Sweden and Ireland form a second cluster of

countries where the SME proportion of employment and numbers is below the EU average—implying a greater presence of larger firms.

The explanation of relative differences in the number and the rate of growth of small firms in the various countries requires combined examination of historical, cultural, economic and institutional factors. Similarly, relative differences in SME performance vis-à-vis their larger counterparts also requires understanding and interpretation.

Table 2.3 summarises available information on sales performance of European firms of various sizes. Domestic sales of small firms (defined as those with up to 50 employees) in the 1988–98 period grew at approximately the same rate as larger firms. This was not, however, the case for exports, since the growth rates for the different categories of firms reveal a lower growth rate for small firms (10–49 employees) and an even lower rate for the very small ones (0–9 employees).

Further analysis of the contribution of exports to sales growth reveals that the direct impact of exports on growth in SME turnover is much lower than the impact of exports on growth in larger firms. This is obviously the result of the relatively small share of exports in total turnover of small firms. The indirect contribution of exports does not differ (including exports of goods by larger enterprises produced by many intermediate goods purchased from small firms) much between SMEs and larger firms. This supports the argument that if large firms increase their exports, small firms also benefit because of increased demand for intermediate goods and services they produce.

Table 2.1 **Main indicators of non-primary private enterprises, Europe-19, 1996**

		SME				LSE	Total
		Very small	Small	Medium sized	Total		
Number of enterprises (1 000)	EU	17 285	1 105	165	18 555	35	18 590
	Non-EU	410	45	10	460	1	460
	Total	17 695	1 150	170	19 015	40	19 050
Employment	EU	37 000	21 110	15 070	73 180	38 220	111
	Non-EU	960	800	750	2 510	1 160	410
	Total	37 960	21 920	15 820	75 700	39 380	3 670
							115
							080
Average enterprise size	EU	2	20	90	4	1 035	6
	Non-EU	2	20	95	5	820	8
	Total	2	20	90	4	1 030	6
Turnover per enterprise (million ECU)	EU	0.2	3	16	0.5	175	0.8
	Non-EU	0.3	3	15	0.8	130	1.2
	Total	0.2	3	16	0.5	170	0.8
Value added per occupied person (1 000 ECU)	EU	30	40	50	35	55	40
	Non-EU	45	40	45	45	75	55
	Total	30	40	50	35	55	40
Share of labour costs in value added (%)	EU	38	63	60	52	53	53
	Non-EU	43	69	67	58	61	59
	Total	38	64	61	53	53	53

NB: Due to rounding, average enterprise size cannot be determined from the data on employment and the number of enterprises.

Source: Estimated by EIM small business research and consultancy.

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Table 2.2A **Share (%) of number of enterprises by size, class and country, 1996**

Number of employees	Very small (0-9)	Small (10-49)	Small firms (0-49)	Medium-sized (50-249)	Large (250+)	Total
Belgium	96.5	2.9	99.4	0.5	0.2	100
Denmark	92.4	6.3	98.7	1.1	0.2	100
Germany	88.1	10.0	98.1	1.5	0.4	100
Greece	97.0	2.6	99.6	0.4	0.1	100
Spain	94.9	4.4	99.3	0.6	0.1	100
France	92.9	5.8	98.7	1.1	0.2	100
Ireland	89.8	8.0	97.8	1.6	0.6	100
Italy	94.4	5.1	99.5	0.5	0.1	100
Luxembourg	94.4	5.1	99.5	0.5	0.1	100
Netherlands	90.5	7.7	98.2	1.4	0.4	100
Austria	86.1	10.8	96.9	2.4	0.6	100
Portugal	93.8	5.3	99.1	0.9	0.1	100
Finland	94.4	4.5	98.9	0.9	0.2	100
Sweden	91.0	7.4	98.4	1.3	0.3	100
UK	94.5	4.7	99.2	0.7	0.2	100
EU-15	93.0	5.9	98.9	0.9	0.2	100
Norway	92.4	6.4	98.8	1.0	0.2	100
Switzerland	85.2	12.1	97.3	2.3	0.4	100

Source: The European Observatory for SMEs, Fifth annual report, 1997.

Table 2.2B **Share (%) of total employment by size, class and country, 1996**

Number of employees	Very small (0-9)	Small (10-49)	Small firms (0-49)	Medium-sized (50-249)	Large (250+)	Total
Belgium	48	14	62	11	27	100
Denmark	30	22	52	18	30	100
Germany	24	20	44	14	43	100
Greece	47	18	65	14	21	100
Spain	47	19	66	12	21	100
France	32	19	51	15	34	100
Ireland	18	16	34	14	51	100
Italy	48	21	69	11	20	100
Luxembourg	19	26	43	29	29	100
Netherlands	26	23	49	18	21	100
Austria	25	19	43	21	35	100
Portugal	38	23	61	18	21	100
Finland	23	16	39	17	44	100

Number of employees	Very small (0-9)	Small (10-49)	Small firms (0-49)	Medium-sized (50-249)	Large (250+)	Total
Sweden	25	17	42	16	41	100
UK	31	16	47	12	41	100
EU-15	33	19	52	14	34	100
Norway	32	19	51	14	34	100
Switzerland	23	22	45	21	33	100

Source: See Table 2.1.

Table 2.3 European firms' turnover and exports performance, 1988-98

Number of employees	Very small (0-9)	Small (10-49)	Small firms (0-49)	Medium (50-249)	Large (250+)	Total
Domestic sales	1.7	1.7	1.7	1.6	1.6	1.7
Exports	5.2	5.5	5.4	5.7	5.6	5.5
Total	2.0	2.2	2.2	2.2	2.4	2.2
Contribution of exports ⁽¹⁾ to sales growth (compound growth rates in %)						
Direct ⁽²⁾	8	9	9	9	15	13
Indirect	3	6	4	8	5	5
Total	12	16	15	18	21	18
Impact of domestic final demand on sales growth	10	8	9	6	5	7
Impact of other factors on sales growth ⁽³⁾	- 1	- 1	0	- 1	0	- 1
Total sales growth	21	24	24	24	27	25

(1) Including intra-trade.

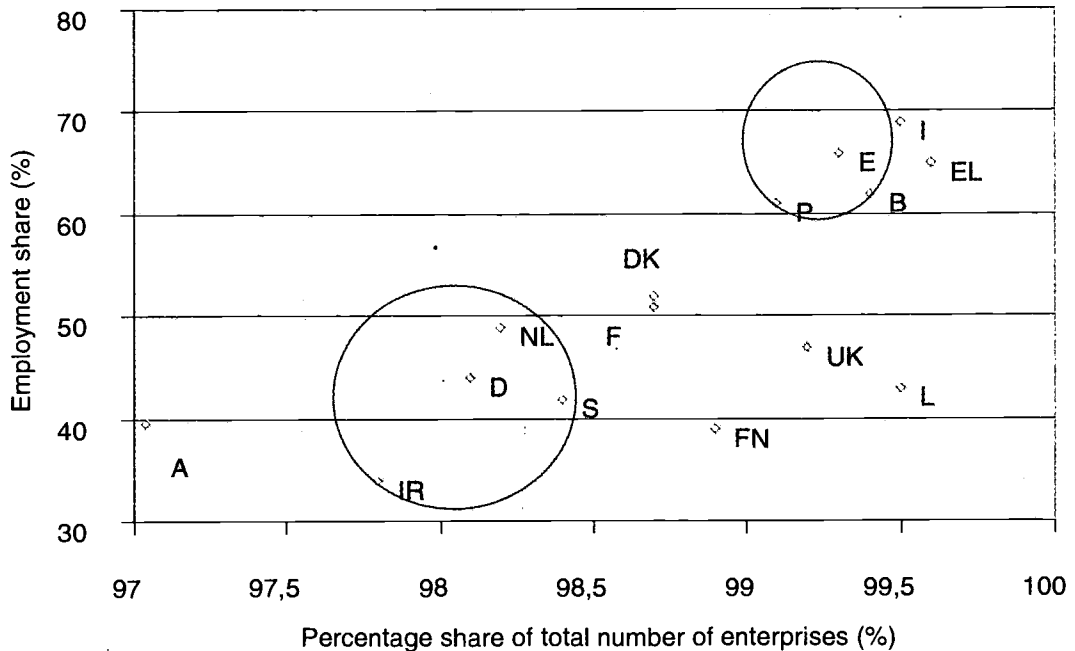
(2) Exports growth times share of exports in total sales.

(3) Calculated as a residual.

Source: See Table 2.1.

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Diagram 1 **Small firms' share of total number of enterprises and employment**



Source: Tables 2.1 and 2.2.

It is frequently asked whether the European market integration programme has contributed to the internationalisation of small firms in European Union member countries. Table 2.4, presents size-class patterns of turnover growth before and after 1992. In all size-classes, exports grew faster than domestic sales (in real terms). Furthermore, exports in the 1992–98 period grew slightly faster than before, while after 1992 domestic sales growth was lower. However, this pattern is not a characteristic of all size-classes.

In large enterprises, export growth rates were almost the same before and after 1992, while domestic sales growth rates were lower in the second period. In the SME-sector, exports accelerated after 1992, while domestic sales decreased slightly. However, within the SME-sector, significant differences exist between very small and small and medium-sized enterprises:

- (a) in very small enterprises (employing less than 10 persons), the 1992–98 growth rate of both exports and domestic sales exceeds the 1988–92 growth rate;
- (b) in small and medium-sized enterprises (10–49 and 50–249 persons employed respectively), export growth accelerates but domestic sales growth during 1988–92 is larger than during 1992–98.

The results may be interpreted as suggesting that the European integration programme has favourably affected SME exports (in particular those of very small enterprises) as compared with their larger counterparts.

Table 2.4 **Real export and turnover growth in non-primary private enterprises**
Europe-19, 1988-98

		Average annual change in %		
		1988-92	1992-98	Difference
SMEs				
Very small (0-9)	Export	4.6	5.5	0.9
	Domestic sales	1.9	1.7	- 0.2
	Difference	2.5	3.3	0.9
Small (10-49)	Export	5.3	5.6	0.3
	Domestic sales	2.1	1.5	- 0.6
	Difference	2.5	3.8	1.2
Medium-sized (50-249)	Export	5.6	5.8	0.3
	Domestic sales	1.9	1.4	- 0.5
	Difference	2.9	4.1	1.3
Total SMEs (0-249)	Export	5.3	5.7	0.4
	Domestic sales	2.0	1.5	- 0.4
	Difference	2.7	3.7	1.0
Large firms (250+)	Export	5.6	5.6	0.0
	Domestic sales	1.8	1.5	- 0.4
	Difference	3.0	3.8	0.8
Total	Export	5.4	5.6	0.2
	Domestic sales	1.9	1.5	- 0.4
	Difference	2.8	3.7	0.9

Source: See Table 2.1.

2.2. The situation in individual countries surveyed

2.2.1. Austria

In 1997 only 930 of a total of about 209 000 Austrian enterprises belonged to the 'large' enterprises category of 250+ persons. Those with up to 50 persons employed accounted for approximately 97 % of the total number of enterprises and for 42 % of total employment. With an average enterprise size of 11 employed persons, Austria's enterprises are larger than the EU average (six employed persons). The average size of SMEs in Austria, despite continuous concentration trends and nationalisation efforts, has not changed over the years. This indicator varies greatly, however, according to the nature of the activities: tourist enterprises have the lowest number of employees,

while industry and finance institutions have the highest (both exceeding 60 persons).

Table 2.5 presents the evolution—in number and employment—of all Austrian enterprises and of all industry sectors, ranked by size, between 1989 and 1997. In 1997 almost half (42.5 %) of the 2.06 million employees registered in Austria, worked in small firms⁽⁵⁾. Between 1989 and 1998, their number grew by 9.5 %, the number of employees by 9.1 %. It may be noted that the corresponding rates for all enterprises were 9.5 % and 7.9 %, indicating a growing share of total employment for small enterprises.

In Table 2.6 information on company size is provided only for the goods-producing sector (excluding, that is, enterprises in the services sector). The share of small firms (1–49) in the number of enterprises and total employment are 91.9 % and 26.4 % respectively—they are lower than corresponding percentages accounted for by all small firms (goods-producing and services). This difference reflects the comparatively higher participation of small firms in the services sector.

Table 2.5 **Development of the number of Austrian enterprises and employees ranked by size between 1989 and 1997**

		1989	1997	Growth (%)
Without employees	Enterprises	54 887	58 855	7.2
1 to 9 employees	Enterprises	106 738	118 186	10.7
	Employees	331 291	362 537	9.4
10 to 49 employees	Enterprises	23 627	25 754	9.0
	Employees	469 876	512 107	9.0
50 to 249 employees	Enterprises	4 912	5 459	11.1
	Employees	488 337	544 047	11.4
Up to 249	Enterprises	190 164	208 254	9.5
	Employees	1 289 504	1 418 691	10.0
250 and above	Enterprises	869	930	7.0
	Employees	616 349	637 757	3.5
Total	Enterprises	191 033	209 184	9.5
	Employees	1 905 853	2 056 448	7.9

Source: Institute for Research on Trade and Craft, Vienna, 1998.

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⁽⁵⁾ Small firms: enterprises employing 0–49 persons.

Table 2.6 **Number and share of Austrian SMEs in the goods-production sector by number of enterprises and employees**

Size of enterprises	Enterprises	Share (%)	Employees	Share (%)
1 to 9 employees	17 184	67.4	46 733	7.4
10 to 49 employees	6 252	24.5	119 413	19.0
Total (1–49)	23 436	91.9	166 146	26.4
50 to 249 employees	1 625	6.4	174 062	27.6
250 and more employees	448	1.8	289 539	46.0
Total	25 509	100.0	629 747	100.0

Source: ÖSTAT 1995, WIFO.

An available estimate points to their rather low export ratio of Austrian small firms, with only 1 to 2 % of total SME turnover due to exports. However, total exports registered by Austrian firms employing up to 100 employees, amounts to more than 15 % of Austria's total export volume. In comparison, German, Spanish and British small firms show a similar export share, while Denmark, Sweden and Ireland have a higher share (source: WIFO, 1998).

2.2.2. Greece

In the non-agricultural part of the economy, small and medium-sized firms (up to 49 persons employed) constitute 99.5 % of the total number and account for 74 % of total employment. This is a 1988 estimate (see Table 2.7), but is considered a reliable indicator.

The peculiarity of Greek firms lies in the fact that they are the smallest in the EU, with their size showing a decreasing tendency, while percentages concerning creation of new businesses are much higher than suspension of activities, implying net increases in the total number of SMEs.

Greek small firms, as in all other countries, are mostly oriented towards their national markets or even narrower regional markets. According to a survey conducted by the Business Innovation Centre of Attica during the second semester of 1998 on behalf of the Handicraft Chamber of Athens ⁽⁶⁾, only 5 % of the enterprises are involved in exporting ⁽⁷⁾. Average turnover has remained unchanged during 1995–97, at GRD 55 million annually (EUR 169 230). However, taking inflation into account, there has been an actual decrease in turnover ⁽⁸⁾.

⁽⁶⁾ Data on turnover and benefits are correspondingly based on 40 % and 30 % of the sample. However, due to the volume of the sample, they are considered to be reliable.

⁽⁷⁾ Only 2.5 % of the enterprises provided reliable data, so the level of credibility concerning export analysis is rather low and merely indicative.

⁽⁸⁾ 80 % of the enterprises that are members of the Athens Chamber of SMEs employ up to five persons and only 20 % employ over five persons.

Small firms run by self-employed persons registered less than average turnover in 1997, with joint stock companies above average. Private limited liability companies are at the level of GRD 20–50 million annually (EUR 61 538–153 325), 44 % of the general partnership companies at the level of GRD 5 million (EUR 15 384) and the limited partnership companies over GRD 50 million (EUR 153 846). According to the same study, the sectors of wood products, car repair and metal products, showed a significant decrease of their turnover during 1995–97 which was due to the decrease (a great decline in percentage terms) in the number of enterprises. In contrast, in the sectors of leather and clothing/footwear there was an increase in average turnover.

It is also worth mentioning the tendency for the greater percentage of enterprises to be concentrated in the lower and upper ranks of turnover. It seems that, in future, firms which have a turnover of over GRD 50 million (EUR 153 846), on the one hand, and small firms having turnover of less than GRD 10 million (EUR 30 769) on the other, will play an even more important role. The former will be able to face intensified competition, while the latter will be supported by low operational costs, self-employment and their control over small shares of the market. However, one in every three small firms operating in the Athens area will face the challenge to adjust to the new conditions or to shrink, under the pressure of intensified competition.

As far as exporting activity is concerned, there has been an increase of 18 %, during the 1995–97 period. According to the same data, 17.8 % of the 1995 turnover came from export activity, while the corresponding percentage for 1996 was 21.2 % and 20.9 % for 1997.

In a relatively recent study, Droukopoulos and Thomadakis, based on unpublished data on the structure of sales relative to the size-class of firms, showed that:

- (a) in 1991 small firms accounted for 19.1 % of total exports on average (comparative figure for 1983: 13 %);
- (b) such firms export, on average, 15.1 % of their total sales (14.6 % in 1983);
- (c) the proportion of exports ranges from 51.4 % for the leather goods industry to 18.3 % for textiles and clothing and down to 3 % for oil products;
- (d) a typical small firm's export ratio corresponds to only 68.4 % of the similar ratio for larger firms (59.5 % in 1983).

Table 2.7 **Structure of establishments and employment by size-classes—Greece**

Sector		Employment			Establishment		
		Sector's participation in total	0-49	50 and over	Sector's participation in total	0-49	50 and over
Mining	1978	1.43	39.0	61.0	0.29	96.2	3.8
	1988	1.21	38.1	61.9	0.23	96.0	4.0
Manufacturing	1978	44.31	60.1	39.9	30.51	98.8	1.2
	1988	41.23	64.2	35.8	28.39	99.0	1.0
Electricity, gas, water	1978	1.72	23.6	76.4	0.37	92.7	7.3
	1988	1.87	31.0	69.0	0.90	97.1	2.9
Commerce	1978	34.48	92.8	7.2	57.45	99.9	0.1
	1988	37.73	93.9	6.1	57.68	99.9	0.1
Transportation/telecomm.	1978	10.11	31.0	69.0	2.15	94.8	5.2
	1988	8.13	37.9	62.1	2.11	96.3	3.7
Banks, insurance	1978	4.72	66.8	33.2	3.39	98.9	1.1
	1988	6.08	75.1	24.9	5.11	99.2	0.8
Other services	1978	3.23	85.5	14.5	5.82	99.8	0.2
	1988	3.74	85.0	15.0	5.58	99.8	0.2
Total	1978	100.00	68.6	31.4	100.00	99.4	0.6
	1988	100.00	73.8	26.2	100.00	99.5	0.5

Source: National report—Greece.

2.2.3. Ireland

The proportion of small firms (employing up to 49 persons) in Ireland stood at 97.8 % in 1996 compared to the EU average of 98.9 %. Ireland is very different from other EU countries as only 34 % of employment is accounted for by very small and small enterprises. This is the lowest figure in Europe and well below the EU average of 52 %.

The performance of small firms in Ireland is underlined by growth in value added of 8.1 % over the period 1988–98. This is higher than the growth rate of large firms and the highest growth rate for any enterprise size-group in any European country. It also comfortably exceeds Ireland's GNP growth over the period. It is thought, however, that many Irish firms may come from a much lower productivity base than in other countries and thus the good growth figures may reflect a catch-up phase for Irish small firms.

About 4 out of 10 Irish small firms are classified as exporters (compared to 53 % for the total number of local units) with percentage of exported output rising with firm's size (see Table 2.8). Their average export ratio, however, does not exceed 30 % of gross output, compared to 71 % for the enterprises' population as a whole.

Much of the growth in the Irish economy has been due to the larger firms within the broad category of SMEs. As Table 2.8 shows, the largest contribution to total manufacturing exports is made by the enterprises with more than 249 employees, i.e. large companies according to the EU definition. Within the SME definition, however, it can be seen that enterprises in the range of 100–199 employees are the largest exporters. They export two thirds of the production of this group, and their exports are directed less to UK markets than those of any other type of SME.

This contrasts with the European average for the manufacturing sector where LSEs export about 40 % of their output and SMEs about 23 %.

Exports are primarily addressed to UK and other EU destinations. The UK market offers many advantages for small companies as there are no language difficulties and, broadly speaking, both the Irish and UK markets share the same consumer tastes. There are also good logistical connections between Ireland and the UK compared to those for Ireland and continental Europe.

Government policy in recent years has been to encourage smaller companies to diversify from the UK to other markets, particularly in continental Europe.

Table 2.8 **Manufacturing local units, 1995: gross output, percentage of exports classified by nationality of ownership and number of persons engaged (Ireland)**

Number of persons engaged	Number of local units	Percent of units exporting	Gross output (GBP)	% of all output exported	Distribution of output exported			
					UK	Other EU	US	Elsewhere
Under 10	1 515	33	561 415	20	31.0	35.0	24.7	9.3
11–19	967	44	1 057 857	25	46.2	29.4	4.3	10.1
20–49	1 074	62	3 020 245	34	39.2	44.5	4.9	11.5
50–99	501	78	3 869 410	54	31.5	40.3	12.8	15.4
100–199	298	89	6 337 930	66	24.8	44.5	7.0	23.7
200–249	56	96	1 670 912	62	38.7	30.8	17.4	13.1
250–499	113	94	10 366 784	85	22.1	50.2	7.7	19.9
500 and over	52	92	9 010 171	88	24.8	50.2	14.2	10.8
Non-attributable	23	26	401 066	33	10.6	17.4	0.0	72.0
Total	4 599	53	36 295 790	71	25.7	47.1	10.3	16.9

Source: National report—Ireland.

2.2.4. Italy

In Italy, small firms are overwhelmingly present in almost all regions. In fact, they represent not only the typical industrial unit in north-eastern and central

regions, but also in non-metropolitan north-western regions and in the south. However, more important than their proportion of the total number of firms are their specific characteristics in terms of integration with each other and integration with local large firms. Many Italian small firms are characterised by a single production operation meeting demand from larger firms that are sufficiently flexible to adjust to the new competition situation by more efficient decentralisation of phases of production. At the same time the so-called industrial districts, with small firms operating in different areas of activity, are characterised by easy information exchange, increased frequency of interpersonal contact and cooperation, high mobility within the limits of the local area, and greater ability to face the challenges of competition.

The good economic performance of regions with a high share of small firms contrasts with the poor performance—expressed mainly in a decelerating rate of growth—of traditional large firms located mostly in the northern part of the country. Small firms in Italy are regarded as dynamic industrial organisations. They are overwhelmingly present in almost all regions and they dominate (in terms of relative share) the total population of business units as well as total employment.

In 1996 the total number of firms, both in the manufacturing and services sectors, reached 3.5 million units, of which 99.45 % had less than 50 employees, with a very high quota of very small firms. In fact 3.3 million firms (95.32 %) have less than nine employees. Looking at total employment, 68.27 % is concentrated in firms with less than 50 employees and 47 % in firms with less than nine employees.

Looking at the specialisation of small firms, 73 % of firms is concentrated in the trade and commerce and services sectors. These firms are very small, employing on average two people each and accounting for approximately 57 % of the total labour force in SMEs.

The manufacturing sector accounts for 14.4 % of the number of firms with 28.38 % of the employees, with an average of five people per firm. Amongst the activities of the manufacturing industry the traditional sectors (textile, clothing, leather and wood) are of great importance, both in terms of number of firms and employment.

Data on exports show that the total number of exporters in the manufacturing and wholesale and retail industry is 151 902, of which 94 901 (62.48 %) operate in the manufacturing industry. However, the exporters constitute only 8.54 % of the total number of firms in these sectors (1 778 920). In the manufacturing industry the corresponding percentage is 17.22 %. Referring to SMEs, less than 30 % of firms sells abroad reaching more or less 32 % of the total value of goods sold abroad (ITL 117 092 billion out of a total of ITL 364 035 billion). To explain this low share it is important to recall that a high percentage of small firms act as subcontractors of larger firms, they do

not have any direct relationship with foreign markets and they may therefore be defined as 'indirect exporters'.

A recent study suggests that in the last five years, Italian small firms adopted a more strategic approach to exports and that relationships with foreign clients became less casual. It was also confirmed that products exported originate mostly from specific geographical areas.

2.2.5. Netherlands

The role of small firms in the Dutch national economy is crucial, especially in terms of employment (59.3 %). Their corresponding share in turnover is 44.2 % (see Table 2.9).

Table 2.9 **SMEs in the Dutch economy, 1997**

	Private enterprise			National economy		National economy	
	SME	LE	Total	SME (%)		SME (%)	LE (%)
Enterprises (1 000) 1996	443.9	3.9	447.8	99.1	626.8	70.8	0.6
Full-time employ- ment (1 000)	2 170	1 492	3 662	59.3	5 636	38.5	26.5
of which:							
independent owners	425	2	427	99.5	570	74.6	0.4
family members	27	0	27	100.0	105	25.7	0.0
employees (incl. dir. Ltd)	1 718	1 490	3 208	53.6	4 961	34.6	30.0
Turnover (billion NLG)	383.4	483.3	866.7	44.2	1350.0	28.4	35.8
of which export:	60.8	186.4	247.2	24.6	292.9	20.8	63.6
Contribution na- tional product (bil- lion NLG)	167.7	176.9	344.6	48.7	536.2	31.3	33.0
Labour costs (billion NLG)	112.8	120.3	233.1	48.4	352.8	32.0	34.1

Source: National report—The Netherlands.

Entrepreneurship, measured by the number of start-ups, has increased substantially, from 25 000 in 1987 to approximately 40 000 in 1997. However, the depth and vigour of entrepreneurial activity is a source of concern since research has shown that only a small proportion of new enterprises grow at rates comparable, for example, to those of small firms in the United States.

However, research has also shown that young businesses starting with the ambition to grow perform well.

The Dutch small firms sector accounts for 25 % of total exports, consisting mostly (62 %) of industrial exports. It is estimated that approximately one in five small firms is involved in export activity (compared to one in four for the European Union as a whole). Almost 80 % of all Dutch exports is directed to other EU Member States. It is also important to note that almost 30 % of Dutch enterprises have increased their international business contacts in the last five years (for other European firms the corresponding percentage is 42 %).

Data on European and Dutch enterprises suggest that Dutch industry is relatively more export oriented. To a certain extent this is less the case for smaller industrial companies, although the export volume is not small. Table 2.10 presents details of export volume of small and medium-sized industry based on the export thermometer of the Economic Institute for Small and Medium-sized Businesses.

According to this source, direct exports by SMEs in industry (less than 100 persons) amounted to NLG 34 billion in 1997. This corresponds to 22 % of total direct exports of Dutch industry. Exports by SMEs in industry increased by 5.1 % compared to 1996. Of industrial SMEs' total export volume, 55 % was effected by medium-size companies with 50–99 employees. The average export quota (relative proportion of export in turnover) of industrial SMEs was 37 %. Growth was recorded in all size-classes. The strongest growth was experienced in companies with 10–19 employees. In this category growth was even faster than in large companies (more than 99 persons).

Table 2.10 **SME export thermometer. Total industry (SBI'93 sectors: 15–37) 1997 (NLG)**

Size-class (number of persons)	Export volume 1997 (million)	Export quota 1997 (%)	Exporters 1997 (%)	Develop- ment export (% opp. 1996)	Theoretical export potential 1997 (million)	Develop- ment export potential (% opp. 1996)
1–9	2 790	12	29	3.0	3 635	17.7
10–19	3 292	16	28	7.8	1 972	- 0.4
20–49	9 186	24	33	4.7	3 057	- 2.0
50–99	18 733	37	44	5.2	2 857	8.8
SME (1–99)	34 001	26	37	5.1	11 540	5.7

Source: ERBO, moderation EIM, 1999.

From the same source a theoretical export potential of size-classes may be estimated. The development of this potential may shed light on the possible

improvement of export shares of SMEs. Export potential is estimated by what extra export could be effected if non-exporting companies reached the same level of export quota as their exporting colleagues within the same sector. Two thirds of total export potential may be found in SMEs. From Table 2.10 we may conclude that medium-sized industry (10–49 persons employed) is catching up (with a reduction in export potential in those size-classes).

2.2.6. Spain

Small firms play a prominent role in Spain. The total number of such enterprises at the beginning of 1997 was 2.4 million of which 57.7 % had no employees, another 25 % employed 1–2 persons and small firms (as defined in the present study) account for 99.3 %, employing 76 % of total employment (one of the highest proportions in the EU).

Despite these figures, small firms in Spain have not taken the definitive step forward towards internationalisation. According to the conclusions of research by the consulting group Ros Petit (Grant Thornton International) in April 1999, only 32 % of Spanish small firms export. This is the lowest percentage in the European Union. The conclusions were based on a survey carried out among 7 072 small firms in the European Union, Turkey, Poland, Malta and Norway. They were asked about the evolution of their international activity in 1998. The conclusion was that Spanish small firms tend to export the least, with the exception of Norway.

2.2.7. United Kingdom

According to Department of Trade and Industry (DTI) statistics (published in July 1998) there were an estimated 3.7 million active businesses in the UK at the start of 1997. The actual number of enterprises had remained at a similar level for the third year running. This followed falls in 1992 and 1993. The major growth in the business population has been in one-person business. In 1997 over 2.5 million were 'size-class zero' comprising sole traders or partners without employees. Table 2.11 prepared by the Government Statistical Service gives a breakdown of the number of businesses, size, employment and turnover at the start of 1997. According to the statistics presented in the table, small businesses in the UK account for 99 % of the total number of businesses, 45 % of non-government employment and (excluding the finance sector) for 40 % of turnover.

In general, small firms have lower productivity than larger firms. This is probably due to large firms' economies of scale and cost efficiencies that small companies cannot compete with. The biggest barriers to improvement are the perennial time constraints which force the small firms to concentrate on daily operations and getting the job done, leaving no time for innovative

developments. The need to compete with larger companies on price and delivery conditions further exacerbates the situation.

Table 2.11 **Size structure of enterprises employment and turnover (United Kingdom, 1997)**

Size (number of employees)	Businesses (1 000)	Employment (1 000)	Turnover (million GBP)	Businesses (%)	Employment (%)	Turnover (%)
0	2 524	2 866	86 706	68.1	13.6	4.8
1-4	803	2 106	215 110	21.7	10.0	12.0
5-9	192	1 396	112 403	5.2	6.6	6.3
10-19	107	1 511	142 295	2.9	7.2	7.9
20-49	50	1 539	152 559	1.3	7.3	8.5
50-99	15	1 071	105 087	0.4	5.1	5.8
100-199	8	1 121	112 913	0.2	5.3	6.3
200-249	2	352	38 550	-	1.7	2.1
250-499	3	1 118	142 789	0.1	5.3	7.9
500+	3	7 993	688 751	0.1	37.9	38.3
All	3 708	21 073	1 797 164	100.0	100.0	100.0
All 1+	1 184	18 207	1 710 458	31.9	86.4	95.2

Source: National report—UK.

The share of employment provided by small firms varies greatly amongst different industries. For example, 87 % of employment in construction is provided by such firms, in contrast to only 23 % in finance. Employment shares exceeding 80 % are estimated for agriculture, forestry and fishing (98.3 %), construction (87.2 %), and education (86.5 %). On the other hand, low shares (below 50 %) are characteristic of sectors such as mining (33.5 %), electricity, gas, water supply (2.5 %), transport (39.9 %), financial intermediation (22.5 %), and health/social work (43.8 %).

The DTI document, 'The contribution of smaller firms' highlights the fact that the number of SMEs grew dramatically in the 1980s. This growth can largely be attributed to the shift from manufacturing to services and structural changes within organisations such as downsizing and contracting out. This both necessitated, and provided the opportunity for, the emergence of new companies. It should be noted that even within manufacturing, the SME share of employment increased substantially in the 1970s and 1980s.

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The Small Firm Research Trust has stated that: 'Despite the fact that the recent economic recovery (in the UK) has been characterised as "export led" growth, focusing much attention on the total volume of exports from the UK, there are no official estimates available of the number of firms in the UK which actually export'.

3. Internationalisation promoting training policies and other support schemes

3.1. The general argument for policy-making

There is general agreement that internationalisation of economic activity implies spreading of competition beyond national boundaries. More competitive firms—independently of their size—are, in principle at least, in a more advantageous position to penetrate other markets, expand their sales, create more employment opportunities and thus serve better their own, as well as the national, interest. In the same sense, competitive firms operating exclusively in their domestic markets are faced with increasing imports and therefore, in an indirect way, become 'internationalised' themselves.

All policies which improve the competitiveness of national firms and their potential for exploiting opportunities emerging in foreign markets are, for the above simple reasons, 'good' policies. The same policies also improve the potential to resist imported competition in their home markets. The two types of benefits, when combined, strengthen each other and reinforce the rationale for active policy-making.

In practical terms, however, efficient policy-making requires clear understanding of the strong as well as the weak points of firms and also of the opportunities and the threats emerging in both domestic and international markets. The nature of these parameters differs according to the home country, the line of business and—the personalities and personal preferences of the policy-recipients—the owner(s), that is of the small firm. This final aspect is clearly the case for small firms whose structure, dynamism—or the lack of it—depend so crucially on one or a few person(s).

In the countries surveyed in this study many measures have been implemented in order to improve national firms' export (and, in special cases, internationalisation in general) potential. We provide a synthesis of the national reports in Section 3.2.

The general observations emerging from studying the situation in the countries surveyed are as follows.

In all EU countries, a large number of training and non-training service schemes for small firms are implemented with the support of substantial EU financial backing.

In most cases, the relevance to small firms is partially only intended, given that firms of all sizes are eligible for the benefits provided. Even within the SME size category, those employing up to 50 persons are not distinguished from those employing up to 250 persons which is the EU accepted ceiling.

Training services provided are rarely directed specifically to internationalisation support. In most cases enterprises are assisted in upgrading their general organisational and management situation. The impact on their potential for expanding their activities in foreign markets is therefore, at best, only indirect.

Many factors affect the effectiveness of these support schemes. Among these factors, the contrast between public and private sector providers is frequently pointed out. The profit-orientation of the latter group is expected to increase their responsiveness to potential services users' needs, although it might reduce the range of beneficiaries. On the other hand, public sector institutions are expected to address their services to a larger number of firms at the cost of less individual focus on user needs.

In general, two factors are regarded as negatively affecting the quality of training programmes:

- (a) in many EU countries, as reported in the corresponding national reports prepared for this study, the overall tendency is for training programmes to be designed without prior investigation of actual training needs. Although some correspondence may be secured on the basis of pre-existing research, the peculiarities of individual firms and/or sectors are not considered sufficiently. This deficiency is probably more pronounced in the case of services and programmes offered by public sector providers;
- (b) the 'subsidy-element' inherent in the design of many programmes which are in some way related to a specific EU funded framework scheme, weakens the service provider's efficiency and the trainees' interest.

At national level the overall efficiency of the support services system is also hindered by the conflicting responsibilities of various ministries (labour/industry/finance, etc.) and also between central authorities and regions. Such lack of coordination is associated with duplication of effort and waste of resources.

Exporting small firms are a subpopulation of small firms. They benefit—in most cases indirectly—by support schemes addressed to small firms, but certain specific needs have only recently been taken explicitly into account. A number of internationalisation-related training and support services programmes are described in the national reports but formal assessments of their effectiveness have not yet appeared.

An issue which is causing concern among support service scheme designers is the transferability of training philosophies and training material

across countries and across cultural environments and, therefore, the applicability of experiences and practices. Many of the above observations also constitute topics of investigation and discussion in subsequent parts of this report.

3.2. The situation in individual countries surveyed ⁽⁹⁾

3.2.1. Austria

Training and other types of support to Austrian small firms is provided by many official agencies and private sector organisations. Courses in export management are available at the Chamber of Commerce and, in certain cases, are of university degree level.

Chambers of commerce—at the federal as well as the regional level—also provide financial and legal support to exporting small firms as well as access to various information sources. Particular attention is given to improving small firms' export capacities through counselling, coaching and cost-sharing for participation in trade fairs. Of all counselling cases in 1998, 83 % concerned small firms of up to 50 employees. The Institute for Vocational Training and the Austrian Association of Industries also constitute sources of training services for small firms. Many of the programmes offered benefit from financing provided through various EU programmes.

The most important 'channels' of training and other support services to Austrian small firms are as follows:

- (a) the Austrian Federal Chamber of Commerce, as the official representative of the employers. This official institution, via its Department of Economic Promotion (*Wirtschaftsförderungs-Institut: WIFI*) offers training services and other supportive services to all Austrian enterprises and especially to small firms;
- (b) the Austrian Workers' Chamber, as the official representative of the employees. This official institution, via the Institute for Vocational Training (*Berufsförderungsinstitut—BFI*) finances, together with the trade unions, training services to employees in Vienna and in the Austrian provinces;
- (c) the State, via the government and its ministries. Given the traditionally strong influence of the social partners in Austria, training programmes are strongly integrated into the overall government social and employment policy. However, there is no specific policy designed or explicitly

⁽⁹⁾ Detailed information on selected training programmes and other support schemes is presented in the national reports prepared for the countries surveyed.

formulated referring to professional training, as it is considered that further education should not be subject to political influence.

Although there is a wide range of training programmes, there are no nationwide arrangements for upgrading SME potential for exporting and therefore improvements in that area are only an indirect result of more general competitiveness enhancement efforts.

3.2.2. Greece

The field of continuous vocational training in Greece is fragmented and the majority of small enterprises do not regularly organise training activities. As a rule, such activities are not based on specific needs analysis, but they are usually organised by consultants who 'sell' training in off-the-shelf packages. There are no formal links between training providers and small firms; it is the supply side which forms demand for training, rather than the reverse.

There is a wide range of national and European training framework programmes and, generally speaking, the response from small firms (measured by the number of applications/proposals submitted) is good, increasing over time. It is noteworthy that, although such programmes have been implemented for many years, there are only a few instances of systematic evaluation of results and *ex-post* assessed effectiveness.

The most important of the programmes implemented for the benefit of Greek SMEs are the following:

- (a) national operational plan for industry, 1994–99, including, among others, measures for the support of small firms' exporting activities;
- (b) CRAFT programme—specific measures for small firms;
- (c) the ADAPT initiative;
- (d) the Leonardo Da Vinci vocational training programme.

As in other countries, training policy and associated programmes usually aim at upgrading competitiveness in general, rarely focusing on some specific dimension of business activity, such as, for example, internationalisation. For Greek exporters, the training provided by the Exports Promotion Organisation comes closer to satisfying their specific needs. Even these programmes, however, have been criticised, mainly for the following:

- (a) rather than being addressed to experienced personnel in exporting firms, the programmes are usually addressed to unemployed persons;
- (b) the training material is frequently irrelevant for the peculiarities of Greek small firms;
- (c) the fact that in most of these training programmes there is a 'subsidy' element, impacts adversely on the quality of training and on the interest shown by trainees.

3.2.3. Ireland

Training aimed at Irish small companies involved in internationalisation activities is provided by a number of sources. It should be remembered from the outset that involvement in internationalisation touches on many aspects of a firm ranging from marketing to production, finance and distribution. All of these areas have different training needs. It should also be noted that training aimed at improving general skills within a company may have a beneficial impact on its international activities' even though this might not have been an original objective of the training provision.

The providers of training for internationalisation-related activities also vary considerably; financial institutions have been active in promoting awareness of EMU and the new euro currency among their customers as have a number of government agencies. Private sector training companies provide a range of internationalisation-related training programmes to a wide variety of sectors. The State agencies are also active in providing courses to assist companies to become involved and competitive in international markets.

The provision of public support in the area of human resource development for companies is largely channelled through three programmes:

- (a) the training support scheme (TSS);
- (b) industrial training grants;
- (c) management development grants.

Though these programmes focus primarily on training support there have been developments which have sought to link the training provided to company development plans. For example, in the case of TSS the company, in making its application for financial support, must demonstrate that the training is linked to an identified training need and that this, in turn, is linked to a development objective of the business. Other providers of training support include the network of County Enterprise Boards, the PLATO project and FAS (through its industrial training committees). Training support is also provided by other State agencies (e.g. BITE—Break Into Export—launched by 'Bord Bia', the Food Development Board)⁽¹⁰⁾.

3.2.4. Italy

Given the relative weakness of Italian firms in penetrating foreign markets, the Italian Government, as well as some regional governments, has established a series of instruments—mainly of a financial nature—to assist the internationalisation of Italian businesses. Training actions are not included in the traditional range of internationalisation support schemes, although, given the high level of unemployment, training is considered an important component

⁽¹⁰⁾ Some of these programmes are further discussed in subsequent sections of this synthesis report (Sections 5 and 6).

of the government's labour policy. In the context of this policy, two specific legal frameworks deserve particular attention.

Law 236/93 is based upon the agreement among State, regions and social partners and creates a unique fund to support continuous vocational training. According to Article 9 of this law, regions and autonomous provinces may sign agreements with the most representative trade unions and employers' associations to organise training programmes. Law 196/97 (Article 17), which defines principles and general criteria for developing, encouraging and promoting continuous training, states that one third of the 0.30 % of revenue levied on Italian workers' salaries must be used for training needs.

The groups of workers who may benefit from these funds are the following:

- (a) adults and young unemployed people;
- (b) disabled persons, ex-prisoners, non-EU citizens, drug addicts;
- (c) redundant workers;
- (d) employees with the need of better qualifications in the manufacturing sector, agriculture, tourism, environment, fishing, and culture.

Every course provides for a number of participants that varies from 12 to 20. The selection mechanism consists of tests, interviews, etc.

Potential participants choose a training programme having considered the various programmes' relative contribution to a personal training project or an employment search programme. Information about courses and providers may be found in the vocational training centres of Italian regions and provinces. Notices of courses are published in national papers and are available at the orientation centres.

In recent years, having improved the procedures, there has been a substantial increase in resources utilisation, but usage of EU funds is at risk due to the lack of a system of accreditation. Therefore, it is considered crucial to introduce a national accreditation system for training centres. Another danger to the system is the preference for young people holding a diploma, neglecting those (30 %) with a lower level of education. In southern Italy in particular there are many young drop-outs whose needs neither the school nor the vocational training system manage to satisfy.

The take-off of continuous training seems to be slow, though official sources report a steady growth of employees participating in various forms of training. This is the area which in the past showed the greatest difficulties in absorbing the social fund's resources. After the approval of Law 196/97, various measures were taken to complete the reform of the different training activities (apprenticeship, stages, continuous training). In particular, the creation of new programmes for apprentices represents a significant step forward.

Among various European initiatives, the ADAPT programme has been implemented very successfully in Italy. During the 1997–99 second phase of

the initiative, 1 230 projects were promoted by enterprises, training bodies, universities, research centres and non-profit organisations. The majority of projects related to the development of small firms' organisational and managerial qualifications.

3.2.5. Netherlands

Apart from the interest in growing businesses, internationalisation has been a major issue in Dutch Government policy. Stimulated by the completion of the single market, the government introduced several programmes for small and medium-sized enterprises. These programmes are promoted through semi-public and private institutions (Chambers of Commerce, Federation of Netherlands' exporters, national small firms organisations, sectoral associations, etc.). The range of training and support services provided is considered as sufficient to cover most of the exporting small firms' needs.

In summary, the following types of support are offered in the Netherlands:

- (a) grants and subsidies for development of marketing tools for internationalisation;
- (b) grants and subsidies for trade missions and participation in international trade fairs;
- (c) grants and subsidies for training management and staff;
- (d) grants and subsidies for hiring temporary staff for the development of export knowledge;
- (e) grants and subsidies for support and guidance of consultants during the first steps in export markets;
- (f) insurance of risks and credit facilities for firms exporting to certain countries (mainly east European countries).

Most of these schemes are directed at starters in export markets. Schemes for more experienced exporters are mainly aimed at more technical aspects and support for the development of joint ventures in certain countries.

The providers of support and the organisations that offer the services are specialised to varying degrees in offering each of the mentioned services. Recent innovations in programmes, however, have focused on the integration of these support programmes by offering one 'total support service'. Two examples are given.

The first example is called 'Starters on foreign markets'. Support is provided for five instruments to help develop export strategy:

- (a) exploration of markets;
- (b) visiting programme;
- (c) attendance at international trade fairs;
- (d) enhancing export skills;
- (e) development and production of marketing presentations for foreign markets.

The support is monitored by regional Chambers of Commerce. The main provision is payment of 50 % of the costs for the above instruments up to a rather low maximum of NLG 5 000. Grants come from the Ministry of Economic Affairs.

The second example is called 'Export, from chance to trend' and consists of a full training and support programme for owner/manager and a staff member. Its objectives are developing skills for export, growth and competitiveness in SMEs.

The programme consists of:

- (a) management cycle of a number of meetings on selected problem issues;
- (b) individual coaching of entrepreneur/manager half a day per month for one year;
- (c) dual training—working period for an employee, trainee or unemployed (to become employee) and after this 26-week period coaching in the firm.

The programme is arranged in regions throughout the Netherlands and is monitored by the Federation of Netherlands' Exporters. Companies pay a substantial fee, but the project is also supported by funding from the ministry and European funds.

An important element of these innovating programmes is that they are tailored to specific needs that arise during the process. These programmes also use an integrated action learning approach for support. This comes closer to the needs of small firms going through an internationalisation process and the experiential character of this process.

To our knowledge, evaluation reports on most of these programmes are not yet available. However, most providers stress the point that most programmes are evaluated internally and if there is no success or there are low numbers of participants the programme will stop. This is also affected by the fact that most institutions providing grants set requirements for evaluation and minimum numbers of participants and also a certain level of contributions from participants as a prerequisite.

Training and non-training services in the Netherlands generally cover the whole range of possible needs. Most training programmes are directed towards those entering export markets. Due to certain government and EU support, some of these programmes are offered free or at reduced cost. Specific training for more experienced exporters covers more technical aspects of cooperation, joint ventures or specific problems related to export to certain countries, notably east European countries. Some of the programmes provide the opportunity for hiring a specialist for a short period by providing a grant for part of the wages of that specialist. Other programmes offer trainees or school-leavers of vocational training institutes the opportunity to develop an export plan.

Most of the training and support programmes are offered for small and medium-sized companies. Full assessment of these programmes is not available, but generally they are assessed internally annually and appear to be of relevance. If this is not the case then programmes are suspended.

3.2.6. Spain

Spanish small firms in the process of internationalisation may obtain training and support services through a number of programmes being promoted either by public institutions (e.g. Institute for Foreign Trade—ICEX) or by private institutions (training consulting groups). Both initial (e.g. ICEX's programme for graduates wishing to spend a year in a placement abroad) and continuing training (updating an export firm employees' skills) are available.

The kind of support a Spanish small firm may obtain in the process of internationalisation may first be grouped as follows;

- (a) frame programmes promoting exports and internationalisation of activities by providing financial help and direct advice (e.g. PIE-PIPE);
- (b) programmes promoting association, creation of consortiums and networks for exporting (e.g. Basque Government's internationalisation programme);
- (c) credit lines for small firms (ICO-line);
- (d) specific training programmes (e.g. course in after-sales services to a manufacturer of electric iron boards);
- (e) any other professional services.

A second grouping may result from looking at the individual being trained:

- (a) initial training, with a view to preparing a person for entrance into employment—related in this case to exports (e.g. ICEX's programmes for graduates wishing to spend a year doing a placement abroad);
- (b) continuing training, with a view to updating the skills of an employee.

It is worth focusing on frame programmes provided by public institutions because of their relevance and the large number of small firms having participated in them. A selection of these programmes is described in the annex. The most important support programmes of this kind are the following:

- (a) AFI de Internacionalizacion, for the creation of export consortia and industrial plants abroad;
- (b) support to internationalisation by subsidies to the interest rate; this is the ICO-ICEX programme for production business ventures abroad;
- (c) programmes for business cooperation, organisation and strategy, helping to prepare feasibility studies on business associations, new business projects, etc.;

- (d) regional programmes, such as those promoted by the Basque Government for the internationalisation of SMEs, training of experts in foreign trade, etc.;
- (e) nationwide programmes, ICO, ICEX, CESCE, Cofides, Ministry of Economy, etc.

No formal assessment of such programmes has been conducted and it is characteristic that—according to a recent survey—40 % of Spanish small firms have difficulty in obtaining adequate professional assistance for the improvement of their management procedures and search for international partners.

3.2.7. **United Kingdom**

At the moment there is no national small-firm specific training programme in the UK. The government is pledged to improving the nation's potential though improving the educational system. Several initiatives have been promoted with this in mind. They include incentives for education-business link development, support to small firms through regional business links and support to small companies employing graduates for management experience at low cost contribution.

Furthermore, the Foresight programme (April 1999) contains key government commitments that may impact on SMEs. These include modernisation of government services for exporters, development of electronic trading, etc. With particular reference to exporting, the Government's objective is to modernise its services by:

- (a) increasing use of the Internet;
- (b) better targeting of markets abroad;
- (c) restructuring export services to make them more coherent, consistent and customer-focused.

4. Internationalised business and changing skills: a synthesis of small firms' views

4.1. Introductory remarks on definitions and methodology

In the OECD study mentioned earlier, 'internationalised' small firms are defined as those whose inputs and outputs (to an extent varying between 10 % and 40 %) originate and are addressed respectively from/to markets across borders (usually across two major international regions). In addition, such firms should have establishments or close affiliates in at least four different nations and in two international regions (e.g. Europe, North America, Asia). The above definition of internationalisation is positioned by the OECD study in the middle of what is described as the 'globalisation scale', between the two extremes of fully globalised firms and exclusively domestic ones.

Prima facie, the study finds it reasonable to expect few small firms to be fully globalised (in the sense that Royal Dutch Shell is), more to be internationalised and a still larger proportion to be mainly domestic in their orientation.

In addition, however, to attempts to determine measurements for globalisation/internationalisation, it is made clear that we are invariably referring to an evolving pattern of cross-border activities, involving international trade (of goods and/or services), international investment, strategic alliances for product development, production, sourcing and marketing. These international activities account for varying shares of firms' interest, depending on the nature of their business, their organisation, their size, etc. For small firms in particular (and in the case of the present Cedefop study in which the small firms target group has been limited to those employing less than 50 persons) international trade (exports/imports) is generally believed to constitute the typical expression of internationalisation⁽¹¹⁾.

This part of the synthesis report analyses the findings of the questionnaire surveys carried out in seven EU countries in the context of the Cedefop

⁽¹¹⁾ This is confirmed by the results of our survey among the owners of small firms (see below).

project. The countries covered are: Greece, Spain, Ireland, Italy, the Netherlands, Austria and the UK. Individual national survey results and cross-country differences will also be discussed whenever appropriate⁽¹²⁾. The analysis attempts to provide answers to crucial questions related to the required competences for the efficient internationalisation of small firms' and the extent to which such firms possess them or the types of initiatives that could contribute to an improvement in the present situation.

The surveys covered a sample of 85 small firms employing less than 50 persons, classified in various industries (traditional as well as less traditional ones). The choice of enterprises to be contacted was left to the discretion of the national experts. As a result, the sample consists of a variety of types of small firms: young and more mature; newcomers to international markets and more experienced ones; and, as already indicated, from diverse sectors of activity. Given the small size of the sample that resources at our disposal permitted, it was felt that no specific sectoral targeting should be attempted as this would unavoidably lead to results associated with a certain type of small firm at the expense of representativeness. Nevertheless, the reader might be interested in the following information concerning the sectors from which small firms were selected in each country participating in the survey:

- (a) Greece: clothing, footwear and furniture;
- (b) Spain: metal products, plastic products, wine industry, engineering and hotel supplies;
- (c) Italy: clothing textiles, wood furniture; engineering and also glass, rubber and plastic products;
- (d) Ireland: food products, consumer products and engineering;
- (e) Netherlands: metal products, machine industry, computer equipment, multimedia products and IT products;
- (f) Austria: metal manufactures, wood furniture, scientific apparatus, building materials and food products;
- (g) United Kingdom: gun-making, pharmaceuticals and medical equipment.

Interviews were conducted with both owners and key employees. The employee to be interviewed was proposed by the employer, on the basis of his/her seniority in the company and his/her involvement in export activities.

The rationale for this simultaneous approach to each selected firm was to obtain views from both sides (owner/director—key employee) and to identify any opinion divergences which might exist, especially on training-related issues. Such gaps might be identified in the general working relationship framework and other managerial issues. Yet, as it will be demonstrated in the subsequent sections, there were no significant opinion differences. The participating firms were selected mainly through sectoral associations and

⁽¹²⁾ National survey results may be obtained from Cedefop on request.

chambers. All interviews were conducted through personal contact by the researchers.

The presentation of the national survey results is organised in seven sections, as follows:

- (a) profile of surveyed firm;
- (b) indicators of internationalisation;
- (c) difficulties in small firms' international operations;
- (d) strengths and weaknesses of small firms;
- (e) keys to success of internationalised small firms;
- (f) small firms' international activities and related competences;
- (g) mechanisms/procedures for the development of internationalisation-related competences;
- (h) training practices of small firms;
- (i) the views of employees of small firms.

It should be mentioned that national reports were supplemented by two to three case studies each (a total number of 16), whose main results they incorporated.

These case studies reported in the corresponding national reports, were conducted with firms in the following sectors:

- (a) Greece: clothing and footwear products;
- (b) Spain: insulation boxes and medical devices;
- (c) Italy: engineering and plywood manufacturing;
- (d) Ireland: electrical control systems and bakers' yeast;
- (e) Netherlands: hardware and software for use by blind people, machines for brick production and business document production solutions;
- (f) Austria: engineering for textiles, bakery machinery and metalurgy;
- (g) United Kingdom: engineering and cutting instruments for eye surgery.

There are three characteristics common to all the firms contacted. The first is that they all employ under 50 persons (a feature which makes this particular survey different from most of the others presented so far—which usually use a much higher ceiling, in line with international organisations' definition of small firms). Second, they are all involved in goods production, as opposed to services for which it is generally believed that a different approach to internationalisation is required. Finally, they all associate internationalisation with flows of goods (exports–imports) despite the fact that some of them may be also involved in other types of international activity (direct investment abroad, subcontracting, licencing, etc.).

4.2. Profile of the small firms surveyed

A total number of 85 firms employing less than 50 persons were surveyed in the seven countries participating in the study. About 60 % of these firms (see also Diagram 2) were in the 20–49 employed persons size-class and only 12 % in the very small class of less than 10 persons. This relative size structure is typical in all countries surveyed, displaying a certain bias in favour of relatively 'large' small firms which is explained by the fact that the selection of firms to be surveyed was made having in mind their role as internationally active firms. A large part of the surveyed firms may also be regarded as relatively young, since approximately one in every five firms was established after 1990 and an additional 20 % during the 1980s. Still, the majority are closer to 'maturity', with 36 % having been established in the 1961–80 period and 26 % even before 1960.

Table 4.1 **Surveyed small firms' age and exporting record**

Time period	Established (%)	Exports started (%)
Before 1960	26	4
1961–80	36	27
1981–90	21	30
After 1990	17	39
Total	100	100

This age structure contrasts with the length of their record as exporters. As the frequency distribution in Table 4.1 shows, approximately 30 % of small firms started exporting before 1980, while for most of them (39 %) exporting started only relatively recently (after 1990).

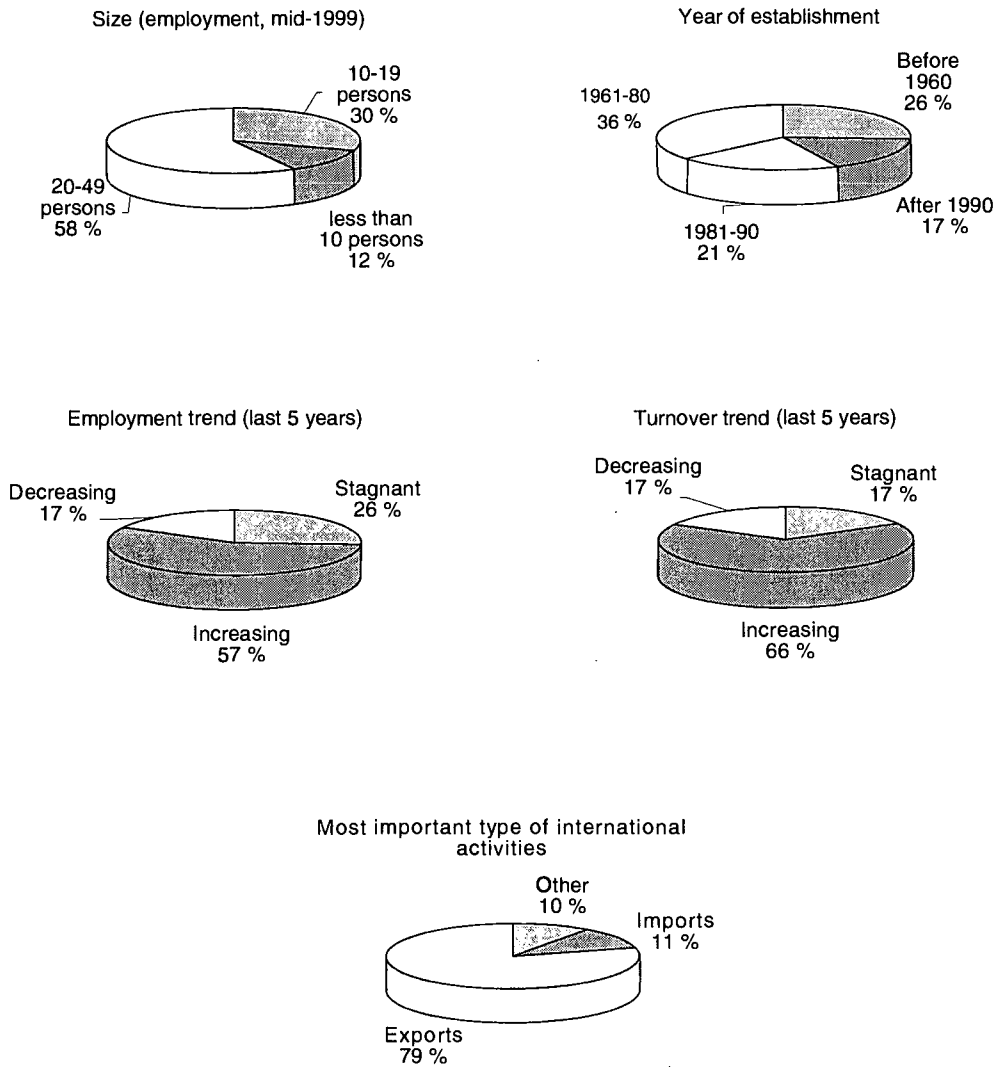
Generally speaking, the firms surveyed may be characterised as 'growing' and 'dynamic' firms. Employment and turnover has been increasing for approximately 60 % of them and the same applies for profits (54 % and increasing) and investment (63 % and increasing)⁽¹³⁾.

Partly as a result of the specific selection process adopted, and also because export of goods is the predominant means of internationalisation, 80 % of the sample firms saw export as their most important type of international activity. With the exception of imports, which are also widespread, other types—such as demand for subcontracting from abroad, direct investment abroad, franchising and even technology transfers, are of very minor importance. Some cases of supply of subcontracting were noted among Greek, Austrian and UK small firms, which presumably relate to

⁽¹³⁾ See Diagram 2 and country survey results.

production being carried out on a contract basis to low labour cost neighbouring countries (central and east European countries in the case of Greece and Austria).

Diagram 2 **Profile of small firms surveyed (all seven countries)**



Source: Country survey results.

4.3. Export activity inducing factors

Both macroeconomic and microeconomic factors contribute to a firm's decision to start exporting or, in more general terms, to increase its international exposure. These two factors are described by OECD as follows⁽¹⁴⁾:

(a) macro level:

- (i) the emergence of common or open markets and the reduction of protectionist barriers—this is especially important in Europe where the creation of a unified internal market is nearing completion;
- (ii) the increased globalisation of large firms in specific industries (such as automobiles, computers, etc.) which have subcontracting relations with SMEs;
- (iii) increased levels of world trade and foreign investment;
- (iv) increased mobility of capital, technology and management;
- (v) increased currency movements which have changed the relative competitiveness of different economies.

(b) micro level:

- (i) changing technology, communications and organisational forms which make international SMEs more competitive;
- (ii) changing attitudes and managerial skills;
- (iii) increased opportunities for SMEs to extend their value chain across borders as a result of cost differentials or other factors.

Several investigations of the factors inducing small firms to start exporting suggest that the decision process is basically triggered by the same considerations: the firm seeks growth but cannot achieve it in its home market. There are specific features which 'push' it to seek growth elsewhere. At the same time, expansion opportunities are identified in other markets 'pulling' the firm towards them.

The initial step is also affected by the presence of facilitators which may be either other firms which may assist small firms to go international together with them or provide internationalisation-related services (market research, export agency, freight forwarding, legal advice, etc.) at good terms. Export-promoting State policies could also be regarded as a push factor and/or a facilitator.

The results of our survey among owners of small firms in the seven European countries suggest that in most cases, the so-called pull factors are substantially more important than the push factors or facilitators. In particular, most responses to the question 'Why did exporting start?', focus on two of the options regarded as reflecting the attractiveness of foreign markets ('saw

⁽¹⁴⁾ OECD, *Globalisation and small and medium enterprises*, 1997 Vol. 1, synthesis report.

market potential abroad' and 'unsolicited inquiry/order from abroad')—see Table 4.2. Government encouragement, the only option associated with 'facilitating' factors, accounts for only 6 % of the responses, although it is evaluated as substantially more important in two of the surveyed countries: Greece (21 %) and Ireland (19 %). At an individual country level, the balance of the three groups of contributing factors are as follows:

	<u>Pull factors</u> (%)	<u>Push factors</u> (%)	<u>Facilitators</u> (%)
All seven countries	51	43	6
Greece	42	27	21
Spain	55	39	6
Ireland	68	13	19
Italy	57	43	—
Netherlands	58	37	5
Austria	34	66	—
United Kingdom	58	42	—

Table 4.2 **Factors inducing small firms to start exporting**

Factors	Answers (%)	Maximum and minimum values for countries surveyed (%)
Saw market potential abroad	33	Ireland (56.2), Greece (21)
Unsolicited inquiry/order from abroad	18	UK (29), Austria (6)
Implementation of long-term policy	9	UK (14), Ireland (6)
Spare production capacity	5	Austria (11), Ireland (0), Netherlands (0)
Technological/product advantage	7	UK (14), Greece (0)
Declining domestic sales	8	Austria (19), Netherlands (0), Ireland (0), Spain (0), Greece (0)
Home market saturated	5	Netherlands (21)
Encountered foreign competition in national markets	6	Austria (11)
Government encouragement	6	Greece (21)
Other	3	
Total	100	

Source: Country survey results.

Government encouragement is considered as worthy of mentioning as a 'facilitator' only in Greece and Ireland (not necessarily implying similarities in the provisions of the policies in the two countries), while 'push factors' seem to be stronger only in the smallest of the countries surveyed (Austria), in which exports by the surveyed firms started under the influence of a combination of such factors: spare production capacity, technological advantage in some

products, foreign competition in the domestic market and, even more important, declining domestic sales.

4.4. Indicators of internationalisation

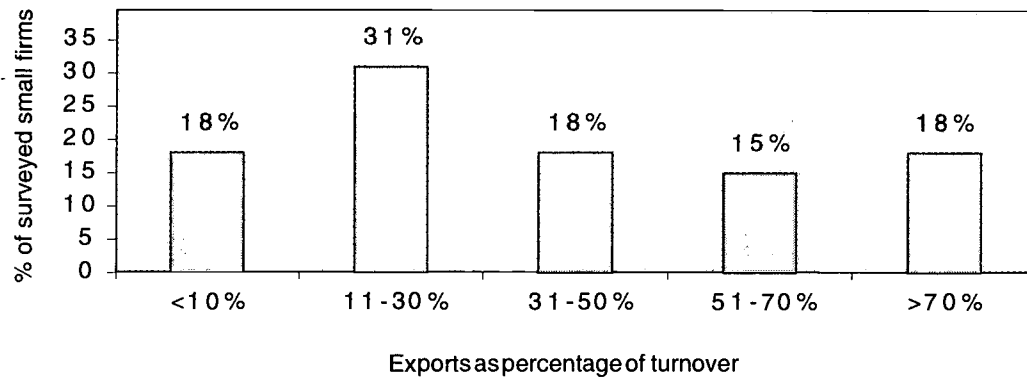
The small firms in our sample started exporting rather recently. The survey results suggest that, on average, their percentage on turnover derived from exports (see Diagram 3) is close to 40 % (without major differences from country to country) and increasing⁽¹⁵⁾.

In order to establish a pattern concerning the destination of exports, the country surveys reported shares addressed to various markets (EU, central and eastern Europe, United States, Mediterranean countries, etc.) and also changes in the importance of different markets in the last five years.

Taking into account only those foreign markets in which a small firm has established some significant interest (minimum importance: 30 % of its total exports), the results suggest that the EU constitutes by far the most important market as 74 % of the surveyed firms have established some significant interest (at least 30 % of their exports, but in 80 % of these cases more than 50 %) in its various markets. The United States seems to be the second most important market (mainly because of UK and Irish interest in it). Finally, central and east European markets are emerging as interesting destinations for exports, especially for south European exporters.

European Union destinations do not have the same importance for all surveyed exporters and their importance changes over time. We have calculated an average share for exports to the EU for each country surveyed and also a 'trend indicator' (ranging between 3 and 1 depending on whether the importance of EU markets increases, remains stable or decreases). Diagram 4 presents the result of these calculations.

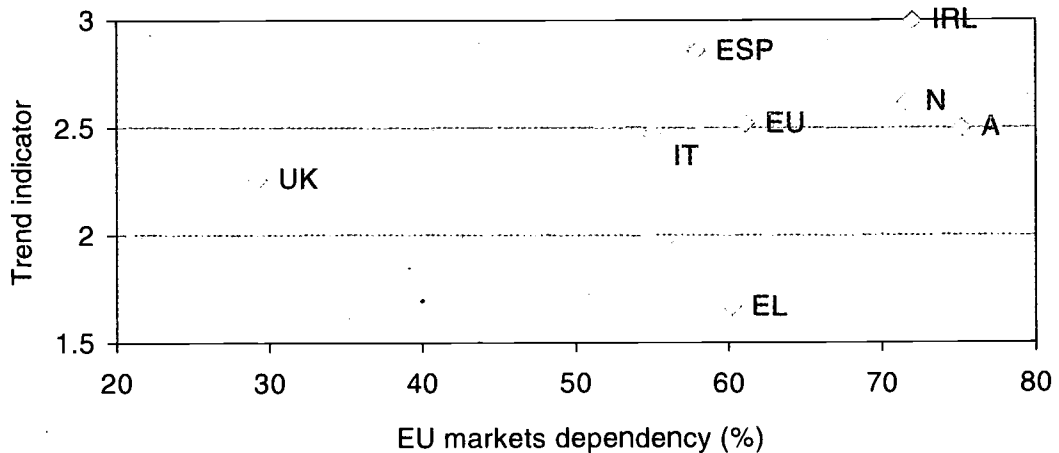
(15) Trend in importance of exports as % of total sales (last five years): 70 %: increasing, 21 %: stable and 9 %: decreasing.

Diagram 3 **Percentage of turnover from exports**

Source: Country survey results.

In total, the share of exports addressed to EU markets is 61.1 % and it has been steadily increasing (trend indicator: 2.52). Irish, Dutch and Austrian firms show a higher than average dependency on EU markets, while Greek, Spanish and Italian small firms are close to the average but have other preferred destinations too (other Mediterranean markets, but also central and east European countries). In the case of the last two subsamples (Greek and Italian SMEs), dependency on the EU shows signs of weakening, especially in the case of Greek small firms for which the trend for the importance of exports to the EU is below the 2.0 mark. Small firms in the UK are very much oriented towards the US market. Their exports to the EU share reach only 29 % and remain virtually stable, while the corresponding share of exports to the United States is 59 % and modestly increasing (trend indicator: 2.3)

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Diagram 4 **EU markets dependency and trend indicators by country**

Source: Country survey results.

4.5. The small firms' perception of internationalisation and its impact

Internationalisation of economic activities results in both new opportunities and new threats for all firms. The opening-up of new markets makes available new opportunities for expanding sales. At the same time, however, home markets become more penetrable and new competitors are now in a position to threaten markets that were once insulated.

The firms surveyed consider that increased competition in the home market is, in fact, the main immediate impact of internationalisation. Other types of impact, such as changes in consumer tastes and the increasing complexity of the economic environment are also considered important. The increasing complexity of the legal and fiscal environment is a cause for concern mainly for small firms in the UK (where it is ranked as the main impact) and, to a lesser extent, for small firms in the Netherlands.

It is interesting to note that firms of different nationalities rank differently the various types of impact of internationalisation. Greek, Italian and Austrian firms consider that the inward pressure of international competition are most important. The same applies to Spanish firms who also point to changes in consumer tastes as being one of the main types of impact.

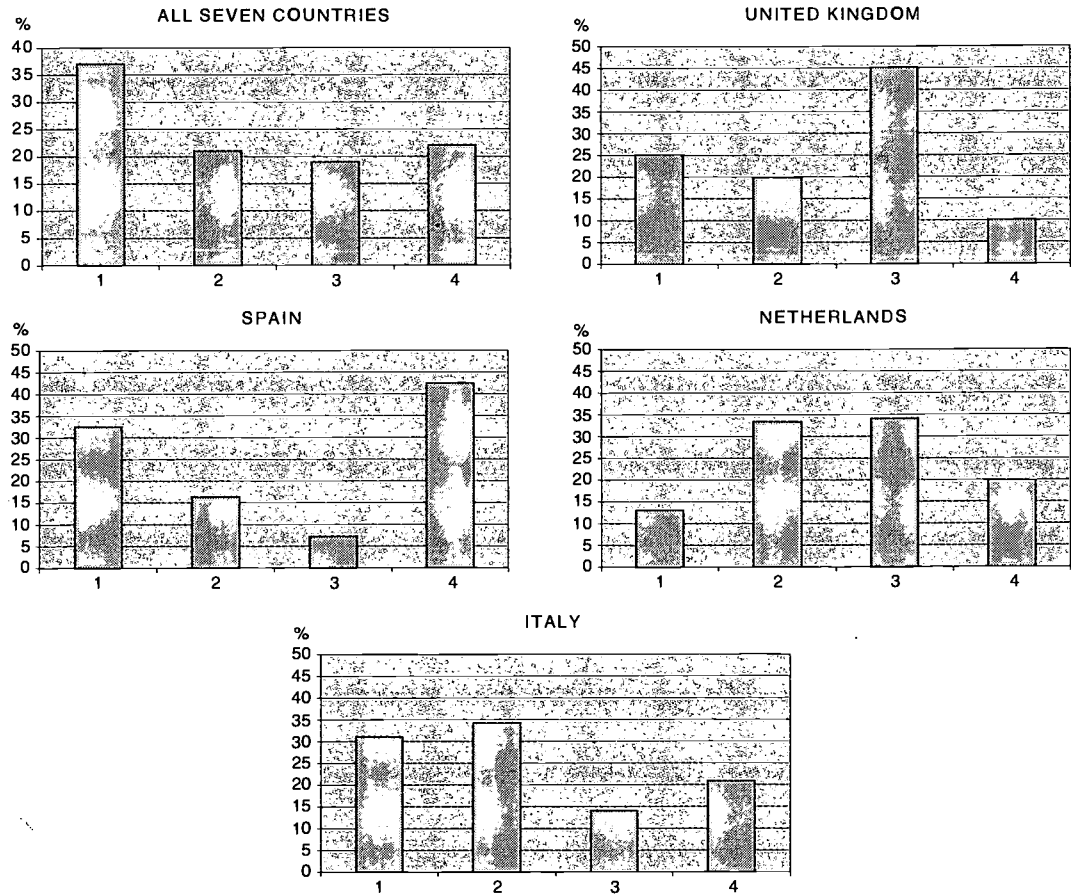
On the other hand, Dutch small firms and especially those of the UK show sensitivity over the increasing complexity in the legal and fiscal aspects of the international business environment. Diagram 5 presents, for the total sample of SMEs from the countries surveyed and for selected individual countries

(Spain, Italy, Netherlands and the UK), the relative distribution of responses to the relevant question. The findings of our survey confirm the conclusions of previous studies that the impact of internationalisation does not fall equally on all small firms and that the resulting pressures are transmitted to national firms by a variety of mechanisms. They are also perceived in a variety of ways, depending on the industrial and institutional context⁽¹⁶⁾. Firms from countries whose institutional setting converges with that of continental Europe but is not identical to it (i.e. UK small firms), attach much emphasis on the increasing complexity of having to comply with formalities with which small firms from other EU countries may be more familiar. These differences in the relative importance of various types of impact suggest that the priorities in dealing with the 'response to impact' should also vary from country to country, across different industries and even among different groups of small firms. For this last type of differentiation, it may be useful to divide small firms of the same or different nationalities into three main groups:

- (a) those which are already or able to become internationally competitive; adaptability is a key factor in the success of their international operations; relatively low cost investment in information dissemination and adaptation of operating procedures to those implemented internationally are crucial for the achievement of internationalisation objectives;
- (b) those which are less likely to be able to adapt; a large proportion of such firms are likely to be found among those who have indicated major competitive pressures in their home markets. The survival of such small firms may be at risk without significant improvement in factors such as output cost and quality competitiveness;
- (c) those which are insulated from the effects of internationalisation; this proportion differs by industry and economy and is difficult to estimate; these SMEs are usually small, operate in naturally protected markets, are often service-oriented and tend to supply directly to customers (rather than through distribution channels); under such circumstances, small firms may remain outside the scope of internationalisation-related support schemes.

⁽¹⁶⁾ Organisation for Economic Cooperation and Development, *Globalisation and small and medium enterprises (SMEs)*, Paris, 1997.

Diagram 5 **Distribution of SME owners' ranking of types of impact from internationalisation.**
(All countries surveyed and selected individual countries)



1. Increasing competition in the home market.
2. Increasing complexity of economic environment.
3. Increasing complexity of legal and fiscal environment.
4. Changes in consumer tastes.

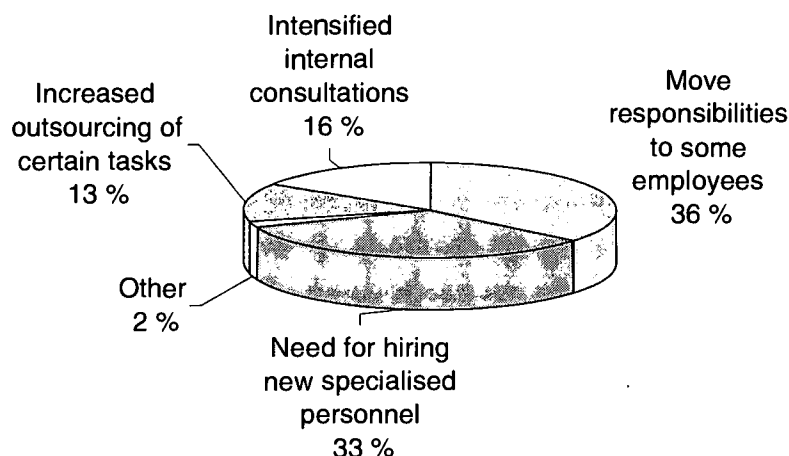
Source: Country surveys results.

In addition to the general perception of the impact on small firms, we investigated the potential internationalisation-related impact on work organisation. It is reasonable to expect that expansion of activities beyond the boundaries of the home market, and the implied contact with different socioeconomic as well as cultural environments, may require some—at least partial—review of the adequacy of work organisation to meet the new emerging needs.

The overall impression is that internationalisation implies at least some redistribution of responsibilities and tasks within the firm, with some selected

employees being assigned new or/and different roles. The marginally higher priority of internal reorganisation vis-à-vis hiring new 'specialised' personnel (36 % compared with 33 % of owners' responses) is easily explained by small firms' natural hesitation to role sharing with newcomers to the firm and, as many firms have pointed out, by purely economic (cost) considerations. 'Intensified internal consultations to solve emerging problems' is also a typical reaction, while few small firms declare readiness for 'increased outsourcing of certain tasks' (see Diagram 6).

Diagram 6 **Internationalisation-related impact on work organisation**
(all seven countries surveyed)



Source: Country survey results.

Independently of the particular way in which small firms decide to reorganise their work, it is evident that internationalisation—at least beyond a certain point which may be regarded as a threshold—results in redistribution of tasks and responsibilities and/or redefinition of certain tasks and responsibilities.

The criteria employed for task allocation in an exclusively domestic market-oriented firm (e.g. sales promotion by those considered the most persuasive salespersons) may be different for an internationalised firm (e.g. international sales promotion by those most competent in foreign languages and/or more mobile). The emergence of need for skills not required in the past, but at a scale not allowing (or not allowing yet) full utilisation of a specialised person's time, leads to the development of outsourcing of specialised services, such as consulting, accounting, packaging design, market research, etc.

4.6. Difficulties in small firms' international operations

In general, more than half (59 %) of the firms surveyed consider that operating in international markets is more difficult compared to operating in home markets. Only 14 % consider it less difficult, while the remaining 27 % do not differentiate, in terms of difficulties, between the two types of market. Increased difficulty is not, however, compensated by superior profitability, as most firms (40 %) do not differentiate the two types of markets.

In order to attempt to overcome small firms' difficulties, it is important to identify them, establish their relative significance, estimate to what extent some of them could be overcome by the use of existing internal resources and, eventually, what is the 'residual' which needs to be covered by new, externally provided resources. Based on suggestions made by previous research work and relevant literature, the types of difficulties in international operations were specified as follows:

- (a) finance/delays in payments;
- (b) paperwork involved;
- (c) market information (lack of);
- (d) market access;
- (e) product suitability;
- (f) access to suitable contacts;
- (g) costs/profitability;
- (h) oral communication with foreign partners;
- (i) written communication with foreign partners.

The firms surveyed in the seven countries were requested to assign 'indices of importance' (3: very important; 2: important; 1: not important) to each of the above factors. Diagram 7 shows that the three most important types of difficulties faced (or to be faced) by exporting small firms are:

- (a) access to suitable contacts abroad (19 % of all 'very important' or 'important' answers);
- (b) market access (17 %);
- (c) market information (15 %).

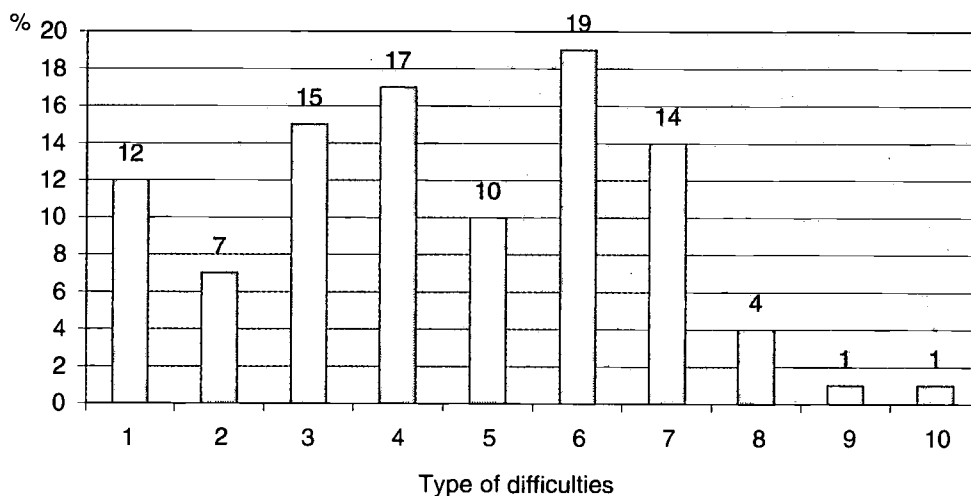
This first group of difficulty factors accounts for 51 % of all 'very important' or 'important' answers. Another 36 % of responses relate to three other types of difficulty:

- (a) costs/profitability (24 %);
- (b) finance/delays in payments (12 %);
- (c) product suitability (10 %).

Finally, the paperwork involved in international operations and the necessary communications do not seem to be regarded as important

difficulties (7 % and 5 % respectively). Some noteworthy differences among countries surveyed may be observed. For example, small firms in Ireland attach much importance to product suitability for foreign markets. Small firms in the UK are, above anything else, preoccupied with delays in payments associated with sales abroad. Spanish, Italian, Dutch and Austrian small firms all agree that difficulties associated with penetrating foreign markets are the most important. Finally, Greek small firms seem to be very much concerned about their international cost competitiveness.

Diagram 7 **Difficulties in operating successfully in foreign markets**
(all seven countries surveyed)



- 1. Finance/delays in payments
- 2. Paperwork involved
- 3. Market information
- 4. Market access
- 5. Product suitability
- 6. Access to suitable contacts
- 7. Costs/profitability
- 8. Oral communication
- 9. Written communication
- 10. Other

Source: Country survey results.

4.7. Strengths and weaknesses of small firms

Much research has attempted to identify the characteristics of small firms which allow them not only to co-exist in the market along with larger firms producing the same products (or providing the same type of services), but also to claim some comparative advantage. In the case of internationalised small firms, it is essential that some strengths must be present in order to

counterbalance—at least partially—the difficulties encountered in their international operations and discussed already in the previous section.

The results of our seven country survey suggest that the following seven characteristics (from a total number of 23 options offered to firms interviewed for their consideration) account for slightly more than 50 % of their responses and may therefore be considered as the main strengths:

- (a) owner's commitment (9.3 %);
- (b) owner's persistence (8.5 %);
- (c) owner's confidence (8.1 %);
- (d) product quality (7.9 %);
- (e) adaptability of product to market needs (6.7 %);
- (f) personal relations (6.1 %);
- (g) delivery terms (5.6 %).

It should be noted that, apart from minor differences in the relative position of the above factors, all national sample views converge on the importance of allowing small firms to succeed in international operations.

On the other hand, characteristics which attracted relatively few responses and may, therefore, be regarded as small firms' weaknesses are the following:

- (a) availability of advertising budget (1.4 %);
- (b) employee resistance to change (1.4 %);
- (c) owner's resistance to change (1.9 %);
- (d) cost reduction capability (2.4 %);
- (e) language skills (2.6 %);
- (f) pricing/credit flexibility (2.8 %);
- (g) staff training levels (2.8 %);
- (h) qualifications of new staff recruited (2.9 %).

Less than 20 % of the total number of responses is associated with the above factors.

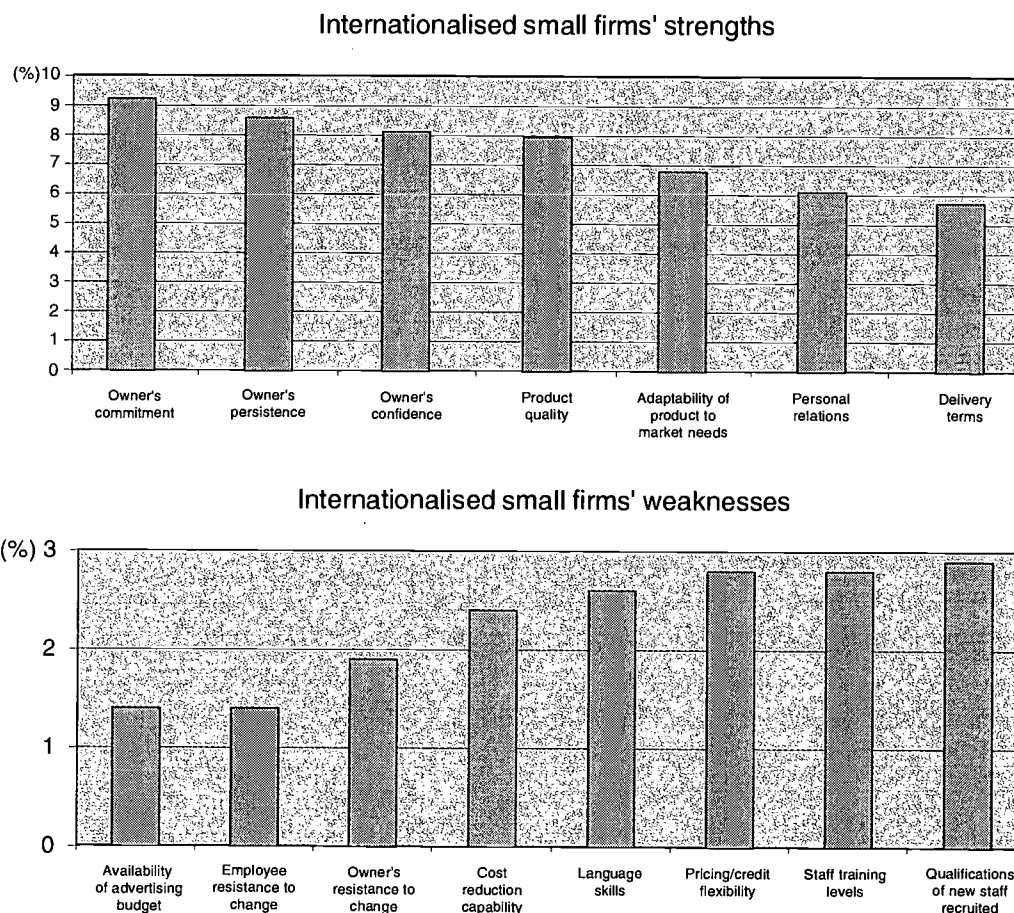
An intermediate group—for which the characteristic of strength/weakness is more debatable—includes the following factors:

- (a) employees' loyalty to the firm and its objectives (5.4 %);
- (b) flexibility in negotiations (4.7 %);
- (c) ability to handle new technologies (4.7 %);
- (d) owner's educational background/qualifications (4.5 %);
- (e) ability to access/analyse information (3.5 %);
- (f) ability to obtain market information (3.4 %);
- (g) staff qualifications (3.4 %).

The composition of the three groups of factors is typical of the small firms' tendency—also identified in various previous research works—to associate the firm's qualities with those of its owner (commitment, persistence, confidence) and, on the contrary, the firm's weaknesses with the firm's limited resources (low advertising budget, restricted credit potentials, limited

training, etc.). This last group of factors are furthermore projected as areas in which small firms could and should receive more external assistance.

Diagram 8



Source: Country survey results.

4.8. Keys to success of internationalised small firms

Based on their experience, the small firms surveyed were requested to indicate the factors which they consider as 'keys to success' in exporting and, in general, in international activities. In particular, they were requested to attach indications of importance ('very important', 'important' or 'not important') to a total of 14 different factors suggested as relevant for successful exporting. All such factors have repeatedly been discussed in the relevant literature as affecting firms' effectiveness in international operations.

We may group these factors into three groups depending on their character. In particular, we may distinguish:

- (a) personal factors related to the firm owner's personal characteristics and past investment (e.g. being committed, understanding cultural diversities, being open to outside advice, language skills);
- (b) technical factors associated with the firm's technical and/or administrative efficiency (e.g. cost competitiveness, product adaptability, coping with international transport and payments, communications facilities, etc.);
- (c) managerial factors reflected in the ability to select staff, agents, distributors and to target markets.

The frequency distribution of 'very important' characterisations is presented in Diagram 9.

Firms from all surveyed countries agree that at the top of the list of keys to success are the following factors (percentages of 'very important' responses, in parentheses):

- (a) finding the right agents/distributors (15.0 %);
- (b) choosing the right export market(s) (10.4 %);
- (c) being committed, confident and persistent (10.0 %);
- (d) using fast communications (9.8 %);
- (e) having foreign language abilities (7.9 %);
- (f) producing at costs to match foreign competitors (7.9 %).

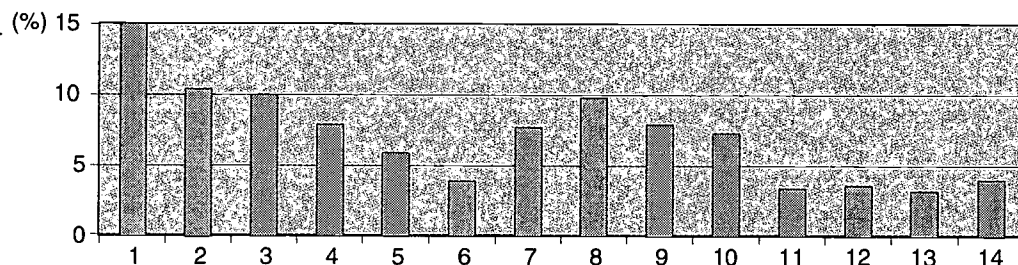
A second group of factors for which 'very important' response rate exceeded 5 % includes the following three factors:

- (a) modifying products to suit the market (7.7 %);
- (b) taking a long-term view on costs and returns (7.3 %);
- (c) understanding cultural diversities (5.9 %).

Among the remaining factors, the absence of 'training of existing staff' (for which only 4 % of 'very important' responses were recorded) may be attributed to the fact that the majority of firms place it on the second level of importance. In contrast, for factors such as 'getting outside advice', 'coping with international transport formalities' or 'recruiting experienced staff', many firms explicitly indicated that they regard them as not important. This may be, for example, either because outside advice has been proved in practice to be unavailable and/or ineffective or because small firms do not rely—mostly for financial reasons—on recruiting experienced staff.

Having discussed the difficulties that small firms have to face in their international operations and, subsequently, these firms' strengths and weaknesses, the above listing of keys to success leads the analysis to the discussion of the extent to which small firms are, in fact, able to develop such keys. In other words, whether they possess the competences required for efficient international operations.

Diagram 9 **Keys to success in international activities (all seven countries surveyed)**



- | | |
|--|---|
| 1. Finding the right agents or distributors | 8. Using fast communications (telex/fax/e-mail) |
| 2. Choosing the right export market(s) | 9. Having foreign language abilities |
| 3. Being committed, confident and persistent | 10. Taking a long-term view on costs and returns |
| 4. Producing at costs to match foreign competition | 11. Coping with international transport formalities |
| 5. Understanding cultural diversities | 12. Coping with payments (different currencies, bank formalities) |
| 6. Getting sound outside initial advice | 13. Recruiting experienced export staff |
| 7. Modifying products/packaging for market | 14. Training existing staff |

Source: Country survey results.

4.9. Competences related to small firms' international activities

The general approach to the question of whether small firms do possess the range of competences required to succeed in their international operations is presented in Diagram 10. The left-hand circle in the diagram presents the keys to success which are, in principle, partially covered (shaded area) by competences that the small firm already possesses. Part of the success factors circle remains uncovered and this is perceived by the small firm's owner and reflected in his ranking of the difficulties faced in international markets (discussed in Section 4.6).

At the same time, small firms may possess competences which are not relevant for international operations (uncovered area of right-hand circle). The extent of the success factors circle coverage (more keys to success) is—both statically and dynamically—determined by the firm's strengths (movement/shift of the right-hand circle to the left), and by its weaknesses (shift to the opposite direction). The objective of the study, in this section and in subsequent ones, is to determine how the crucial success factors are related to specific competences which the firm possesses or is able to develop.

The results of the responses obtained from surveyed small firms in the seven countries suggest that:

- (a) the top-priority keys to success (factors in the first group described in Section 4.8) may be secured to an extent exceeding 50 %, provided the small firm possesses a relatively limited number (two to four) of key competences;
- (b) some competences are able to support a wider range of success factors than others.

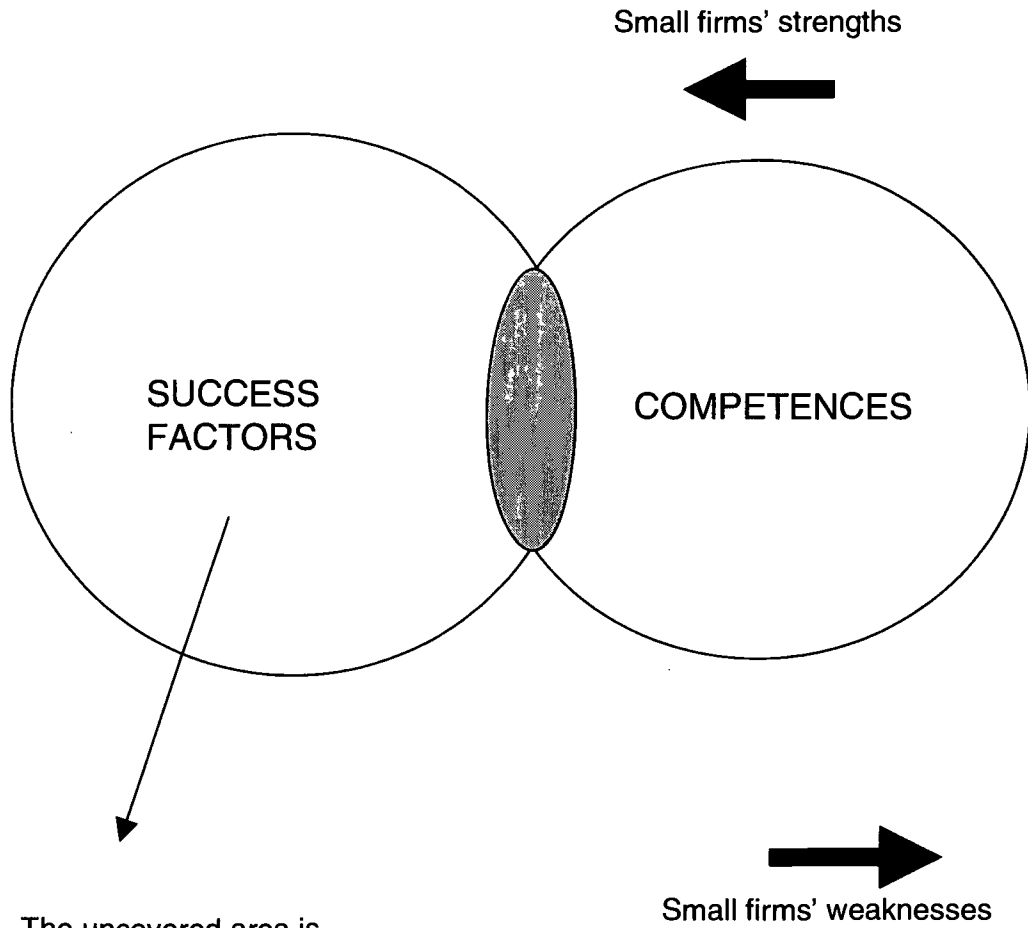
Examples of the above two findings are the following (see also Table 4.3)⁽¹⁷⁾:

- (a) 'Finding the right agent/distributor' in the foreign markets depends crucially (more than 50 %) on the firm's foreign language skills, its negotiation skills and especially on its communication skills.
- (b) Competences such as 'communication skills' and 'negotiation skills' support a wider range of success factors (four out of six presented in Table 4.3), than others which seem to result in a more focused impact; for example, 'knowledge of other market tastes' is one of the key competences required for only two of the six top success factors, while 'communication skills' and 'negotiation skills' support four out of the six key success factors.

It should be noted that the findings retain their validity even when we change the definition of top-priority key factors to also include the second group of three factors mentioned in Section 4.8. Furthermore, despite differences in the sectoral composition of national samples, examination of country-specific results do not reveal any major discrepancy from the general situation just described.

⁽¹⁷⁾ Table 4.3 has been constructed on the basis of owners' responses to the question of which (and how vital) are the various types of competences for the attainment of specific keys to success. In the columns associated with the various key factors we selectively report the percentages of the 'very important' responses corresponding to the competences accounting for the highest frequencies (up to the top cumulative 50 % or more).

Diagram 10 **Small firms' competences and keys to success in international operations**



The uncovered area is reflected and perceived as 'difficulties' encountered by small firms in international operations

Table 4.3 **Top-priority 'keys to success' in international operations and main small firms' competences**

Competences	Finding the right agent/distributor (%)	Choosing the right export market (%)	Being committed confident and persistent (%)	Using fast communications (%)	Language skills (%)	Producing at cost to match foreign competition (%)
Foreign language skills	16.7				37.7	
Knowledge of other markets/tastes		23.7				19.0
Knowledge of international markets		12.7				19.0
Communication skills	19.8	13.6	30.7		14.8	
IT-based capabilities				17.5		
Negotiation skills	17.1		26.2	15.5		14.3
Capacity to work with international information systems and databases				15.5		
Internet communication skills				19.6		
Cumulative percentage of 'very important' responses	53.6	50.0	56.9	68.1	52.5	52.3

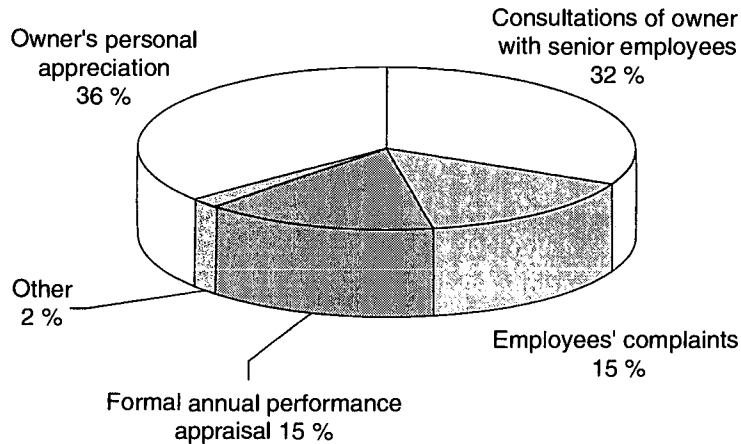
Source: Country survey results.

4.10. Mechanisms and procedures for the development of internationalisation-related competences

The development of internationalisation-related competences, guided by the results of our survey concerning the relative significance of various such competences, is of particular importance for both small firms themselves and for the organisations entrusted with the task of supporting these firms' internationalisation efforts.

The most important procedures for identifying a small firm's weaknesses seem to be the owner's personal appreciation, combined with the results of consultations with senior employees (see Diagram 11). This applies to all seven countries surveyed.

Diagram 11 **Procedures for identification of small firm's weaknesses—owners' responses**

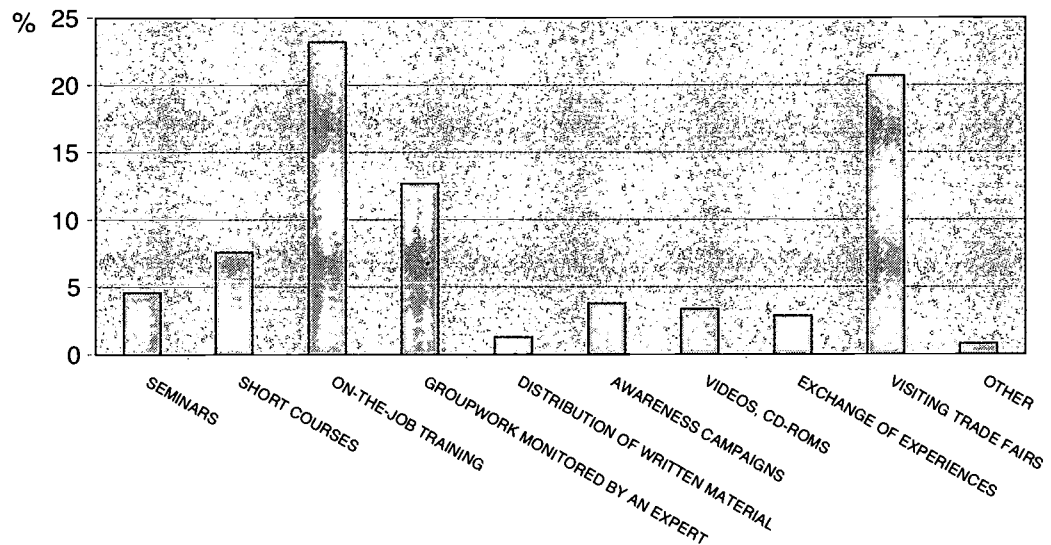


Source: Country survey results.

Employee complaints are not expected to be presented frequently while appraisal of performance on a regular basis is only rarely used to guide competence development initiatives.

In all the countries surveyed, the owners' assessment of the effectiveness of alternative mechanisms through which internationalisation-related competences could be developed, reveal their preference for practical results-oriented mechanisms, such as on-the-job training, exchange of experience and visiting trade fairs (see Diagram 12). In contrast, other mechanisms such as distribution of written material, videos, CD-ROMs, etc. do not seem to be trusted much. These results should be taken into account by training planners, especially since some of the training tools/techniques mentioned are actively promoted as 'new training technologies'. It may be argued—and this argument should be evaluated together with an indication of low effectiveness for such techniques/tools as distance learning, CD-ROMs, etc.—that it is not the techniques themselves which are dismissed when compared with other more effective mechanisms, but the specific applications offered to small firms.

Diagram 12 **Effectiveness of competence-creating alternative mechanisms/procedures – SME owners' responses**



Source: Country survey results.

Acquisition of internationalisation-related competences may be the result of other (non-training) support services. Such services are usually provided by State organisations and/or sectoral bodies. A characteristic of these types of service is that they are subject to substantial economies of scale and it is therefore difficult for the individual firm to secure them. While the fixed cost of providing such services may be substantial, variable costs may be low and affordable by the firm. Contributions to this cost are, in many cases, subsidised through various schemes.

Non-training support services which small firms in all surveyed countries favour as ways for acquiring internationalisation-related competences are:

- (a) market information;
- (b) trade missions;
- (c) promotion of networking;
- (d) advise and direct support.

These types of service are obviously supplementary to training-based efforts for competence development.

For the mechanism/procedures actually utilised, the organising agent which small firms assess to be the most effective is the firm itself. In addition, south European small firms (Spanish, Italian and Greek) show some positive disposition towards sectoral associations which could promote programmes applicable to many small firms with similar activities. In contrast, the responses obtained from the small firms in the seven countries reveals

distrust towards the effectiveness of organisations such as chambers, the State SME agencies, universities, etc.

Taking into account the substantial investment made in such organisations and the resulting high expectations about their efficiency in service provision, the identified lack of trust on the side of potential users is, at least, disappointing. This apparent mismatch of services' supply and demand is taken up again in subsequent sections of this report.

4.11. Training practices in small firms

In this last section of the survey, the topics examined relate to aspects of training practices among small firms.

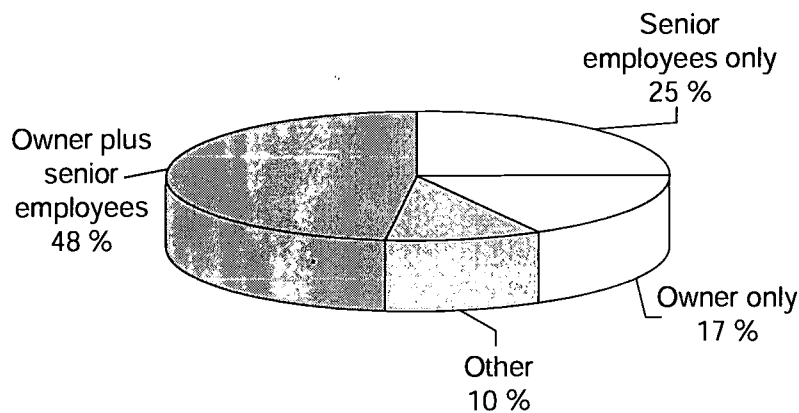
In all the countries surveyed, the common practice for participation in training programmes is for the owner to be accompanied by some senior employee(s), usually from the exports or the home sales departments (see Diagrams 13 and 14). Only in the UK did small firms indicate no owner participation in such programmes while several cases of unaccompanied owner participation were recorded in Spain.

The reasons for which small firms are reluctant to increase their employees' participation in training programmes are usually associated with:

- (a) the cost of the programme (Greece, Spain, UK);
- (b) the unsuitability of organisational arrangements (time, distance etc.) (Italy, UK);
- (c) incompatibility with other tasks (Greece, UK);
- (d) small number of employees (Italy);
- (e) lack of interest on their part (Greece);
- (f) limited prospects for utilisation of new training (Italy).

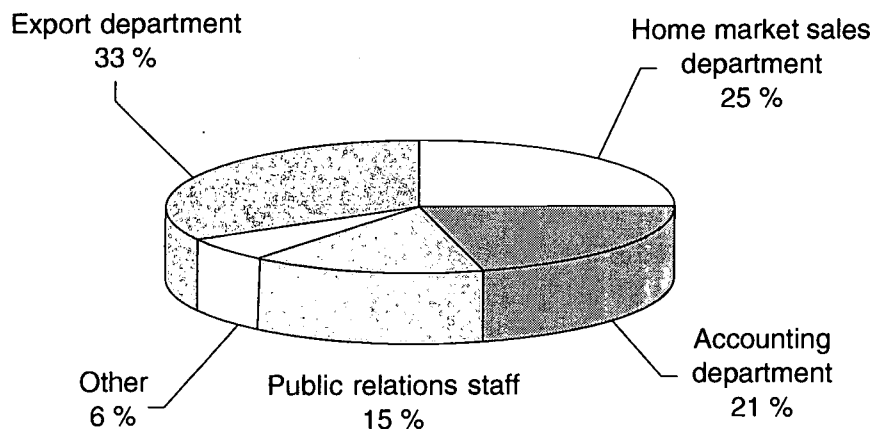
In a few cases, firms blamed lack of eligibility of their employees or lack of information.

Diagram 13 **Small firms' participation in training activities**
(all seven countries surveyed)



Source: Country survey results.

Diagram 14 **Staff categories participating in training programmes**



Source: Country survey results.

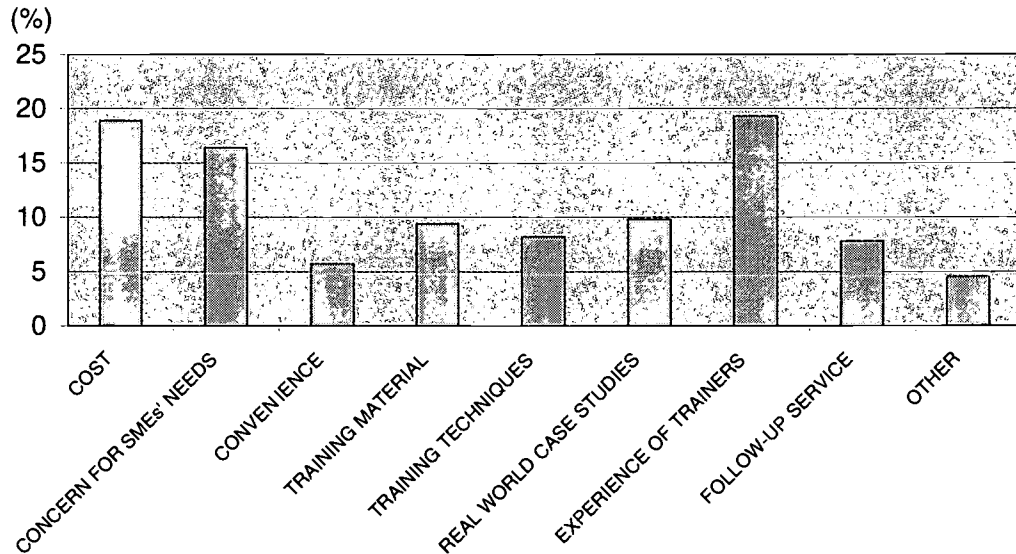
All small firms surveyed agree that cost considerations and the trainers' experience are the main criteria for selecting a training programme and for assessing its effectiveness (see Diagram 15). Concern for small firms' special needs, which is usually associated with provision of tailored programmes, is also mentioned as an important criterion by Greek, Italian and Austrian small firms. The appropriateness of training material and the use of real world case studies is appreciated mainly by UK firms, while Dutch small firms, compared

to their counterparts in other countries, seem to attach relatively more emphasis on the use of modern training techniques.

Such techniques are not apparently equally popular in all the countries surveyed. Despite high expectations as to their contribution to training, their actual contribution is debatable. It may be argued that effective use of such techniques (distance learning, teleconferencing, CD-ROMs, etc.) may be the result of a well-balanced training organisation combining traditional and less traditional approaches (see also Sections 5 and 6). Small firms in Spain and Austria also underline the importance of 'follow-up service', in the sense that the organisations from which the service was initially obtained, should be prepared to keep in touch with the service user and provide supplementary support.

Finally, the differences in the way in which the training and other support service provision is organised in the various countries are also reflected in the small firms' responses to the question of whether their participation in various programmes is mainly driven by supply or demand (i.e. the firm is invited to participate or, alternatively, the firm itself approaches a potential provider to seek service). In four of the countries surveyed (Ireland, UK, Spain and the Netherlands), small firms indicated that they actively seek service (demand-driven market for training and support services). In the other three countries (Greece, Italy and Austria), small firms indicated—by very clear margins—that their participation is usually the result of approaches being made by service providers (supply-driven market).

Diagram 15 **Training programmes assessment criteria**
(all seven countries surveyed)



Source: Country survey results.

4.12. The views of employees in small firms

In addition to the interviews conducted with owners of small firms, the methodology implemented provided for an additional number of interviews with 'key' employees. The persons to be interviewed were recommended by the employers, on the basis of seniority in the company and involvement in export activities.

These two attributes are expected to allow the employee to have an overall knowledge and appreciation of the firm's strategy and practices. No specific criteria as to the nature of the employee's tasks inside the firm were applied. It turned out that most of the interviews involved people from the sales departments in general, some with a general management role similar to that of the firm's owner. Instances of people from technical production departments were less frequent, an indication of the limited market exposure of technically minded personnel.

The rationale for this simultaneous approach to each selected firm was to obtain views from both sides and to identify any opinion divergence, which might exist, especially on training-related issues. Previous studies and surveys of training practices in microenterprises in various sectors (e.g. car repairs, retail distribution, textiles) have suggested that, in matters related to training, there may in fact be a divergence of opinions between the owner and

his staff. In short, the former is, as a rule, slow in adjusting to the latter's keen interest in upgrading skills. Specific moves by entrepreneurs to establish a more balanced situation are regarded as innovative and, in certain cases, as providing useful precedents as 'best practices'. Whether this hypothesis could be confirmed by the surveys was one of the tasks set for the researchers.

A total of 50 interviews were conducted with small firms' employees in the seven countries covered. One in three of these key employees has been with the company for more than eight years but this high seniority rate is heavily influenced by the situation in the Greek and the Austrian subsamples. It is safer to say that their association with the specific firm is three to eight years, which, as indicated earlier, more or less coincides with the period during which most firms started their exports.

It must be noted that in some countries (e.g. the UK) employers showed some reluctance in allowing interviews with employees. Since this reluctance may reflect internal imbalances, it is useful to present some of the factors which may have caused it:

- (a) in some cases (especially in firms of relatively small size) the employers' survey may have taken up a considerable length of time and any further demand was seen as an untenable imposition;
- (b) the employers were probably concerned about the possibility that the employees may make unfavourable comments about the organisation;
- (c) the employers did not want to encourage public personal scrutiny by their employees.

The above three factors are obviously related to the peculiarities of the specific survey and an understandable resistance by small firms' owners to exposing their firms through any means other than themselves. This should be taken into account by designers of research among small firms and microenterprises.

In addition to the above factors, there may be other aspects which may reduce the relevance of this part of the survey. These are:

- (a) employees are not always privy to the details of the firm's plans;
- (b) employees, unless senior management, are not always reliably informed on issues such as the increasing complexity of the economic environment, the increasing complexity of the legal and fiscal environment, etc.; there is a danger that the employees may believe that they are well informed but are, in fact, unable to see the whole picture from a strategic viewpoint;

(c) 'key' employees in small firms are likely to be members of the owner's family, his immediate social environment or closely related to him through long professional association; these links, which may reflect actual or passive agreement over a wide range of business issues, result in convergence of views (if not identity) with those of the SME owner.

This second group of factors is a warning of the dangers associated with extending SME-related surveys beyond individuals sufficiently well-equipped to respond in a well informed and objective way.

The results of the survey among the 50 key employees are presented in the respective national reports. Some basic comments on selected country-specific situations are presented below.

4.12.1. **Ireland**

The analysis of the responses of employees indicates a similarity to the responses of owners/managers. Only one key area of diverging views was reported. With reference to the attributes considered important for their firm's successful international operations, the importance placed on personal relations was much higher among employees rather than among owners/managers.

4.12.2. **Italy**

Although a generally strong similarity is noted between owners and their 'key' employees' responses, an interesting divergence of opinion emerged when the two groups were asked about the perceived strengths and weaknesses of small firms. Their priorities over 'product quality/standards' and 'delivery terms'—as important aspects of the firm's strength—are very different, with the owner placing more emphasis on the 'product'. This is seen as some sort of 'creature' needing attention and care, while the employees, receiving praise and appreciation from clients if the service provided is good, focus mainly on clients and not on products. They consider it important to deliver products on time, using the fastest and most economical channels, to deal correctly and promptly with orders, to maintain interpersonal relations with clients, agents, and wholesalers.

4.12.3. **Spain**

The owner and employee surveys follow the same pattern. The perception of internationalisation and its impact is similar, although employees place more emphasis on the increasing competition in the home market. This may be due to the fact that sales and marketing staff have constant day-to-day contact with the market and perceive its difficulties more easily, whereas the employers' role inside the company may be related to more general business issues.

4.12.4. **United Kingdom**

The employees are, more or less, in agreement with the opinion of their employers. Their interests and associated training needs are, however, more likely to be rooted in self-development and gaining 'official' recognition or qualifications for their efforts, whereas the employers' interest is more entrenched in the interests of the firm. Mechanisms for the development of skills vary according to personal circumstances. Overall, it is fair to suggest that a variety of such mechanisms should be available and the key to successful training methods is flexibility. Employees are also restricted by time constraints; they need a combination of quick training results and longer-term efforts. Finally, lack of participation in training programmes seems to be due to a mixture of lack of awareness and the perception that training content will not be appropriate or delivered by a suitably qualified person.

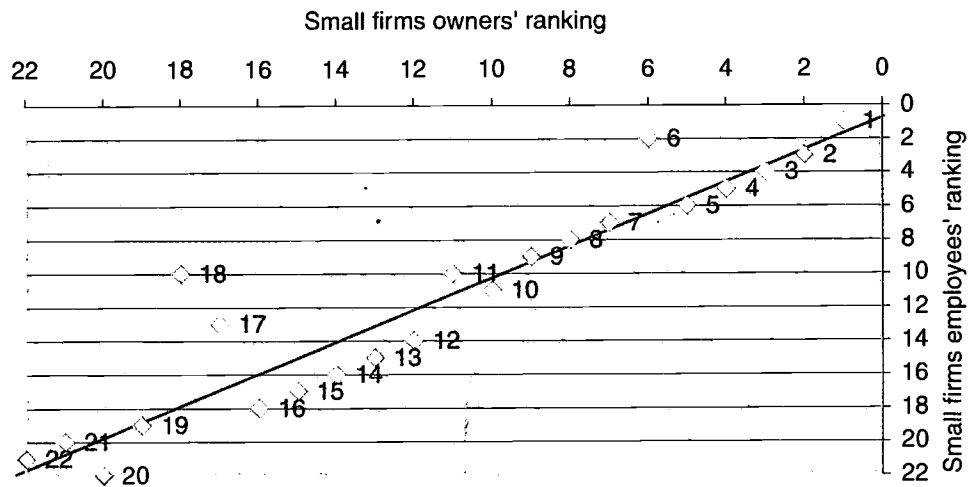
4.12.5. **Greece**

With minor exceptions, the 'key personnel' interviewed simply supported (almost echoed) owners' views. This confirms the perception of small firms being tightly knitted organisations characterised by internal cohesion and steady personal relationships, especially at the top of the hierarchy.

4.12.6. **Other comments**

The above owner-employee divergence of opinions with regard to firms' strengths and weaknesses was further investigated for all countries surveyed with the use of the two groups' responses to the relevant questions. In Diagram 16, the horizontal axis ranks the various factors offered to owners for ranking (positions 1-22). For each factor the corresponding employees' ranking is shown on the vertical axis. With only a small number of exceptions, the two groups' rankings are very similar (for 19 of the 22 factors rankings differ by not more than 2 positions). The exceptions refer to 'personal relations', 'pricing/credit flexibility' and 'language skills' which employees rank at relatively better positions than owners. Furthermore, there is general agreement as to what are the 'keys to success' in international business and what are the competences that need to be acquired in order to secure these success conditions.

Diagram 16 **Small firms' strengths and weaknesses—relative rankings by owners and employees**
(all seven countries surveyed)



- | | |
|---|---|
| 1. Owner's commitment | 12. Ability to analyse/assess information |
| 2. Owner's persistence | 13. Ability to obtain market information |
| 3. Owner's confidence | 14. Staff qualifications |
| 4. Product quality/standards | 15. Qualifications of new staff recruited |
| 5. Adaptability of product to market needs | 16. Staff training levels |
| 6. Personal relations | 17. Pricing/credit flexibility |
| 7. Delivery terms | 18. Language skills |
| 8. Employees' loyalty to firm and its objectives | 19. Costs reduction capability |
| 9. Flexibility in negotiations | 20. Owner's resistance to change |
| 10. Ability to handle new technologies | 21. Employees' resistance to change |
| 11. Owner's educational background/qualifications | 22. Availability of advertising budget |

Source: Country survey results.

In support of the comment made earlier on the 'similarity' observed in the views of small firms' owners and employees on what constitutes key success conditions, it may be added that the employees' survey suggests that the top-priority success conditions (six specific factors indicated in Section 4.8) also constitutes top-priority for the employees. Minor divergencies in relevant ranking refer to 'being committed, confident and persistent', which is valued more by employees than by employers (first and third position respectively) and 'using fast communications', which is again put at a higher ranking position by employees than by employers (second and fourth positions respectively).

Table 4.4 **Top-priority 'keys to success' international operations and main competences (ranking by small firms' employees)**

Competences	Top-priority keys to success					
	Being committed, confident and persistent (%)	Using fast communications (%)	Finding the right agent/distributor (%)	Having foreign language skills (%)	Producing at cost to match foreign competition (%)	Choosing the right exports market (%)
Knowledge of other countries markets/tastes	19.3	13.8				21.9
Communication skills	15.8	17.2	20.5	15.4		
Negotiation skills	17.5		18.2	17.3	21.7	11.5
Foreign language skills			15.9	28.8		
Knowledge of international markets					34.8	22.9
IT-based capabilities		15.5				
Internet communication skills		17.4				
Cumulative percentage of 'very important' responses	52.6	63.9	54.6	61.5	56.5	56.3

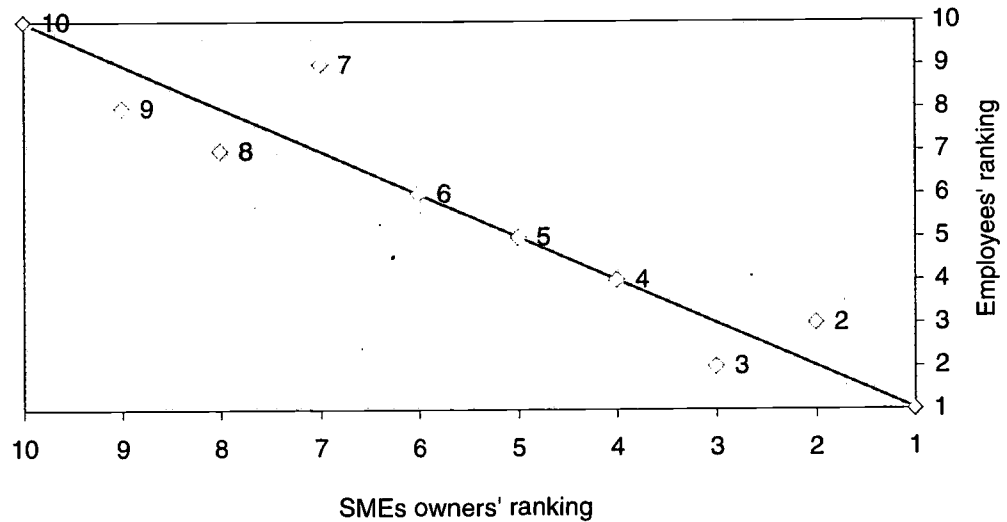
Source: Country survey results.

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Diagram 17 **Types of training—ranking by small firm owners and employees in terms of effectiveness**



1. On-the-job training
2. Exchange of experience
3. Visiting trade fairs
4. Groupwork
5. Short courses
6. Seminars
7. Awareness campaigns
8. Videos, CD-ROMs
9. Distribution of written materials
10. Other

Source: Country survey results.

The views expressed by SME owners and employees on competences related to 'key success-factors' are again characterised by substantial similarities (see Table 4.4 in comparison with Table 4.3) and the same applies to the assessment of the relative effectiveness of various types of training (see Diagram 17)⁽¹⁸⁾.

⁽¹⁸⁾ It should be noted that explanations of the way in which Table 4.3 was constructed also apply for Table 4.4. In addition, the absence of a specific competence from the limited number of those contributing most to securing a certain key to success, does not necessarily mean that the specific competence is redundant.

5. Survey of training and other support service providers

Efficient mechanisms for linking the demand and the supply side of the market for training and other support services to small firms, are essential for securing the availability of services supply of the types and at terms preferred by potential users (small firms). At the same time, firms must be constantly aware of the services provided so that they can efficiently deploy the resources devoted to personnel development.

In the context of the study, we specifically set out to survey service providers' views on a range of issues, many of which matched the questions put to owners and employees of small firms. Comparisons between the two sets of responses would allow investigation of the extent of potential demand/supply convergence/divergence. We will focus this comparative analysis on the implications of internationalisation, small firm strengths and weaknesses, keys for success in international business, required competences and assessment of the relative effectiveness of alternative training mechanisms. A number of other issues specifically related to the organisations surveyed will also be examined.

5.1. Organisations contacted

A total of 37 organisations were contacted in the seven countries surveyed. Approximately one third of them are Chambers of Commerce or employers' organisations. State training organisations, State small firms agencies, sectoral associations and educational institutions are almost equally represented. One fifth (eight cases) were private companies. Most of the organisations have been operating for more than 20 years, although six (of which two are in Ireland and three in the Netherlands) were after 1990.

Most of the organisations provide a substantially diversified range of services, from 'SME-specific training' and 'advice and direct support' (28 cases), 'professional information services' (27 cases) to 'market information', and 'organisation of conferences and seminars'.

The majority of the organisations contacted stated that demand for their services (training and non-training) has been increasing during the last five years. The increase is more noticeable in training services. Furthermore, most

of the organisations have been able to cope with this increasing demand, especially in the case of training services.

In five of the countries (Greece, Italy, Ireland, Netherlands and Austria) the organisations contacted characterise actual use of their training-related services as mainly supply-driven. In contrast, non-training activities in almost all countries are seen as mainly demand-driven. Because of the distinction adopted here between training and non-training services, there is no contradiction with the results obtained through the owners' survey reported in Section 4.10. In fact, only for Ireland and Greece, where there was aggregation of types of services in the owner survey, was there a reverse in the overall supply/demand-driven balance. Because of the desegregated character of the findings in this section, we would tend to regard them as more reliable. In conclusion, owners' and service providers seem to have the same understanding of which side of the market is leading service provision.

5.2. Service providers' perception of internationalisation, its impact and of small firms' difficulties in international operations

In contrast to owners of small firms, who assessed the main impact of internationalisation to be increasing competition in the home market and on changes in consumer tastes, service providers adopt a much more evenly spread position with emphasis on the increasing complexity of the economic environment for companies and also on more complex legal and fiscal conditions and competition. The apparent difference in the views expressed by entrepreneurs and service providers is explained by the corresponding difference in the issues with which each group is dealing.

With reference to difficulties associated with operating in international markets, service providers agree (with increased intensity) that such operations are more difficult than corresponding operations in the home market, without necessarily being compensated by superior profitability.

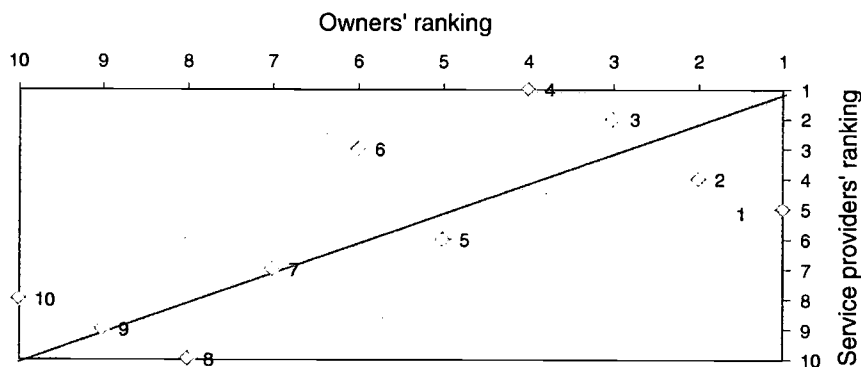
On the type of difficulties small firms have to face, service providers consider the difficulties associated with organisational aspects such as 'access to suitable contacts', 'market access' and 'market information' more important than do the owners. In contrast, they play down problems associated with 'finance/delays in payment' and 'paperwork involved', which owners place in the first and second positions respectively (service providers put them in fifth and fourth place respectively—see Diagram 18).

5.3. Service providers' assessment of small firms' strengths and weaknesses and 'keys to success' in international operations

The characteristics already presented in Section 4.7 as constituting (according to owners) their strengths in international operations, also appear at the top of the service providers' list, with 'owner's commitment' and 'owner's persistence' in first and second positions respectively. 'Product quality/standards' and 'product adaptability to market needs' follow.

While agreeing in general terms on what constitutes a 'key to success' in international operations, service providers attach more emphasis to the crucial role of 'choosing the right export market(s)' and less to 'finding the right agent or distributor', although both groups agree on the fact that these two factors are the two most important success conditions, followed by 'being committed, confident and persistent' and 'using fast communications' (third and fourth positions for both groups). One may also detect some difference in emphasis attached (but not necessarily on relative positioning) to factors such as: 'producing at costs to match foreign competition' (more emphasis by owners); and 'recruiting experienced staff' and training of existing staff,' (more emphasis by service providers) (see Diagram 19).

Diagram 18 **Small firms' difficulties in international activities. Owners' and service providers' ranking (positions 1-10)**

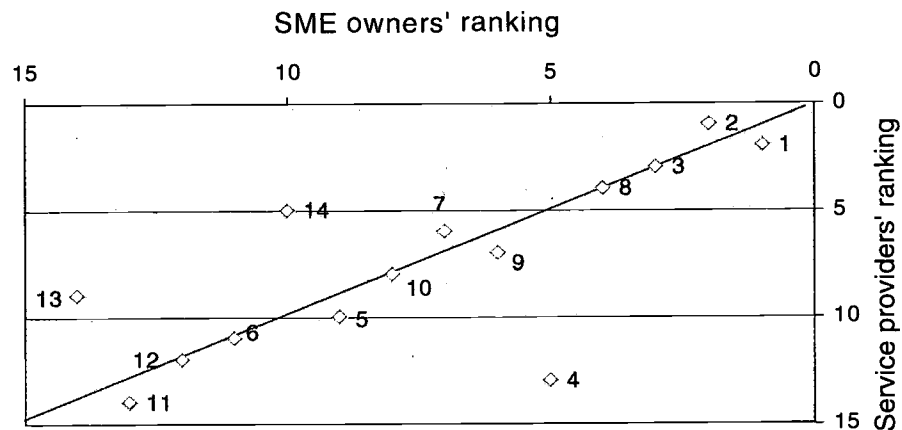


- | | |
|-------------------------------|--------------------------------|
| 1. Finance/delays in payments | 6. Access to suitable contacts |
| 2. Paperwork involved | 7. Costs/profitability |
| 3. Market information | 8. Oral communication |
| 4. Market access | 9. Written communication |
| 5. Product suitability | 10. Other |

Source: Country survey results.

These differences in the emphasis attached to the factors which are directly associated with provision of services to small firms (training, advice), it is possible to detect criticism of owners' priorities. In the opinion of training service providers, owners underestimate the importance of making more use of their services and of the resulting benefits.

Diagram 19 **SME owners' and service providers' assessment of alternative 'keys to success' in international operations (all seven countries included)**



- | | |
|--|---|
| 1. Finding the right agents or distributors | 9. Having foreign language abilities |
| 2. Choosing the right export market(s) | 10. Taking a long-term view on costs and returns |
| 3. Being committed, confident and persistent | 11. Coping with international transport formalities |
| 4. Producing at costs to match foreign competition | 12. Coping with payments (different currencies, bank formalities) |
| 5. Understanding cultural diversities | 13. Recruiting experienced export staff |
| 6. Getting sound outside initial advice | 14. Training existing staff |
| 7. Modifying products/packaging for market | |
| 8. Using fast communications (telex/fax/e-mail) | |

Source: Country survey results.

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5.4. 'Keys to success' and competences—the service providers' views

With training-related factors added by service providers to the list of top-priority conditions for success in international operations, the composition of their suggested mixture of competences is somewhat modified relatively to that suggested by owners and employees. The modification, however, affects only the relative emphasis of the various competences and not their types, since the only new competence added by service providers is 'knowledge of international law', which, in their view, is useful for 'recruiting experienced export staff' (such a suggestion came from small firms in only one of the countries surveyed: Greece).

Table 5.1 presents, in a way similar to the presentations for owners and employees (see Tables 4.3 and 4.4), the top-priority 'keys to success' suggested by service providers in the countries surveyed, together with the 'main' competences required for satisfying these success conditions (it is stressed that the 'main' competences are those accounting for the top 50 % of the respondents' views)⁽¹⁹⁾.

5.5. Effectiveness of services to small firms: the supply-side assessment

Representatives of service-providing organisations were requested to assess their effectiveness in the provision of various types of services to small firms.

In general, the results of the interviews suggest (see Diagram 20) that the assessment of various types of service effectiveness is, more or less, analogous to the frequency with which such services are offered. In other words, types of services offered most frequently are, at the same time, regarded as being the most effective ones—the respondents praise their most important activities.

The few types of services which seem to be out of line with the above general interpretation of frequency distributions are the following:

- (a) information services, one of the most frequently offered yet, the frequency of 'very effective' responses is relatively low (sixth position);
- (b) organisation of conferences/seminars, fourth in the frequency distribution among service providers, is, nevertheless, among those with the least 'very effective' responses (ninth position);

⁽¹⁹⁾ For explanations on how Table 5.1 was constructed see Table 4.4. A more direct comparison of responses obtained from small firms, their employees and service providers on the crucial issue of success-related competences is attempted in Section 5.7 below.

- (c) trade fairs, offered by relatively few providers but considered to be among those most effectively offered.

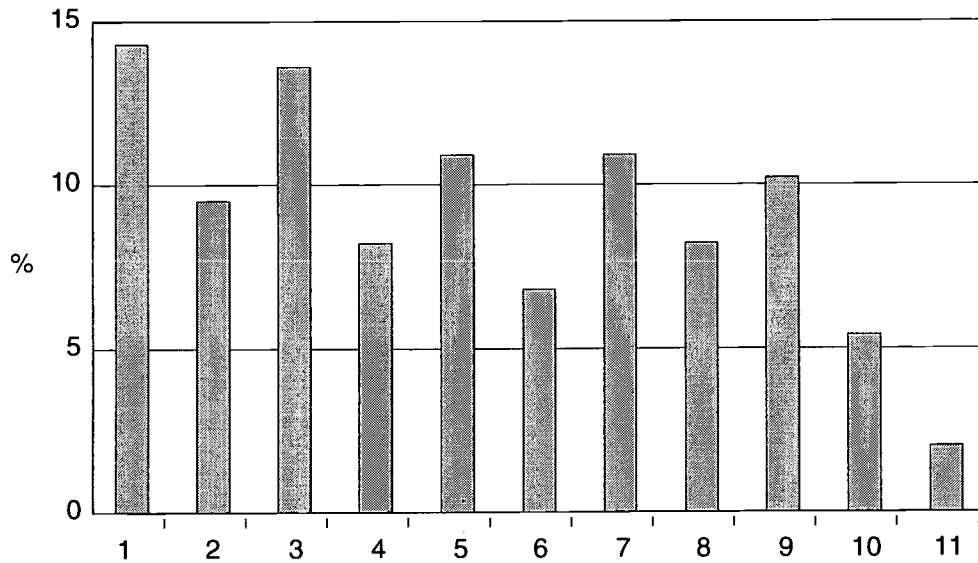
Table 5.1 **Top-priority 'keys to success' in international markets and main competences (ranking by service providers)**

Competences	Top-priority keys to success (service providers' ranking)					
	Choosing the right export market(s) (%)	Finding the right agent/distributor (%)	Being committed, confident and persistent (%)	Using fast communications (%)	Training existing staff (%)	Recruiting experienced staff (%)
Knowledge of other countries markets/tastes	22.8	14.0	17.4		12.5	8.8
Knowledge of international markets	20.3				16.7	14.7
Communication skills	8.9	18.6	19.6	16.7		
Foreign language skills		14.0			16.7	17.6
Negotiation skills		19.8	21.7			8.8
IT-based capabilities				21.4		
Capacity to work with international information system				16.7		
Internet communication skills				16.7	12.5	8.8
Knowledge of international law						11.8
Cumulative percentage of 'very important' responses	52.0	66.4	58.7	71.5	58.4	70.5

Source: Country surveys results.

As explained in the interviews, assessment of effectiveness is mainly determined by the trainers' experience, the extent to which the specific service is tailored to suit the special needs of small firms', the appropriateness of training material and the cost to the small firm. Training techniques, case studies and follow-up service availability are, in the service providers' opinion, less important criteria. With the exception of the cost criterion, which is considered by owners to be relatively more important than in providers' ranking (see analysis in Section 4.11), the above priorities are, more or less, in line with those expressed by small firms themselves.

Diagram 20 **Distribution of 'very effective' responses for various types of services (all seven countries surveyed)**



- | | |
|------------------------------|-----------------------|
| 1. SME specific training | 7. Trade fairs |
| 2. Information services | 8. Trade missions |
| 3. Advice and direct support | 9. Networking |
| 4. Finance | 10. Cluster promotion |
| 5. Market information | 11. Other |
| 6. Conferences/seminars | |

Source: Country survey results.

Most of the organisations contacted indicated that they apply as standard policy monitoring and evaluation procedures applied to programmes offered. The exception is Greece where four out of five organisations responded that they either evaluate their programmes on an ad-hoc only basis or not at all. Furthermore, such evaluations are, in most of the cases, conducted by internal means, although there are several cases (almost one in every three) where external experts are commissioned to perform them (especially in organisations in Ireland and the UK).

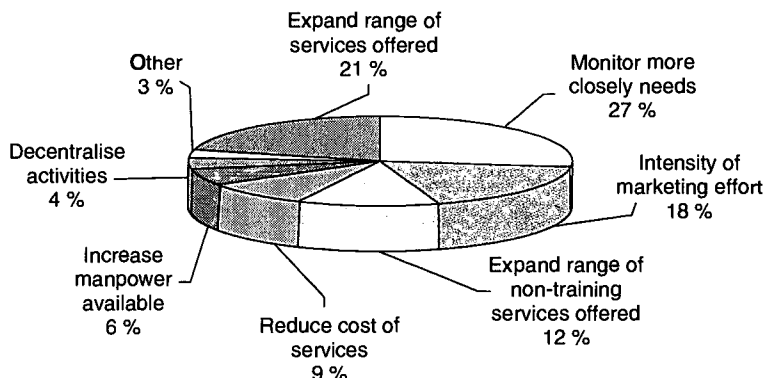
5.6. Service providers' priority plans

Responding to a request to indicate which are their plans for the future, especially in so far as meeting small firms' needs are concerned, the service providing organisations' representatives gave the following indications (see also Diagram 21):

- (a) about one fourth of them plan to introduce mechanisms and procedures for monitoring small firms' needs more closely, a clear admission that such a function is presently falling behind what would really be needed;
- (b) about one fifth of the organisations contacted plan to expand the range of services offered in the area of training; non-training services will also increase, but fewer organisations have included such plans in their priorities;
- (c) marketing effort will also increase in order to make their services better known to potential users;
- (d) reduction of the cost of services offered also constitutes a priority for some of the organisations, but most of them admit that there are rigidities which are difficult to overcome;
- (e) other plans adopted by selected service providers are to increase manpower (Ireland and Spain) or to decentralise activities (Ireland and Italy).

5.7. Small firms and support service providers: convergence or divergence?

The survey results analysed so far have a wider implication for our understanding of the attitude of small firms, which affects their strategies and practices—both short and long term—including internationalisation of activities. In particular, the results seem to suggest that owners of small firms tend to associate small size mainly with disadvantages, rather than with size-related opportunities and even advantages.

Diagram 21 **Service providers' priority plans for the future**

Source: Country survey results.

Although the literature on small firms is congested with references to size-related flexibility, adaptability, plus privileged treatment by authorities and banks, the firms themselves tend to play down these alleged advantages. The reason may be that the 'disadvantages' are passively experienced, while the 'advantages' may only be realised in the process of active strategy implementation—an area in which small firms are not particularly competent.

Small firms again tend to have a rather pessimistic outlook regarding their future prospects. Service providers, on the other hand, suggest that their assessment of cases with which they are in contact is that small firms—by no means all of them—have, in recent years, become more conscious of the need to review their practices, to upgrade their skills and to improve their competitiveness. The main indication supporting this view is their increasing demand for support services. It could, however, also be argued that an increase in demand has been caused by a relative abundance of supply of such services at relatively low cost, or even that the services provided are not necessarily of the type or the quality really needed. The market for training and other support services (such as information on foreign markets, assistance in trade fair participation, etc.) has been shown to be, to a large extent, supply-driven and demand is not yet sufficiently well determined, since those in charge of determining it—the firms themselves—rarely undertake systematic needs-identification studies.

While owners and staff of small firms realise the dangers of price competition in both domestic and the international markets, they tend to focus on their pride in relation to product quality. In contrast, service providers take a more realistic view. They attach more emphasis to the cost competitiveness disadvantage of small firms and play down the quality issue. In fact, as they do not assess such firms to be adequately quality-

mindful, they actively promote services related to product and service quality management. Such services are not, however, very much in demand by firms, suggesting a market imperfection which needs to be corrected through more intensive awareness campaigns.

A similar situation applies with the 'complexity of the economic environment' which is presented as one of the main implications of internationalisation. Trade regulations, arrangements concerning international payments and bank procedures are characteristic aspects of this 'environment' concept, together with exchange rates, interest rates and currency convertibility. Small firms do not seem to realise the direct impact of changes in such environmental factors on their activity and/or the activity of their customers and suppliers. Consequently, they do not reveal in their ranking of important internationalisation consequences that they take it very seriously, while service providers believe it to imply additional, unrecognised, adjustments on the part of the firm.

Differences between the two views were also identified in their perception of difficulties faced in international operations. Service providers seem to place more emphasis on organisational aspects while entrepreneurs express concern over financial and operational problems.

Another indication of divergence between demand and supply is the fact that neither side mentioned 'outside initial advice' as one of the crucial keys to success for international or national business. For the firms, this clearly suggests that such a condition is certainly not indispensable. For providers it shows that they do not expect to be called upon very frequently to assist firms embarking on export activities. While agreeing, in general terms, on what constitutes keys to success, the two groups put different emphasis on a number of factors—without, however, this difference affecting the relative priority of such factors. This issue was analysed in Section 5.3.

Priorities for types of competences needed by small exporters are characterised by noteworthy similarity. Perhaps service providers—strictly speaking their representatives being interviewed—have developed sufficient insight into clients organisation and practices and are, therefore, sufficiently competent to prioritise their weaknesses as if they were themselves the firms' owners. To this, one should also add the indisputable element of objectivity and realism suggested earlier.

To study further the similarity of views expressed by the three groups surveyed in the seven countries (small firms, their employees and service providers) on changing skills needs, in Table 5.2 we summarise the findings obtained. The findings refer to the combinations of these three groups' perceptions of 'keys to success' and associated 'main competences' required for successful internationalisation of small firms.

For the three priority success factors ('agents', 'the right markets' and 'commitment/confidence/persistence'), which all groups place at the top of their rankings of success conditions, agreement on the competences most needed is almost complete. The three first rows of Table 5.2 show convergence by all three groups in recognition of their top priority in 7 of the 11 success factor competence combinations.

This convergence weakens on the fourth success factor. The fifth and sixth positions in this ranking are occupied by different factors in each group. Language skills and competitive production (fifth and sixth rows in Table 5.2) are indicated mostly by small firms and their employees, while 'training of existing staff' and 'recruiting of experienced export staff' are recognised as priorities mainly by providers of services. This peculiarity may also be interpreted as an indirect criticism by the latter group that small firms are not sufficiently interested in the training level of their personnel, an interest that will not transform the training services market from supply-driven to demand-led.

Both sides also agree that small firms constitute a peculiar market for services. Individually or as groups, such firms should be treated differently from larger firms. The fact that most small firms are family-controlled and managed by the personalities and capabilities of one or a few individuals, implies that in such firms technical aspects are intertwined with social characteristics. Effective support policy for such firms should consist of a tailored range of services. Channels of communication should be carefully designed, while the potential for follow-up care, as well as systematic monitoring, are also very important.

The arguments in favour of such an approach are many. It is not safe to assume that the owners of small firms possess required basic conditions for understanding the nature of proposed interventions. In reality, owner-directors are often lacking sufficient information or motivation to understand and follow the interventions proposed to them.

Owners of small firms are extremely sceptical of interventions that attempt to transplant the experiences of larger firms. Being highly conscious of their individuality, they transfer this to a conviction of uniqueness with regard to their firm.

Table 5.2 **Top-priority 'keys to success' in internationalised business and main competences: the small firms' and the service providers' views compared (all seven countries surveyed)**

Priority 'keys-to-success' (small firms owners' ranking)	Main competences								
	Foreign language skills	Knowledge of other markets/tastes	Knowledge of international markets	Communications skills	IT-based capabilities	Negotiation skills	Capacity to work with info system	Internet skills	Knowledge of international law
Finding the right agent/distribution	D*/S	S		D*/S		D*/S			
Choosing the right export market(s)		D*/S	D*/S	D/S		d			
Being committed, confident/persistent		d/S		D*/S		D*/S			
Using fast communications	S	d		d/S	D/S	D	D/S	D*/S	
Language skills	D*			D*		d			
Producing at cost matching competition		D	D*			D*			
Training existing staff	S	S	S					S	
Recruiting experienced export staff	S	S	S			S		S	S

D: owners, D*: owners and employees, d: employees only, S: service providers.

Source: Tables 4.3, 4.4 and 5.1.

Even in cases of successful initial incorporation of assistance, continuing acceptance may be disrupted by seemingly unrelated internal developments (e.g. a new family member entering the firm's management team). In such cases, follow-up care and systematic monitoring are essential for securing the applicability of the intended support.

The survey results seem to suggest that there is a disagreement over the question of which are the most effective support transfer mechanisms. Providers tend to assess most of the mechanisms they utilise as 'effective' and stress the effectiveness of small firm-specific training, advice and direct support, and trade fairs; only the last of these is among the mechanisms most preferred by small firms. The two sides agree, however, on the appropriateness of mechanisms such as information exchanges and networking.

An interesting indication of divergence of opinions is also found in the examination of the criteria for selection of training programmes. While both groups agree on most of the criteria used by small firms, providers play down the importance of their own cost. To achieve its objective of efficiently assisting small firms in expanding their activities, a training and/or support service provider—especially a State or quasi-State agency—needs to have a long-term strategy, implement well-designed promotion campaigns focused on securing confidence and be satisfied with gradual penetration of the latter's decision-making process. Being motivated by a desire to spend funds, and avoiding serious evaluation of effectiveness in improving client situations, leads to lack of confidence, distrust and ineffectiveness. Indications of this were identified in most of the countries surveyed in the context of the present study.

The implications of all these findings for training and support services policies and the associated recommendations/proposals are presented in the following chapters.

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6. Implications for training and support services arrangements and policies

This report has reviewed the prevailing situation in internationalisation support training programmes addressed to small firms and in associated support schemes (Chapter 3). It has summarised interviews with owners and employees of small firms and with representatives of training and support service providers (Chapters 4 and 5). Taken together, these have important implications for training and support services policies.

Such implications are perceived as 'guidelines' for policy-designers and refer not only to the specific issue of small firms' internationalised activities but also to their overall organisation and competitiveness. The implications outlined and discussed below refer exclusively to what could be defined as business training in contrast to vocational training. Though the latter is of paramount importance for the competitiveness of small firms, it has not been considered by this study which focuses on small firms as such, independently of their type of activity (product, sector of manufacturing industry).

It is widely recognised that, despite peculiarities in their internal organisation and operational practices, small firms are potentially important users of training services. Improvements in labour productivity are indispensable for small firms in labour-intensive sectors to counterbalance the comparative advantage of large firms using specialised labour and advanced technology. Furthermore, training is also important for reducing excessive dependence on labour, a fact which threatens the competitive position of small firms vis-à-vis low-cost producers. However, together with its potentially large volume, demand for training and other services by small firms is also characterised by its own specifications. If these are correctly identified, it will allow effective provision of such services, and secure efficiency in the utilisation of resources devoted to support programmes, by various intermediate public and/or private sector agents, by national governments and supranational bodies.

Given the fact that strategic decisions and everyday operations are focused on a small number of persons, changes in the external environment associated with aspects such as government decisions on issues seemingly unrelated to training, may cause serious disruption to the capacity of small firms to absorb training and other services and to use them efficiently. Such a disruption may be attributed to the very nature of the small firm's internal

structure. When faced, for example, with a sudden change in taxation rules or in bank loan interest rates, the small firm's owner may decide that previous arrangements for allocation of resources to training or for participation in a trade fair abroad, have to be deferred or cancelled altogether. The implication, in this case, is that training policies must constitute part of larger support packages and their effectiveness should be assessed as conditional on the overall package effectiveness.

In the case of small firms, training is addressed to its owners, the owners' immediate family members and also to key employees. Their personalities, their educational background and their limitations are all crucial parameters for designing support schemes.

Careful consideration of these attributes will, allow specification of:

- (a) choice of training topics;
- (b) selection of trainers;
- (c) selection of training techniques and training material;
- (d) training programmes promotion methods.

The surveys suggested that, independently of their specific content, training topics must be selected in a way to allow participants to participate actively in the training process, rather than simply attend lectures. It should also be taken into account that owners of small firms are, almost as a rule, more difficult to satisfy than trainees originating from large firms. Trainer experience, choice of training techniques, sophistication and relevance of training material presented and/or distributed etc., in short, all the organisational and scientific aspects of such programmes must be continuously reviewed and revised rather than merely transferred from available programmes originally designed for application in different environments.

Diagram 22 below presents the overall picture of the survey on development of competences. Interviews with different groups of stakeholders (owners, employees and service providers) allowed a number of factors to emerge as 'key success factors' that, in their turn, are supported by the development of certain 'key competences'. Furthermore, there seems to be a general consensus on these findings between firms and service providers, in particular on the development of internationalisation-related competences.

The surveys have made clear that such competences develop following a more-or-less typical path. Diagram 22 presents the overall picture of this path. The surveys identified certain key success factors that are supported by the development of certain key competences. Small firms appear everywhere to favour the development of these competences through certain preferred mechanisms which are themselves provided by preferred agents (in our case the firm organising for itself and/or hiring a private trainer who tailors some training programme to the firm's specific needs). Any mechanism or provider is assessed on the basis of certain criteria. These, our survey suggests, are

related to the cost of the service provided, the use of tested material whose main characteristic is relevance and applicability (real world cases) and, finally, the experience of trainers participating in the support scheme.

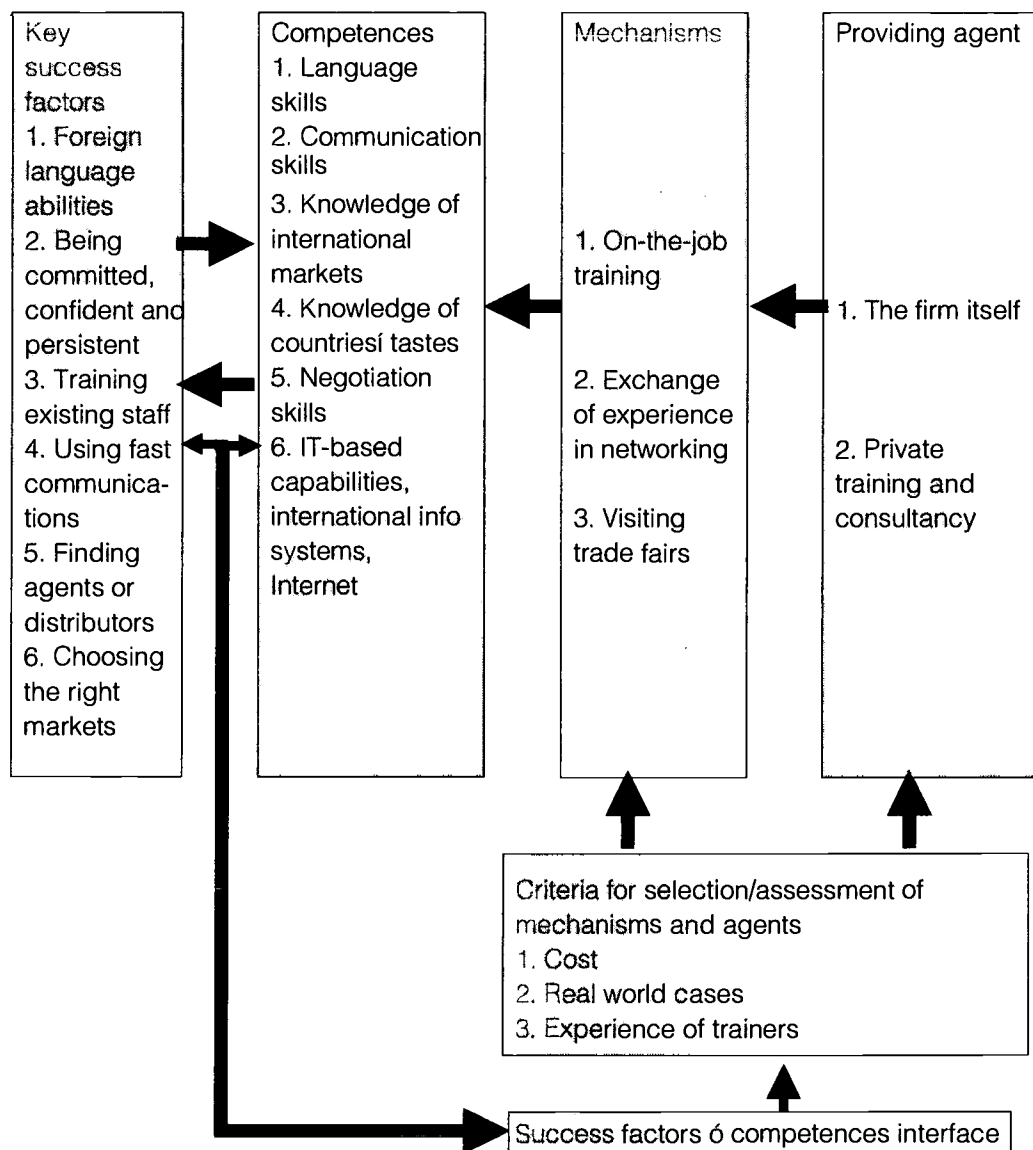
Based on the same findings we may distinguish the emerging key competences into two categories:

- (a) wide support competences, in the sense that they are linked to a relatively large number of key success factors:
 - (i) knowledge of other markets/tastes,
 - (ii) foreign languages,
 - (iii) communication skills,
 - (iv) negotiation skills,
- (b) specific support competences, which are seen to relate to specific key success factors:
 - (i) IT capabilities,
 - (ii) capacity to work with information systems,
 - (iii) Internet skills, related to securing 'fast communications' in small firms,
 - (iv) knowledge of international law, linked by some small firms with international operations.

Despite the fact that the study reached a point at which key competences could be identified, the overall impression obtained by interviewers and clearly reflected in the national reports is that small firms have difficulties with the identification of skill shortages and deficiencies in their enterprises. Very few of the companies surveyed were able to provide evidence of implementing any kind of formal processes for the identification of skills needs or had any person(s) with the capabilities to do so. This would suggest that, even where companies had been active in providing their owners and/or employees with training, there might have been skill deficiencies that were overlooked because there was no process for the identification of such deficiencies.

Returning to the question of training topics, firms interviewed provided indications of what they perceive to be their training needs and ranked their preferred areas of training. We underlined earlier the overall convergence noted in the views expressed by firms and service providers (the demand and the supply side of the market for training services respectively). It is, nevertheless, interesting to note that providers tend to believe that firms are over-preoccupied with their short-term operational needs and that they shape their demand for training and other support services accordingly. On the contrary, firms—while they express an overall distrust for support schemes patronised by the public sector—argue that little attention has been given to identifying their real needs as a prerequisite for effective formulation of policy.

Diagram 22 **Development process for internationalisation-related competences in European small firms (1)**



(1) Adapted from Dutch national report (Section 7, p. 75), but also reflecting the situation in the rest of the countries surveyed.

The cases of mismatch of service demand and supply are frequent and this clearly impacts negatively on the effectiveness of the entire small firms support policy (national and/or European). As to the preferred mechanisms and procedures for efficiently acquiring the required competences, small firms appear to favour development by way of on-the-job training. They prefer

to learn by doing and they also prefer to learn from other companies and preferably from other small companies which have experienced the same difficulties (networking/exchange of experience).

The evidence collected suggests that owners/managers of small firms are more comfortable with learning which focuses on carrying out an action, than on learning the theory which might underline that action. Methods of learning that direct the individual to learn on their own, such as reading books, manuals and other printed sources of information (including more technologically advanced sources, such as CD-ROMs and videos) are not regarded as effective ways of training.

The above implications are also linked to the main policy directions to be recommended (see following chapter). These directions, in general terms, are defined as follows:

- (a) promotion of awareness of environmental change and technological developments;
- (b) reduction of cost of training and of other support services;
- (c) increase small firms' awareness of supply of support services;
- (d) facilitation of access of small-sized enterprises to innovative vocational training programmes;
- (e) anticipation of needs and development of methodologies and products focused on the sectoral local/regional/transnational dimension;
- (f) promotion of social dialogue and active contribution of social partners to all implementation phases of programmes;
- (g) development of new skills (key-core qualifications). In particular, competences and development of self-learning and self-development;
- (h) promotion of links between educational and productive process with the contribution of all involved partners/agents in close collaboration;
- (i) dissemination of advanced quality standards-based vocational training methodologies and tools.

7. Conclusions and recommendations

The analysis of the views collected from owners of small firms, selected key personnel and from training and other support service providers, has important implications for policy-designers and administrators of support schemes addressed to small firms. The need to introduce new elements in small firm-related policies, aiming at upgrading the effectiveness of both existing and newly created mechanisms, is highlighted by the following.

The volume of resources allocated to policies for small firms is substantial, both at national as well as at European level. Furthermore, the population of potential beneficiaries is also large. Inefficiencies which may arise in the course of programme implementation relate to large volumes of resources and their potentially negative impact is magnified. The opposite relationship would be the case with the positive effect of efficiency improvements. Even minor (percentage) improvements will result in large benefits (to be further dispersed to the rest of the economy, through production or/and employment links).

Implementation of small firm-related policies is based on already developed—at least in the quantitative sense—demand and supply sides of the support services market. Although the potential for further expansion is undoubtedly substantial, there is already, and in every country, a sufficiently large number of small firms—far exceeding what could be regarded as minimum critical mass—experienced in absorbing services (not necessarily, though, in utilising them efficiently) ⁽²⁰⁾. A similar situation exists for the other side of the market—the service providers. The main problem for the policy-maker is not how to make the two sides grow but how to bridge them and, from then onwards, how to establish an harmonious, well coordinated growth and development process ⁽²¹⁾.

⁽²⁰⁾ Certain support service programmes may require substantial resources for their preparation before they are launched in the market (designing material, training personnel, marketing the service, etc.). To justify such an activity the provider should be certain that there would be at least a minimum number, not merely of potential but of actual users. This minimum number (mass) is defined here as 'minimum critical mass'.

⁽²¹⁾ Growth, for both sides of the market, is associated with an increase in the number of market participants and/or increase in their activity. Development, on the other hand, implies qualitative improvements in the character of the products/services offered and purchased, in the efficiency in their distribution, etc.

Evidence collected in the context of the present study suggests that in this growth and development process there is ample room for both public and private sector operators. As in many other markets, the demand side (in this specific case the small firms) will decide how effectively demand will be distributed among various suppliers. It goes without saying that, as in any other market where public and private suppliers co-exist, there will be a need to protect free competition and guard against abuse from dominant positions.

Related to the co-existence of public and private service providers is the issue of reviewing the two sectors' role. According to some views expressed in the course of our surveys, public sector institutions should consider revising their approach to training and other support service provision. The crucial revision refers to the suggestion that, while they may retain their financial role (provision of grants, financial assistance to small firms and programmes, subsidies, etc.), their operational intervention should decrease. The crucial role of public institutions in the area of small firm training should include two specific tasks: accreditation of training bodies, trainers and of training material; and supervision of the system's functioning. Public institutions must, however, reduce their direct involvement in training, since they are distant from the workplace and are inevitably subject to bureaucratic procedures and constraints. It should primarily be up to private sector institutions to plan training programmes, manage them, promote them to employers and employees and compete against similar institutions in how best to serve their customers.

In many instances it has been emphasised that small firms are not like any other firm. On the contrary, they should be approached and assisted with specially designed products/services combining tailored ingredients, some elements of transferable know-how, technical assistance on how the service could be best utilised, after-sales support and, finally, a provision for adaptation of the service to the specific user's characteristics should the need arise. In addition, the agent providing the services must take into account that decision-making in small firms (what service to request, how to implement it, etc.), while apparently made by the owner/director, frequently constitutes a matter for internal consultation (owner-family members, owner-senior staff, etc.). Therefore, it may not be sufficient to merely make a service available to the small firms. It may also be necessary to actively promote awareness of the benefits resulting for all these to be involved in the process of internalisation of the service.

In the general analysis of Chapter 4, but also from the research undertaken, we were able to identify a number of pull and push factors that stimulate small firms to develop export activity. One of these factors is the availability of a certain product that could attract demand from abroad. Another, equally crucial, factor is the desire for a larger market and growth as a basic strategy

of the firm. The conclusions and the recommendations presented here were derived in the context of the investigation of the specific needs of small firms interested and/or already involved in international business.

It has been made quite clear, however, that, apart from a relatively small range of services and competences related to rather technical aspects of international business, the rest of the findings and policy proposals are of wider relevance. Efficiently handling such policies is going to produce much more general development potential for the small firm in both its national and international roles. It may even be suggested that it is not easy to formally distinguish between the internationalisation process as such and a firm's daily activities.

To define a training and support programme for internationalised small companies seems very difficult. The internationalisation process is learned mainly on-the-job. Looking back at the internationalisation process, this could be described as a certain development path. However, at the time of crossing from a situation of homebound activity to a situation of becoming involved in international activities, the firm is not necessarily aware of the change taking place in its character. This may lead to the argument that it may be difficult for the firm to define—prior to the internationalisation 'event'—its training needs.

While this may be reasonable for the extreme case of completely accidental exports, in most cases some preparatory work is unavoidable. Such preparations can be effected more efficiently if some basic competences are present. This leads to the recognition that even in cases of small firms being remotely interested in the prospect of becoming internationalised, the need for internationalisation-related competences is not absent. If the firm is unable to specify such needs, experience gained by studying other small firms' cases may be helpful.

For providers this means that it is not easy to discover the specific needs of a specific company. This may lead to a situation where small firms do not find much effectiveness in programmes offered and they instead attempt to develop the skills and competences on-the-job during the internationalisation process.

In the specific area of training and other support services to small firms involved in international business, a very clear pattern of links has been established between competences and key factors of success. Through the views collected from the small firms surveyed we were able to demonstrate the crucial role of competences such as:

- (a) knowledge of foreign markets;
- (b) foreign language skills;
- (c) communication skills;
- (d) working with international systems and databases;

- (e) negotiation skills in international environments;
- (f) IT-based capabilities.

As already noted, small firms show a preference for support transfer mechanisms which are based on an action-learning approach. A number of examples of such programmes were reported in national reports (e.g. Ireland: Plato programme, Action learning programme) and are offered for adaptation and implementation in other countries. However, the effectiveness of such action learning processes is greatly assisted by the presence and active involvement of external and/or internal facilitators (consultants, trainers, key employees, etc.). Such facilitation may also be combined with small firms getting access to larger firms' resources through schemes such as Mentor⁽²²⁾.

A number of recommendations may be made to intermediate agents, public or private sector service providers, national governments and even the European Commission, on how the above conclusions, together with the rest of the material and findings of the research undertaken, could be best transformed into specific actions.

The main directions for such actions should be as follows. First are actions promoting awareness of environmental changes and technological developments. For internationalised small firms this would imply provision of easily accessible material on the situation in foreign markets (opportunities and constraints) linked with technical assistance on how best to utilise such information and make it an integral part of the small firm's strategic planning process. The choice of form in which the material could be best offered is also important.

The choice of information recipients is also crucial. Awareness campaigns should not be restricted to firms' owners, but should also be addressed to employees who, if sufficiently sensitivised, could operate, from within the firm, to promote the firm's and its owner's willingness to look outside the domestic environment for business.

Next are actions aimed at reducing the cost of training and of other support services to the small firm. It is the cost/benefit relationship that matters most, although the evidence surveyed suggests that small firms are particularly sensitive to the cost element of training and other associated services. As far as the cost itself is concerned, this should be considered in its broad sense. The distance from where the service is being provided, *ex ante* or *ex post* internal and bureaucratic procedures are typical examples of cost items which should be taken into account, together with the direct (subscription, fees, etc.) or indirect (time spent in participation) financial cost of the service.

⁽²²⁾ Mentor schemes refer to various types of cooperation arrangement whereby a large and, by definition, more experienced firm transfers know-how to a smaller—less experienced—firm.

For training services in particular, decentralisation of training, training of local trainers, use of distance learning techniques are examples of cost reducing measures. The tax treatment of training-related expenses is also of crucial importance in determining the actual cost of training activities.

Third there is need for policy-makers to develop and implement initiatives which will help small companies to become proficient in the identification of skills shortages/deficiencies among managers and employees. This assistance may be provided through funding for external consultants to carry out formal skill analyses within small firms or by facilitating the company to carry out its own skills identification process through, for example, the provision of training in skills needs analysis.

It should be noted, however, that identification of skill shortages should not necessarily be followed either by intensified personnel training or by hiring of new personnel possessing the required competences. Instead the firm may decide to acquire the skills in question through outsourcing. Information collected during the various surveys confirmed that such a tendency is on the increase, especially for particular skills such as looking after export-related paperwork, transport formalities, etc.

The fourth point covers actions specifically addressed to bridging the demand and supply sides of the training and other support services market. Training and other support needs analyses (TSNA) are indispensable for establishing the real issues to be addressed. Such analyses are best undertaken jointly by firms (or groups of firms) and service providers. Even better, the two sides should establish permanent links and devote resources for setting up a 'TSNA—planning/implementation—monitoring/evaluation—adaptation and revised TSNA' cycle.

The fifth recommendation covers actions which will increase small firms' access to European Union promoted schemes aiming directly or indirectly at facilitating such firms' market export tendencies. The Leonardo da Vinci (second phase) programme explicitly promotes, among others, upgrading of language competence and transnational networking, both among the top priorities identified systematically by various surveys, including this one. This is also the case for other EU programmes such as ECIP (European Community Investment Partners, presently under reassessment by the European Commission's services) and the much publicised JEV (transnational joint ventures within the EU) programme, both promoted by the Enterprise DG. In this latter programme a promotion facility has been explicitly put in place, under which Chambers of Commerce, small firms' organisations, etc., can operate seminars on JEV co-financed by the European Commission.

In line with the above general directions, training services and technical support specifically for the international business in which small firms are involved, could contain actions such as:

- (a) improved statistics on small firms' trade performance; it is recommended that improvements be made in the collection and presentation of statistical information on the trade performance of the small firms sector. From a policy point of view it would be extremely useful to have regular information on the destination of exports from small and medium-sized companies, and also on the actual share of their turnover accounted for by exports. Needless to say, such statistics would be of limited usefulness unless they are provided on a regular basis and for comparable size-classes for all countries;
- (b) setting-up reference libraries on foreign markets, organised by sector. Access to such libraries could be obtained in traditional form (physical access) or electronic (Internet or CD-ROM);
- (c) group training on intercultural aspects of business;
- (d) consultancy services on market information analysis and applications;
- (e) workshops on small exporters' best practices; in such schemes, experienced exporters could undertake to transfer their experience to small new exporters. Mentor schemes seem quite appropriate in these cases. Equally useful would be for small companies to be assisted in implementing some sort of a 'benchmarking' process. Export-oriented firms—individually or as a group—would contrast and compare themselves with the performance of competing companies abroad, identify practices and performance discrepancies and work towards achieving performance improvements;
- (f) transnational personnel placements; transfer of know-how and/or experience could be effected by assisting a small new exporter to place some key employee in another more experienced company with which it has business links. Such links are most probably going to be of a supplier-buyer type. Through such placements, the employee of the small exporter will be able to observe the peculiarities of the foreign market, the procedures for determining demand for its products, pricing policies, etc.;
- (g) intensive foreign languages courses, tailored to small firms; such courses—and this applies also to courses in other key-competences—could be organised and implemented with the use of the most advanced information technologies (CD-ROMs, interactive programmes, the Internet, etc.). However, service providers should be aware of small firms' rigidities in adopting use of such tools not containing action-learning elements; the introduction of such technologies should be gradual and preferably accompanied by appropriate guidance.

ANNEX

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Cedefop (European Centre for the Development of Vocational Training)

Internationalisation and changing skills needs in European small firms

Synthesis report

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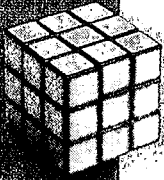
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The creation of a single market in Europe builds on the well-grounded belief that the removal of constraints on economic activity between Member States will serve to boost economic prosperity. European businesses, even small ones and those that operate locally, need to understand and even respond to the impact of the European Union integration.

The survey, whose results are contained in this Cedefop publication, was carried out in seven EU countries and covered a sample of small firms employing less than 50 persons from various industries. The countries covered were: Greece, Spain, Ireland, the Netherlands, Austria and the UK. The analysis attempts to provide answers to crucial questions related to the required competences for small firms' efficient internationalisation and the extent to which such firms do in fact possess them or the types of initiatives that could contribute to an improvement of the situation.

Analysis of the material collected and the conclusions and recommendations made are believed to have important implications for policy-designers and administrators of support schemes addressed at small firms.

Joseph Hassid

Internationalisation and changing skills needs in European small firms

Synthesis report



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