
Internationalisation of SMEs: European comparative studies

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Abstract: We examine new research on the internationalisation of Small and Medium-sized Enterprises (SMEs) in 27 European countries. We find that, in both established market economies and in transition economies, SME international entrepreneurship is driven by internal resources and capabilities, membership in networks or clusters, favourable government policies, economy, competitive market conditions, and industry structure. We then develop a conceptual model and propositions of the drivers of European SME internationalisation. Our findings have important implications for managers in improving their firms' international market performance.

Keywords: international entrepreneurship; Europe; Small and Medium-sized Enterprises; SMEs; internationalisation; institutions; transitional economies.

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1 Introduction and background to research

By 'international entrepreneurship', we mean "a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value in organizations" (McDougall and Oviatt, 2000, p.903). These activities do not operate within a vacuum but rather within a sphere of activities that includes domestic and international business environments. Hence, we agree with Zahra *et al.* (2005), that theoretical perspectives that examine both the national and international institutional environments are needed to understand the entrepreneurial decision-making process. This approach is especially important in Europe where the existence of the European Union (EU) means that Small and Medium-sized Enterprises (SMEs) are governed by their individual country's government and also by the European Union Commission (Dimitratos and Jones, 2005). As international entrepreneurship is a contextualised activity that occurs through joint cross-border coordination (Fletcher, 2004), recent research has called for more holistic theoretical perspectives, in order to explain international entrepreneurship (Dana *et al.*, 1999b; McDougall and Oviatt, 2000).

International transactions were, until recently, largely the realm of relatively big companies, with smaller businesses remaining local or regional (Dana *et al.*, 1999b). Europe today is removing the barriers that segmented the competitive environments of small and large firms (Dana *et al.*, 2005). Internationalisation of European firms has been driven in part by the expansionist policy of the EU, which now includes 25 European

countries; and the number of member countries is expected to further increase in the next decade. Hence, as the trade barriers between countries in Europe have decreased or removed, more firms are looking to the international market as a source of their growth (Dana *et al.*, 2005).

Europe is currently characterised by two trends (Dana *et al.*, 2005). The first is a reduced importance of the nation state as an influence on international business. The second trend is the decreased importance of the firm itself as the principal unit of doing business. Europe is now seen as an equal trading partner in the world with expanding partners in different geographical locations (Fayolle *et al.*, 2005). Europe covers a wide range of countries, which differ in size (*e.g.*, population and land mass), political structure (*e.g.*, democracies and transition governments), and culture (*e.g.*, religion and work practices) (Ulijn, forthcoming). The size of countries in Europe varies in terms of population and land mass, from being quite small like Malta, Monaco, and Slovenia, to countries such as Germany and Turkey, which have both a large land mass and a large population. The political structure of countries in Europe is diverse: countries such as France have had a long tradition of a democratic government, while countries in transition, such as Hungary and Slovakia, are emerging from central planning (Dana, 2005). There are also cultural differences existing in Europe, such as religion: Turkey is a predominantly Islamic nation, compared to Denmark, which is predominantly Lutheran. Culture also affects the work practices of SMEs (Dana, 2002). France has traditionally had a 35-hour workweek, which has allowed for more time for family activities, while Ireland has been encouraging flexible work practices in the information technology sector.

In this paper, we support the argument that such considerations suggest that international entrepreneurship in Europe is unique, due to the diverse nature of the countries, different institutional factors, and market dynamism (Dana *et al.*, 2005). These issues are examined by using content analysis on secondary data from a series of recent studies that surveyed the internationalisation of SMEs in different European countries. SMEs play an important role in the world economy, and they hold a stable position in the economy (European Commission, 2004). In the EU, more than 99% of businesses are SMEs (see Table 1), and two-thirds of total private employment is in SMEs (European Commission, 2004).

Table 1 Characteristics of countries sampled

<i>Country</i>	<i>Population</i>	<i>EU Membership</i>	<i>Percentage of SMEs in the country</i>	<i>Type of sample</i>
Austria	8 184 691	Yes	99.6	Government data
Belarus	10 300 483	No	99.0	Two samples: 1 200 SMEs and 26 case studies 2 124 SMEs
Bulgaria	7 450 349	In 2007	99.0	63 SMEs
Cyprus	780 133	Yes	99.0	Government statistics
Denmark	5 432 335	Yes	99.7	1031 international new ventures in the manufacturing sector
Estonia	1 332 893	Yes	99.6	Government data

Table 1 Characteristics of countries sampled (continued)

<i>Country</i>	<i>Population</i>	<i>EU Membership</i>	<i>Percentage of SMEs in the country</i>	<i>Type of sample</i>
Finland	5 223 442	Yes	99.0	Finnish exporters' survey and case study on software firm
France	60 656 178	Yes	99.0	Survey of high-tech firms
Germany	82 431 390	Yes	99.0	1450 manufacturing firms
Greece	10 668 354	Yes	99.0	In-depth case study
Hungary	10 006 835	Yes	99.9	2000 SMEs
Ireland	4 015 676	Yes	99.0	405 Irish entrepreneurs in tourism enterprise
Italy	58 103 033	Yes	99.0	Survey of medical firms
Latvia	2 290 237	Yes	99.0	Two samples: 1 Survey by Central Statistical Bureau of Latvia 2 Latvian Exports' Survey
Lithuania	3 596 617	Yes	95.7	44 manufacturing SMEs
Malta	398 534	Yes	99.0	Government data and case studies
Monaco	32 409	No	99.9	Government data and case studies
Poland	38 635 144	Yes	99.0	Surveys conducted on SMEs by Poland Scientific Research Committee
Portugal	10 566 212	Yes	99.5	81 manufacturing SMEs
Scotland	5 062 011	Yes	98.0	SMEs in international trade partnerships
Slovakia	5 431 363	Yes	90.0	Empirical data
Slovenia	2 011 070	Yes	99.0	Government data
Spain	40 341 462	Yes	99.9	Global entrepreneurship monitor data
Sweden	9 001 774	Yes	99.6	In-depth case studies
Turkey	69 660 559	No	99.8	98 private companies in Istanbul
Ukraine	47 425 336	No	83.6	Empirical data
UK	60 441 457	Yes	99.0	Empirical data

Our examination into understanding the determinants of SME internationalisation in Europe contributes both to the entrepreneurship and the international business literature. We also contribute to the literature on entrepreneurship in transition economies by describing the current state of the internationalisation process of European SMEs and developing a conceptual model and propositions of the drivers of both the emerging and developed economies in Europe. Further, as we study the internationalisation of entrepreneurs and their SMEs, we seek to address the gap in the existing literature (Coviello and Jones, 2004) on comparative research on international entrepreneurship by examining international entrepreneurship in Europe.

We begin with a review of the internationalisation literature, which has largely emerged in English-language journals, and has often been based on research conducted in predominantly Protestant environments. It will be evident that existing theories are not complete in explaining the internationalisation of SMEs in Europe, because of the

different causal variables in culturally different and structurally different environments. We then describe our methodology, which is followed by our findings from the content analysis. Based on the literature review and the empirical results, we develop a conceptual model and formulate propositions regarding the internationalisation of SMEs in Europe. Finally, we allow policymakers an opportunity to compare notes on inhibiting factors and the best practices in Europe; we also provide entrepreneurs with implications for their strategy formulation, and we suggest to scholars possibilities for future research.

2 The literature

The classic economic view of internationalisation is based on the theory of competitive advantage. Over the years, internationalisation has been viewed in various contexts; yet it was seldom seen in Europe as a competitive necessity, only as an expansion option. Furthermore, traditional internationalisation theories focused mainly on large multinational corporations, and were less pertinent to smaller firms (Dana *et al.*, 1999a; 1999b). Even today, many small firms concentrate on their domestic market, neglecting international opportunities.

Until recently, those who wished to avoid uncertainties and the inherent unknowns of competing in foreign markets could simply keep their firms small and local, thus refraining from expanding internationally. With the liberalisation of trade, however, protective walls have come down. Even small local businesses are threatened by international competitors penetrating formerly protected domestic markets. Success of entrepreneurs will rest largely on their ability to become competitive across Europe.

In the past, internationalisation was usually depicted as a gradual, incremental process. The Uppsala Model (Johanson and Wiedersheim-Paul, 1975) identified four stages of progressive entry into international markets. Similar stage models of internationalisation were developed by Bartlett and Ghoshal (1989); Bilkey and Tesar (1977); Cavusgil (1980; 1984); Johanson and Vahlne (1977); and Newbould *et al.* (1978).

A major problem of the stages model is that it assumes a considerable span of time during which a firm can gain experience, accumulate resources, and develop the managerial capabilities required for international operations. Through successively more-involved modes of operation, small firms internationalise gradually, in a controlled fashion. However, the rapid globalisation of markets (Levitt, 1983) and of competition (Ohmae, 1989) is dramatically reducing that time span and constraining the ability of small firms to control their own development paths. A variety of circumstances may force small firms to deviate from the stages model. For example, a firm in a vertically integrated industry may have to internationalise immediately in order to reach the scale necessary to survive. When the economics of high start-up costs, small domestic market size, and shortened product life cycle combine, firms may have no choice but to become 'instant internationals' in order to survive (Oviatt and McDougall, 1999; Knight and Cavusgil, 1996). In the contemporary global business environment, time has become a critical strategic weapon (Stalk, 1988; Stalk and Hout, 1990). In such an environment, time-delayed models, such as the stages theory, do not provide an appropriate scenario for either survival or growth. Smaller firms may have neither the prerequisite resources to internationalise, nor the luxury of unlimited time in which to acquire such resources.

Entrepreneurial behaviour cannot follow the gradual and controlled process of conventional stage theories. Coviello and Martin (1999) concluded that small, high-tech firms rarely follow a stepwise approach to internationalisation. Jones (1999) showed that the initial cross-border activity of small firms is often importing, rather than exporting, in contrast to the prescription of stage theories. While each theory has its merits, none addresses the heterogeneity of Europe. What has been lacking is an attempt to integrate the fact that SMEs have different access to resources, capabilities, networks, and clusters, all under diverse government policies across Europe, coupled with different industry structures in different market conditions and competitive structures.

3 Methodology

Table 1 provides an overview of the countries in our study, which represent the different economic, cultural, and political spectrums existing in Europe. We have examined 27 empirical studies conducted by 57 researchers. They include, *inter alia*, ten former East European countries and 17 West European countries. The sample is also well balanced between small economies (*e.g.*, Austria, Cyprus, Slovakia) and large economies (*e.g.*, Germany, Spain, France) and between EU members and non-EU members. Study data include secondary as well as primary sources. Each study indicates the state of international entrepreneurship in the respective countries in Europe with regards to SMEs. We conducted content analysis on these empirical studies to derive patterns and categories them by theme. In other words, we analysed the completed reports to identify patterns, differences, inhibitors to internationalisation, and best practices. Table 1 illustrates the countries included in our analysis.

4 Findings

Table 2 reveals the results from our content analysis. It appears that resources/capabilities, networks/clusters, public policies, market conditions, industry sector, and other factors all affect the internationalisation of SMEs. Each of these factors will now be discussed.

Table 2 Drivers and inhibitors of internationalisation of SMEs in Europe

<i>Country</i>	<i>Resources/ Capabilities</i>	<i>Networks/ Clusters</i>	<i>Public policies</i>	<i>Economy</i>	<i>Market competitive condition</i>	<i>Industry sector</i>	<i>Other</i>
Austria	X		X	X	X		
Belarus		X		X			
Bulgarian	X		X	X		X	
Cyprus	X	X	X				
Denmark		X	X	X			
Estonia			X	X		X	X
Finland		X	X	X	X		X
France		X					X

Table 2 Drivers and inhibitors of internationalisation of SMEs in Europe (continued)

Country	Resources/ Capabilities	Networks/ Clusters	Public policies	Economy	Market competitive condition	Industry sector	Other
Germany			X		X		X
Greece	X						
Hungary			X	X	X		
Ireland	X	X	X	X	X		
Italy	X	X					
Latvia	X		X	X	X	X	
Lithuania	X	X					
Malta		X	X	X	X		
Monaco	X	X	X	X	X	X	
Poland	X		X				
Portugal		X	X				
Scotland			X				
Slovakia		X	X	X			X
Slovenia	X	X	X				
Spain	X		X			X	
Sweden		X					
Turkey		X					X
UK							X
Ukraine	X		X	X	X		X
<i>Total</i>	13	15	19	13	9	5	8

4.1 Resources/Capabilities

Small firms are characterised by a lack of resources in key areas such as financial, managerial, and social capital (Han, 2005). They face liabilities of smallness. In addition, SMEs that are internationalising are often young and consequently also face liabilities of newness and foreignness (Dana, 2005). However, internationalisation can also be a source of much needed resources. In a study of Bulgarian SMEs, Todorov and Kolarov (forthcoming), find that these firms internationalise to gain access to finances, capital, and know-how as these resources are lacking in their home country.

In other countries, such as Lithuania and Bulgaria, there is a positive relationship between size, age, and firm internationalisation, reiterating the fact that larger and older firms are more likely to internationalise, as they possess greater resources than smaller and younger firms (Mockaitis, forthcoming; Todorov and Kolarov, forthcoming). Some studies also found that specific factors positively affect the internationalisation of SMEs; for example, higher education levels in Ireland (Hegarty, forthcoming); bilingual skills in Cyprus (Vrontis and Thrassou, forthcoming); and innovation and technology in Poland (Rogut and Piasecki, forthcoming), Portugal (Proenca *et al.*, forthcoming), and in Spain (Coduras *et al.*, forthcoming).

We found that resources and firm capabilities are not only important determinants of the firm's capacity for internationalisation but also of its continuing success. Researchers clearly demonstrate the role of resources and firm capabilities in the Greek case study (Voudouris and Dimitratos, forthcoming), which describes how one particular international firm had built up a strong technical expertise and a strong focus on customer satisfaction. This firm employed highly specialised staff and invested continually in research and development and training. The firm was an Information Technology (IT) company whose primary business was outsourcing for large clients. Microsoft and IBM accounted for 70% of its business. The firm was hit by the Greek recession in 2002, which led to Microsoft reducing its outsourcing orders. However, because of the firm's investment in research, development, and training, and the stock of knowledge and learning the firm possessed, it recognised a new opportunity – that of translation services – and was able to switch from one product market to the other. We suggest that this ability of firms to grow across markets and products and to take advantage of new opportunities wherever they arise distinguishes successful internationalisations from less successful ones and demonstrates the critical need for small firms to develop such capabilities.

4.2 Networks/Clusters

One of the most important enablers of internationalisation was found to be the use of networks or membership in a cluster. This finding is entirely consistent with literature that has suggested the importance of networking in helping entrepreneurs to utilise their resources (Butler and Hansen, 1991) and to grow their organisation (Larson and Starr, 1993). Small firms characterised by lack of resources can use networks and alliances to overcome the liabilities of smallness (Han, 2005). Internationalising firms can also seek to join clusters since being part of such a cluster is perceived to be a factor that increases the international competitiveness of firms.

Therefore, because of the effect of clusters on firm competitiveness, their development should be a central issue for international entrepreneurship. The Danish study highlights the ability of extensive international networks to foster entrepreneurs' export activities, and both the Irish and French studies demonstrate that firms within clusters perform better than those outside of clusters (Hegarty, forthcoming; Lechner, forthcoming; Servais *et al.*, forthcoming). Positive evidence of the effects of both formal and informal networks on firm internationalisation was noted in the transition economy of Belarus; internationalising small firms focussed on supplier relationships and also cooperated with foreign partners for delivery or purchase of inputs for manufacturing inwards as well as for product development and reception of new technologies (Welter *et al.*, forthcoming). Such firms also made extensive use of informal networks, ranging from petty trading with households to repeat business based on personal contacts, and from the informality of shuttle trade to structured arrangements, such as joint sales, purchase activities, and joint ventures. The Swedish study of biotechnology companies illustrates that the use of network coordination to access and optimise the deployment of external resources within and across business relationships (Lofgren *et al.*, forthcoming). Also, the Estonia study highlights the importance of international learning networks with SMEs from other EU countries (Elenurm, forthcoming).

The government can also play an important role in fostering networking activities. For example, the Monaco study reports that the Monaco government has encouraged networking through the establishment, in 1999, of the Economic Development Chamber, which organises events to encourage links between Monaco's SMEs and foreign companies (Spence, forthcoming). The Malta study describes the role of the Maltese government, through the Malta Crafts Council, in fostering networks of cooperative competition in certain export industries, such as the jewellery industry (Baldacchino, forthcoming).

4.3 Government policy

Due to the large percentage of SMEs in Europe, the governments of individual European countries have been focusing on how they can help and encourage SME growth. Some of the measures governments can take include implementing favourable tax incentives for SMEs that export or internationalise; providing training programs to SME owners and entrepreneurs; seeking to increase the education level of SME owners; providing credit support, loans, and financing to the SME sector; and encouraging the formation of clusters and networks to promote certain industries and regions. Most of the studies demonstrated both positive and negative effects of government policy on SME internationalisation. The Monaco study highlights the role of policy initiatives by the government in helping SMEs to internationalise (Spence, forthcoming). The government has implemented tax incentives and programmes to encourage high value-added SMEs to share risks, such as providing refunds if sales generated by a trade show do not cover costs (Spence, forthcoming). Several studies emphasised the lack of government initiatives, such as poor access to capital and lack of tax incentives, as inhibitors of internationalisation efforts by SMEs (*e.g.*, Elenurm, forthcoming). The authors of the Latvian study recommend that more government funding is needed for SMEs as the existing EU-based structural funds are insufficient (Volkova and Brige, forthcoming).

Due to the large percentage of SMEs in Europe, individual European countries' governments have been increasing their focus on how they can help and encourage SME growth. For example, individual countries in Europe are promoting policies such as Smart, Successful Scotland (Danson *et al.*, forthcoming), Programme of SMEs of Latvia (Volkova and Brige, forthcoming), and Programme PIPE (Plan Iniciacion Promocion Exterior) in Spain (Coduras *et al.*, forthcoming) aimed at encouraging greater SME internationalisation. Legislative developments in Europe have also focused on encouraging SME growth, such as in Hungary, through the Act on SMEs (Act XCV of 1999 on SMEs and the Promotion of their Development) (Kallay and Lengyel, forthcoming). Another important policy initiative as highlighted by the Spanish study is to increase the education of entrepreneurs since the level of education was found to be a distinguishable characteristic between exporters and non-exporters (Coduras *et al.*, forthcoming).

4.4 *The state of the economy*

The state of the economy is a significant factor in most studies, and is particularly evident in transition economies and countries that came into existence as a result of the break-up of Yugoslavia and the Soviet bloc. These studies are characterised by a legacy of large state-dominated, public sector firms with monopolistic advantages. The SME sector in such regions is a recent development, most having sprung up post 1989, in the early 1990s. As such, for these countries, the question of SME internationalisation seems to be a little premature, as evidenced in studies of Latvia, Lithuania, Slovenia, Slovakia, Hungary, Poland, and other countries.

Further, flows of Foreign Direct Investment (FDI) in such countries only commenced in the 1990s versus established countries, such as the UK, Germany, Ireland, Spain, and Italy. FDI has been shown to have a positive impact on internationalisation. Countries that have delayed FDI have produced economic conditions that are not conducive to SMEs internationalisation. As per Sikula and Hvozdkova (forthcoming), the Slovakian SMEs internationalisation benefited from FDI in two ways. First, foreign SMEs contributed to the Slovak economy in their role as investors. Second, the creation and expansion of SMEs' network enriched the Slovak economy by acting as sub-suppliers for the large foreign investors.

The economy is also a factor when considering small versus large economies. Malta, an island economy, is considerably smaller than other countries. When comparing Maltese SME internationalisation rates with those of even smaller islands, such as Aaland, Saaremaa, and the Scottish Isles, Baldacchino (forthcoming), found that Malta had the lowest internationalisation rates among all islands. The dominant factor responsible was the larger population of the Maltese economy that enabled SME firms to have a domestic focus.

4.5 *Market dynamics*

As per Oviatt and McDougall (1999), one of the factors explaining accelerated internationalisation in ventures is the competitive nature of the market. Firms that find themselves in highly competitive domestic markets have a greater likelihood of opting for other markets (*i.e.*, going international) in order to sell their products and services. The principal reason for internationalisation given by SME tourism firms in Ireland, according to Hegarty (forthcoming), was the highly competitive nature of the industry. Irish owners that risked expansion faced more competitive markets. They chose to expand their products and markets by becoming international, which was the fastest way to grow their tourism business. Competition in the domestic market enables firms to become more efficient and productive. Lack of competition, therefore, can have an indirect effect on internationalisation through its detrimental effect on promoting firm efficiencies. Goldman *et al.* (forthcoming) cite insufficient competition as one of the reasons that Ukrainian SMEs are not internationally focused. The Scottish study reports that the recent expansion of the European Union has meant that more SMEs in Europe are required to become more competitive, which is particularly important for small European countries, such as Scotland and Malta (Danson *et al.*, forthcoming). In the Green Paper for Entrepreneurship, the European Commission recently expressed the importance of increasing competitiveness for firms in the EU (European Commission, 2004).

4.6 Industry sector

The industry in which SMEs operate is another factor influencing their internationalisation. Firms belonging to technology-intensive industries seek to internationalise either to acquire resources or to move into foreign markets to amortise their high costs of research and development (McDougall *et al.*, 2003). The Spanish study states that firms in service, consumer-oriented, and transformation businesses export more than those in extractive industries (Coduras *et al.*, forthcoming). Similarly, the Estonian and Bulgarian study shows that industry has an effect; however, there was no clear consensus regarding the industry sectors that were most conducive to SME internationalisation. This lack of consensus could be explained by the fact that industry sector alone is not sufficient to explain internationalisation, which instead depends on the interaction effects of all factors.

4.7 Additional factors

The various country studies also revealed other factors influencing internationalisation. Among these were the legitimacy of the country abroad (Vrontis and Thrassou, forthcoming), firm specific strategies (Abecassis-Moedas, forthcoming), firm specific values (Karabati, forthcoming), cost leadership (Kinkel *et al.*, forthcoming), and access to markets (Hegarty, forthcoming). The above discussion leads us to suggest the following propositions and a conceptual model.

5 Propositions and model

Based on the literature review and data collected from 27 countries, we analysed the data according to whether the countries operated in transition economies or established economies based on the drivers and inhibitors of internationalisation in Europe, as itemised in Table 2. Table 3 summarises the data generated using content analysis and provides a count of factors that were either inhibitors or enablers of internationalisation for each study. The overall count of factors reveals that the most important factors influencing the internationalisation decision of the firms represented in our study were, in decreasing order of importance:

- 1 government policy
- 2 membership in a cluster/network
- 3 resources and capabilities, which shared third place with economy
- 4 other
- 5 market competitive nature
- 6 industry sector.

Table 3 Summary of internationalisation factors in transition and established economies

	<i>Resources/ Capabilities</i>	<i>Network/ Clusters</i>	<i>Policy</i>	<i>Economy</i>	<i>Competitive situation</i>	<i>Industry structure</i>	<i>Other</i>
Transition economies	6	4	8	7	3	3	3
Established economies	7	11	11	6	6	2	5
All Europe	13	15	19	13	9	5	8

From the analysis of transition versus established economies, we then developed propositions to explain the internationalisation process of SMEs in Europe. The first proposition stems from Table 2, which lists a number of factors that influence internationalisation activities of SMEs. Hence, the first proposition:

Proposition 1 Internationalisation of SMEs in Europe is driven by factors such as government policy, national economy, firm resources, membership in networks/clusters, market competition, and industry sector.

Table 2 illustrates some differences between transition economies and established economies in Europe. We find that SME internationalisation in established economies in Europe is primarily influenced by the presence of networks and clusters, government policies, and internal firm resources and capabilities. Hence, our second proposition:

Proposition 2 In established economies in Europe, internationalisation of SMEs is primarily driven by a firm's membership in a network/cluster, favourable government policy, and internal resources and capabilities.

We further suggest that SMEs that leverage resources and capabilities, combined with favourable government policies and the use of networks or cluster membership, will derive greater performance benefits of internationalisation. Although our data set did not directly address performance issues, we did find evidence to support these three factors as enablers of internationalisation of SMEs in these countries. As mentioned previously, the Greek case study demonstrated that an IT firm that had a stock of knowledge was able to utilise this knowledge and switch to a new product when faced with a recession, thereby achieving continual success in operations. We leave this as an area for future work. We also suggest that these factors will contribute to faster internationalisation in SMEs. Hence, our third proposition:

Proposition 3 Firms in established economies in Europe that can leverage resources, are part of a cluster, and have favourable government policies will achieve the highest speed of internationalisation and higher performance benefits of internationalisation.

Drawing on the three propositions, we develop a model for SME internationalisation in established economies in Europe. The model focuses on established economies in Europe because from our previous analysis and from Table 3, we find that the two dominant factors influencing SME internationalisation in transition economies are government policy and the state of the economy. This finding is consistent with the fact that such economies are a result of the break-up of the former Soviet Union and Yugoslavia. Consequently, they bear the legacy of large public sector firms that enjoyed monopolistic advantages. They are characterised by the recent development of private enterprise and, in particular, the small and medium-sized business sector. The question of SME internationalisation, we believe, is perhaps still too early a concern for such countries and a phenomenon that is only just emerging. The findings, though small in number, do lend credence to this theory. Hence, we believe that developing propositions or models for firms in transition economies is premature at this stage, and we leave this opportunity for future research. Hence, our model focuses on established economies in Europe. This model helps to explain the importance of Resources (R), Networks (N), and Policy (P), subject to the conditions of market competitiveness, industry sector, economy, and other factors (*e.g.*, political structure and culture). The greater the intersection of the factors of R, N, and P, the greater the benefits for the internationalising SME and the faster its speed of internationalisation.

Figure 1 An integrative model of factors driving SMEs internationalisation: limited SMEs internationalisation activities when the intersection of the three internal factors are small

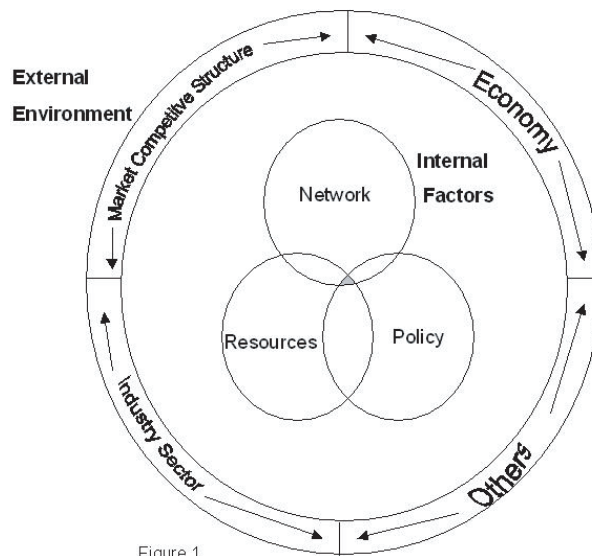


Figure 1

Figure 2 An integrative model of factors driving SMEs internationalisation: improved SMEs internationalisation activities when the intersection of the three internal factors are enlarged

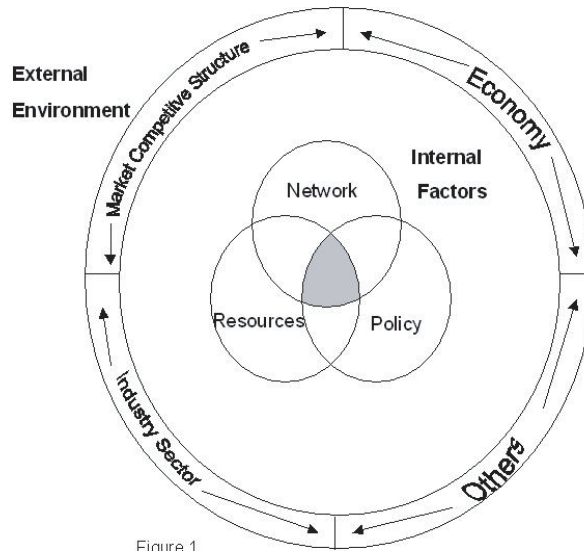


Figure 1

6 Discussion and conclusion

In this study, we set out to verify whether the existing literature sufficiently explains international entrepreneurship across Europe. We considered a number of influences on the internationalisation of SMEs, including resources and capabilities, networks and clusters, policy, economy, market competitive conditions, as well as industry structure. Our results suggest that the new Europe is transforming the competitive environment of small and large firms alike. In the more segregated competitive arenas of the past, owner-managers of smaller firms could remain local if they wished, reasonably insulated from the forces of international competition. If they chose to expand into markets abroad, they could acquire and internalise the resources needed to do so, incrementally over time. The results have theoretical and practical implications for international entrepreneurship in general and entrepreneurship in transition economies in particular.

In Europe's new, intensified competitive environment, SMEs must achieve world-class efficiencies in order to survive, whether or not they actually compete globally. They can no longer afford the luxury of achieving these efficiencies gradually, through a sequential evolution, using their own resources. The traditional option of smaller firms 'piggy-backing' on larger firms, at the larger firms' discretion, typically entailed the small supplier subordinating the independence of its management decisions, through a one-way reliance on one or a few very large firms. Instead, many small firms are achieving cost-reductions and expanding their market reach indirectly, by linking their operations into the value chains of large firms, to the mutual benefit of both parties.

In particular, we found that many of the countries in our sample support Johanson and Vahlne's (1977) stages approach of internationalisation, as there is little evidence of international new ventures in the sample. However, the lack of new ventures could be because many of the samples were from the manufacturing sector and not the technology sector, where there are many international new ventures. Crick and Spence (2005) found that serendipitous encounters helped in the understanding of a firm's internationalisation process. For example, a firm may start exporting to another country, by chance, not as the result of a planned strategy.

Much of the recent literature on international entrepreneurship has explored the topic theoretically. This paper contributes to the existing literature on international entrepreneurship through the examination of SMEs' internationalisation activities in Europe. The major finding of this paper is that geographic/political location plays a significant role in an SME's internationalisation growth rate. The decrease or removal in trading barriers between European countries has made it more advantageous for SMEs to trade with other European firms. However, the rise of economies, such as China and India, has meant that European SMEs need to increase their focus on these markets.

Our findings hold implications for, and raise intriguing questions about, the ways in which European SMEs will manage internationalisation in the future. For entrepreneurs, our results suggest that SMEs need to be aware that the internationalisation process is a learning process (Yip *et al.*, 2000). Hence, following on from the work of Eriksson *et al.* (1997), learning can be enhanced through experiential knowledge, such as market, institutional, and internationalisation familiarity SMEs need to focus on building networks through developing contacts with business partners (Elenurm, 2004). The authors of the Cyprus study suggested that alliances can enable SMEs to gain international and institutional knowledge that can help them to internationalise (Vrontis and Thrassou, forthcoming). As the world marketplace is becoming increasingly more global, firms need to invest in learning about their foreign markets (Zahra *et al.*, 2001).

Another finding of this paper is that many SMEs cannot be classified as being simply from one country in Europe because they may have various countries involved in their business. For example, the authors of the Danish study suggested that although the firm has traditionally been seen as the unit of analysis in the SME internationalisation literature, it is important to look at the entire value chain of a firm (Servais *et al.*, forthcoming). For example, an SME from Germany can have its Managing Directors from Belarus, its headquarters in Germany, but outsource its production to Slovakia.

Future research may build on our findings in a number of ways. First, future research could examine, in more detail, the role of the entrepreneur in fostering the internationalisation of SMEs. Second, the relationship between both the social capital and human capital of an entrepreneur and an SME's internationalisation success needs to be studied in more detail. Future research needs to be conducted on how the ten new EU members have affected trade between European SMEs. Future research could also explore how international entrepreneurship is being fostered in transition economies, such as Hungary and Belarus.

Like others, our study has some limitations. First, not all countries in Europe were examined; however, this study provides a unique perspective on the comparison of international entrepreneurship activities in selected European countries. Second, the samples of the individual countries are not directly comparable since they differ in sample size and selection. However, given the diverse nature of European countries,

the samples selected for each European country provide a good understanding of international entrepreneurship. Another limitation may be in the underestimation of SME international activity. As the authors of the Ukraine study pointed out, in transition economies, small entrepreneurs may be reluctant to declare their exporting activities because of the possibility of corruption and dangers from criminal networks (Goldmann *et al.*, forthcoming).

Some SMEs may be involved in international activities not directly, but rather through an intermediary, such as an alliance partner. Hence, the way in which international activities were defined in each sample may have produced respondent bias in that the respondents downplayed their international activities. However, in each study, the researchers involved were, in most cases, natives of the countries and understood the intricate nature of the SME internationalisation activities in their countries. Another limitation is that each country is not directly comparable because each sample has been collected by a different researcher and, in some cases, utilising a different industry segment. However, due to the diverse nature of European SMEs, the data collection method espoused in this study is considered the best, given the time constraints.

Overall, in this paper, we investigated factors that influence the internationalisation of SMEs in different European countries. We found that these factors are significant drivers of the SME internationalisation process and that these factors differed according to whether the country was categorised as a transition or established economy. From our findings, we developed a conceptual model based on established economies in Europe that explains the importance of resources, networks, and policy in the economy. Suggestions for future research highlight the importance of international entrepreneurship as a theory for explaining the SME internationalisation process that occurs in Europe.

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