

Internationalisation and human resources development in European small firms: a comparative study

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This paper draws upon the results of an empirically based research study conducted on behalf of CEDEFOP, in a comparative manner, among small firms located in seven European countries. The main objectives of the research were: (1) to identify new skill needs and competence requirements emerging during small firms' internationalisation process, (2) to examine the extent to which small firms possess such skills, and (3) to explore the type of initiatives that could contribute to an improvement in skill endowments for such firms. The findings of the research have confirmed that only rarely is internationalisation the result of a long-term strategy and that small businesses' success in becoming internationalised is mainly due to the persistence, commitment and flexibility of their owners. The paper reports and analyses the main results of the study and discusses implications for policy-makers, intermediary bodies and practitioners. A number of recommendations are also outlined.

Keywords: Internationalisation; Small firms; Skills' and competences' development

1. Introduction: the issue in context

Over the past two decades the internationalisation process of business activities—measured either in terms of exports or foreign partnerships, foreign investments, and cross-border clustering—has been intensified, mainly due to reduced or eliminated trade barriers and declining costs of transportation and communication (UNCTAD 2000, OECD 2001). Much of prior research in the field has been devoted in identifying large firms' international performance and the organisational reasons behind it (Werner 2002: 277–305). As regards small firms' international profile and performance in global markets, there appears to be no general agreement in the related literature, although it is often acknowledged that many small- and medium-sized enterprises (SMEs) in almost all industrial sectors

now face increased competition due to firm-size specific characteristics (OECD 2002/4).

Indeed, a number of studies suggest that 'smallness' has a negative impact on firms' international competitiveness due to a number of problems, such as limited access to low-cost finance, deficient standardisation of products, product quality considerations etc. (Haahti *et al.* 1998: 126–135), whereas others conclude that 'small scale' is more often an advantage than a constraint in international markets due to such firms' flexibility and fast adjustability to customised production and service (The European Observatory for SMEs 1997, Buckley 1997: 70). An alternative view claims that 'size' is not a decisive factor for business international activity (Solberg *et al.* 2002). According to the latter account firms of all sizes face serious barriers to their exporting and further internationalisation activity due, among others, to a number of regulatory, structural and socio-economic differences among the European Union (EU) member countries.

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Moreover, other research works suggest that invariably the most serious barrier in export markets for small firms trading in the goods sector is not so much lack of competence, but rather the lack of knowledge development, commitment and persistence within the firms themselves (McDougall and Oviatt 2000).

Without denying the usefulness of previous research work, from the outset of this investigation it was assumed that the lack of internationally comparable statistical information in the SMEs area reduces the credibility of such efforts, despite recent attempts at definitional and data collection convergence in the EU member countries. In fact, disparities amongst the European SMEs in terms of scale and scope is so broad that it was decided that no reliable conclusion could be drawn without focusing the research on certain SMEs size-class. For this reason the investigation conducted in the course of this study with the use of national questionnaire surveys, considers only small firms employing less than 50 persons. To avoid a large variety of context, it was also decided that all the firms selected should be operating in the manufacturing sector only.

Furthermore, based on the assumption that in small scale private organisations the core figure in the decision-making process is, in most cases, the individual firm-owner/entrepreneur, supported by a limited number of key employees, the national survey investigations placed great emphasis on that person's perception of the internationalisation mechanisms and the related skills and competences required for enhancing such processes.

Thus, each national survey (based on a harmonised methodology and identical definitions) has investigated crucial questions related to the training and non-training-based needs/competences required for the efficient internationalisation of small firms and attempted to explore the problems/bottlenecks that such firms face in the international arena. They have also tried to suggest various initiatives likely to contribute to an enhancement of those firms' situation in the future. In addition to the national surveys data, a total number of 16 businesses, those successful in becoming internationalised, constituted the object of case studies (two to three case studies were conducted in each participating country). In this context the national researchers were able to undertake in-depth interviews with some of the respondents in order to facilitate the interpretation of the results.

Subsequently, the findings derived from the responses of the firm-owners/entrepreneurs and their key employees were compared with the results of the questionnaire surveys conducted and the interviews held with training and related service providers in the corresponding countries. In this way, the researchers

of the present study made certain that the investigation covers both the demand and the supply side of the training cycle.

The results presented in the national reports (incorporating the survey data and the case study results) allowed the researchers of the study to recognise certain countries' disparity in terms of support infrastructures for the small firms that wish to become international, and to identify gaps for further training-based policies or non-training support services initiatives.

This paper presents the results of this comparative study. Its purpose is to shed some light on deficiencies of skills, key competences, and support services identified mainly by the small firms' owners/entrepreneurs and their key employees during the internationalisation process of their business' activities. The type of training policies and non-training initiatives contributing to the enhancement of small firms' competitiveness in the international product markets, are also discussed.

The paper consists of five sections, the present introduction included. The introductory part provides the context for the discussion of issues related to small firms' internationalisation needs. The second section relates to the research methodology adopted. Here, the characteristics of the research methodology on which the national surveys were based, are discussed briefly. The following section (section 3) presents an overview of the main findings of the national reports; although the reader should keep in mind that this endeavour demands caution in order not to lose sight of interesting insights into each country. Section 4 discusses and indicates important implications for training and support service policies. Section 5 contains a number of recommendations to intermediate agents, public and private sector services providers, national governments and even to the European Commission, for the development of training and non-training support measures.

2. Research methodology and definitions

In the year 2000 the empirical investigation of the study was carried out in all EU member countries in the research consortium. The countries covered are Greece, Spain, Ireland, Italy, the Netherlands, Austria and the UK. Each country collected data with the use of individual national questionnaire surveys that resulted in seven individual national reports. The cross-country analysis aimed at revealing the common and differentiating features regarding internationalisation-related skills, competences, and support services of small firms.

In particular, in all participating countries the researchers of the study undertook extensive bibliographical reviews and these were supplemented by further desk research and fieldwork. The latter effort included harmonised questionnaire surveys and in-depth interviews with firms' owners and key employees, drawn upon a sample of 85 small firms. In addition, a number of case studies were conducted in each of the seven regions with firms particularly successful at becoming internationalized. Each firm's survey was supplemented by a survey on service providers' views so that both sides of the market of small firms supporting services were considered (i.e. the demand and supply side).

The sample of small firms used, as already mentioned, consisted of 85 firms all employing less than 50 persons, from various industries in the manufacturing sector (traditional as well as less traditional ones). Given the small size of the sample, it was decided that no specific sector should be targeted as this would unavoidably lead to results associated only with a specific type of small firm at the expense of a true representation. Hence, the choice of enterprises to be contacted was left to the discretion of the national researchers. As a result, the sample consists of a variety of small firms, young ones and more mature, newcomers to international markets and more experienced ones with activities in diverse sectors. The sectors from which small firms were selected in each country participating in the study are listed below:

- *Greece*: Clothing textiles, footwear and furniture.
- *Spain*: Metal products, plastic products, wine industry, engineering and hotel supplies.
- *Italy*: Clothing textiles, wood furniture, engineering and also glass, rubber and plastic products.
- *Ireland*: Food products, consumer products and engineering.
- *The Netherlands*: Metal products, machine industry, computer equipment, multimedia products and IT products.
- *Austria*: Metal manufactures, wood furniture, scientific apparatus, building materials and food products.
- *United Kingdom*: Gun-making, pharmaceuticals and medical equipment.

The definition for internationalisation employed in the present study relates to a process by which a business seeks, in an ongoing fashion, to improve performance by expanding operations beyond domestic markets. As regards the specific small firms, which formed the target group of the demand side of the survey, the term internationalisation relates mainly to international trade (export/imports).

3. Reporting of the survey's results

Overall the findings of the survey (i.e. those related to the demand and the supply side of the training cycle) provide valuable empirical information regarding crucial questions related to small firms' skills development, competences' needs, and experience requirements emerging during the internationalisation process of such firms.

3.1 Main findings

According to the study, in all countries surveyed various policy measures have been implemented—with the support of substantial EU financial backing—aimed at improving export potential (and, in special cases, internationalisation in general) of national small firms. In particular, as regards training services and non-training schemes offered, two factors were frequently observed and reported as impacting negatively on such initiatives' quality and effectiveness:

1. The overall tendency for programmes to be designed without prior investigation of small firms' real training needs,
2. The 'subsidy-element' inherent in the design of many programmes, which are in some way related to a specific EU funded scheme, was considered as weakening the service providers' efficiency and the trainees' 'real' interest.

The results of the investigation, conducted among owners of the small firms in the seven European countries, and in particular in relation with the question: 'Why did they start exporting?', suggest that in most cases the so-called 'pull' factors are considerably more important in convincing them to go international than the 'push' factors. 'Pull' factors are conceived as those specific features of a firm's expansion opportunities that are identified in other markets, 'pulling' the firm towards them. The 'attractiveness of foreign markets' was reported as a particularly important push factor, whereas 'government encouragement' was evaluated as less important. 'Push' factors on the other hand relate to those specific features of a firm's growth that induce small firms to seek growth elsewhere outside their traditional market, see table 1.

'Increased competition in the home market' was reported by small firms' owners surveyed in the study as the main direct impact from internationalisation, although such resulting pressures seem to affect individual small firms at different degrees since they are perceived in different ways depending on country-specific industrial and institutional setting. Other types

Table 1. 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, CEDEFOP (2003).

of impact reported as derived from internationalisation are: 'increasing complexity of economic environment'; 'increasing complexity of legal and fiscal environment'; and 'changes in consumer tastes'.

The emergence of needs for new skills not required in the past was also reported as leading to the development of outsourcing for such specialised services. More than half of the firms surveyed considered that operating in international markets involves more difficulties than operating in home markets.

In relation to difficulties associated with small businesses' international operation, service providers agreed with firms' owners that such activities are more difficult than the corresponding ones in the home country, without necessarily being compensated for by higher profitability. The most important types of difficulties/hindrances in small firms' international operations identified, were the following:

- Poor market information.
- Restricted market access.
- Difficulties in getting access to suitable contacts abroad see figure 1.

Both the small business owners and service providers surveyed agreed that small firms' typical strengths in international markets are the owner's commitment, the owner's persistence, the owner's confidence, product quality, adaptability of product to market needs, the owner's personal relations and the delivery terms (for more details see figure 2).

Small firms' weaknesses on the other hand relate to:

- Lack of availability of advertising budgets.
- The owners' and employees' resistance to change.

- Limited cost reduction capability.
- Lack of language skills.

It should be noted that the key figure in the identification process of firms' weaknesses, was the owner/entrepreneur and his/her personal appreciation in consultation with a few senior employees.

Although service providers attached more emphasis than the owners to the crucial aspect of choosing the 'right' export market, both groups surveyed—based on their experience—agreed, however, that the 'key success factors' in international operations included the following elements: finding the right agents/distributors; choosing the right export market(s); being committed, confident and persistent; using fast communications; having foreign language abilities, see figure 3.

Small firms that possess at least two of the following six 'key competences' were reportedly able to secure the aforementioned 'key success factors' required in international operations:

1. Foreign language skills.
2. Knowledge of other markets/consumers needs.
3. Communication skills.
4. IT based competences.
5. Negotiation skills.
6. Capacity to work with international information systems and databases, see table 2.

It is interesting to note that the significance attached to the ranking of competences by owners and employees and the corresponding key success factors were very similar with those reported by the services' providers, see table 3. The same holds for the

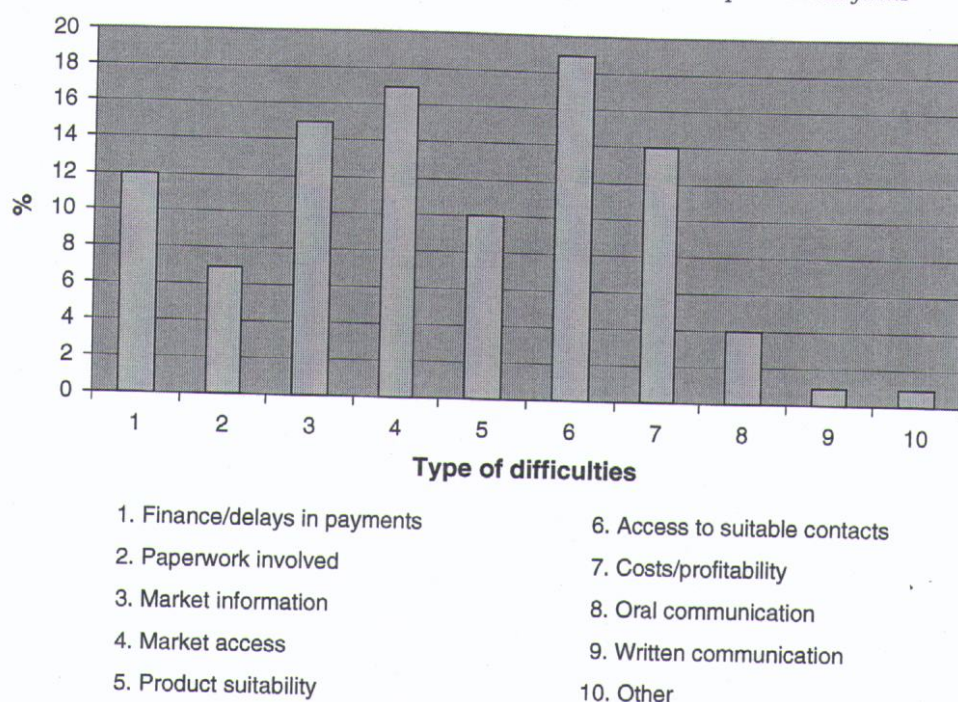


Figure 1. Difficulties in operating successfully in foreign markets (all seven countries surveyed). Source: CEDEFOP (2003) Country survey results.

assessment of the relative effectiveness of various types of training.

As regards the two groups' assessment of the effectiveness of alternative mechanisms through which internationalisation-related competences could be developed, it should be noted that the responses obtained reveal both groups' preference for practical, results-oriented mechanisms (for example, on-the-job-training). More specifically, the firm itself is considered by both groups to be the most effective mechanism for training and provision of other support services.

Reasons reported for small firms' reluctance to increase their employees' participation in out-of-the-firm training programmes include the following issues:

- cost of the programme (Greece, Spain, UK);
- unsuitable organizational arrangements (time, distance etc.) (Italy, UK);
- incompatibility with other tasks (Greece, UK);
- small number of employees (Italy); and finally,
- lack of employees' interest for participation in new training programmes.

4. Implications for policy designing

The input derived from the evidenced-based small firms' practices during internationalisation processes

has been assessed in terms of policy informing in various respects:

- Effective training policies should constitute an integral part of larger support packages and their effectiveness should be considered as being conditional on the effectiveness of the overall package characteristics.
- The small firm owner's personality, educational background and limitations are all essential variables in the designing of support schemes.
- Trainees should be involved in training design before the phase of training programmes' implementation, that is from the early part of the planning process (bottom-up approach in the designing of training programmes). This process—in contrast to conventional top-down training programmes—allows trainees to become involved from the outset of the training process, rather than simply attend lectures.
- The small firm owners are considered as one of the most difficult groups in terms of satisfying their expectations from training. There is, therefore, a strong need for the use of alternative organisational and scientific aspects in training programme planning, design, and delivery. Despite the disparity at individual firm level, there is a clear trend for small proprietors to prefer competences being developed via the use of 'on-the-job-training'.

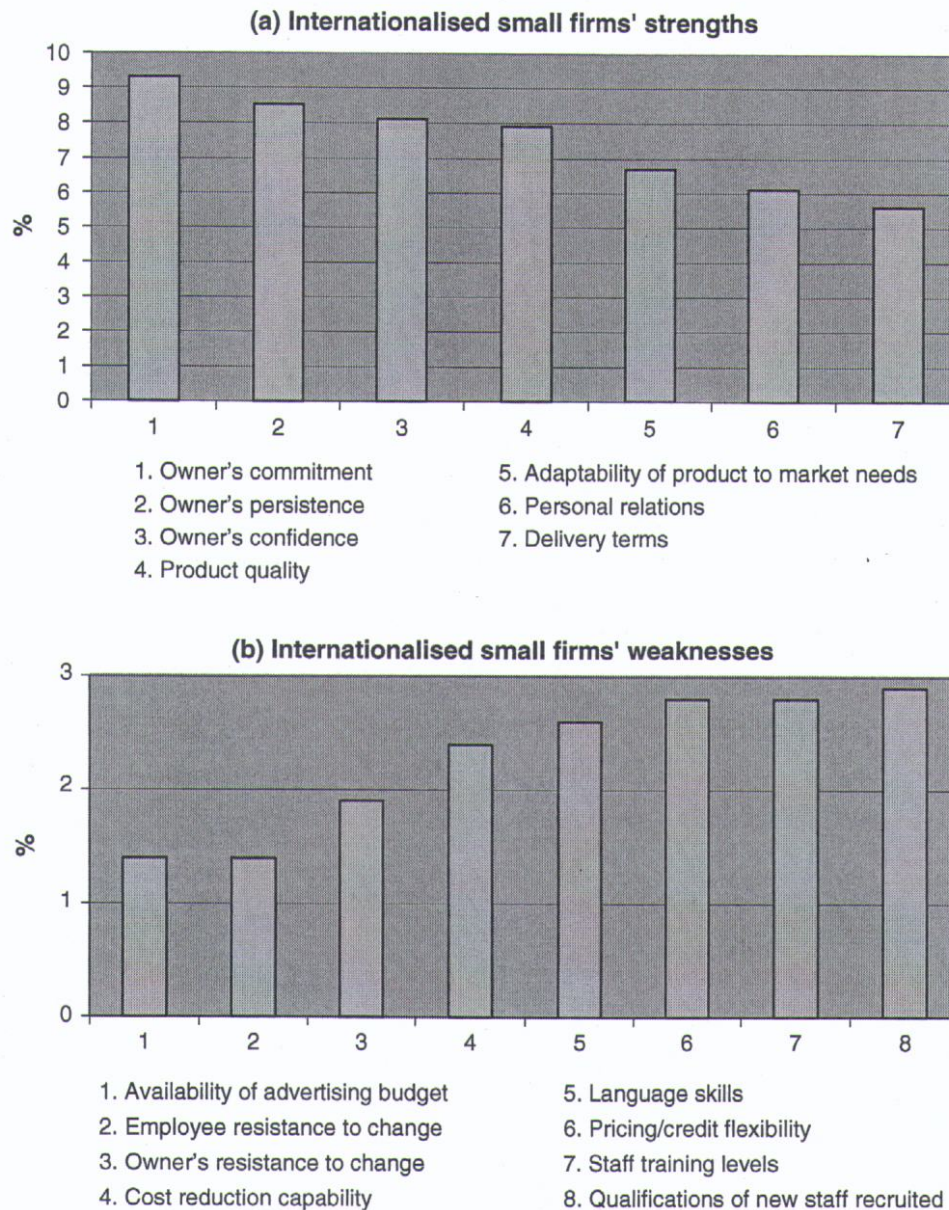


Figure 2. Source: Country survey results.

That is to say, 'learning by doing', preferably from competitors, and particularly from those that have experienced the same difficulties, appeared to be the most favoured approach to training.

5. Conclusions and recommendations

This paper sought to provide answers to a number of crucial questions related to the required skills and competences associated with small firms' internationalisation process, the extent to which human resources of such firms possess them, and the type of support

initiatives that can contribute to an improvement in their situation, see figure 4.

Six types of competences have been determined as crucial for the successful internationalisation process of a small firm, namely

- knowledge of foreign markets,
- communication skills,
- working in international environments,
- foreign language skills,
- working with international systems and databases and, finally,
- information related capabilities.

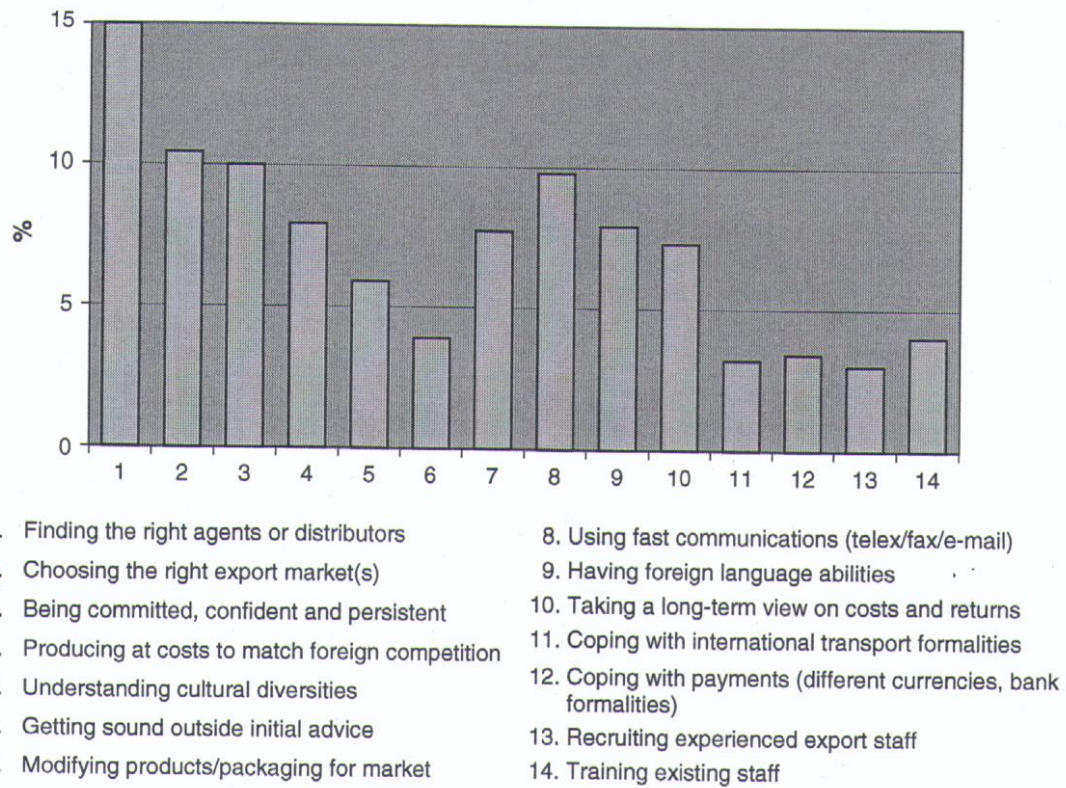


Figure 3. Keys to success in international activities (all seven countries surveyed). Source: Country survey results.

Table 2. Top-priority 'key to success' in international operations and 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.

Table 3. Top-priority 'key to success' in internationalized 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 languages skills	Knowledge of other markets/tastes	Knowledge of international markets	Communication skills	IT-based capabilities	Negotiation skills	Capacity to work with info system	Internet skills	Knowledge of international law
Finding the 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		S	
Recruiting experienced export staff	S	S	S			S		S	S

D, owners; D*, owners and employees; d, employees only; S, service providers. Source: Country survey results.

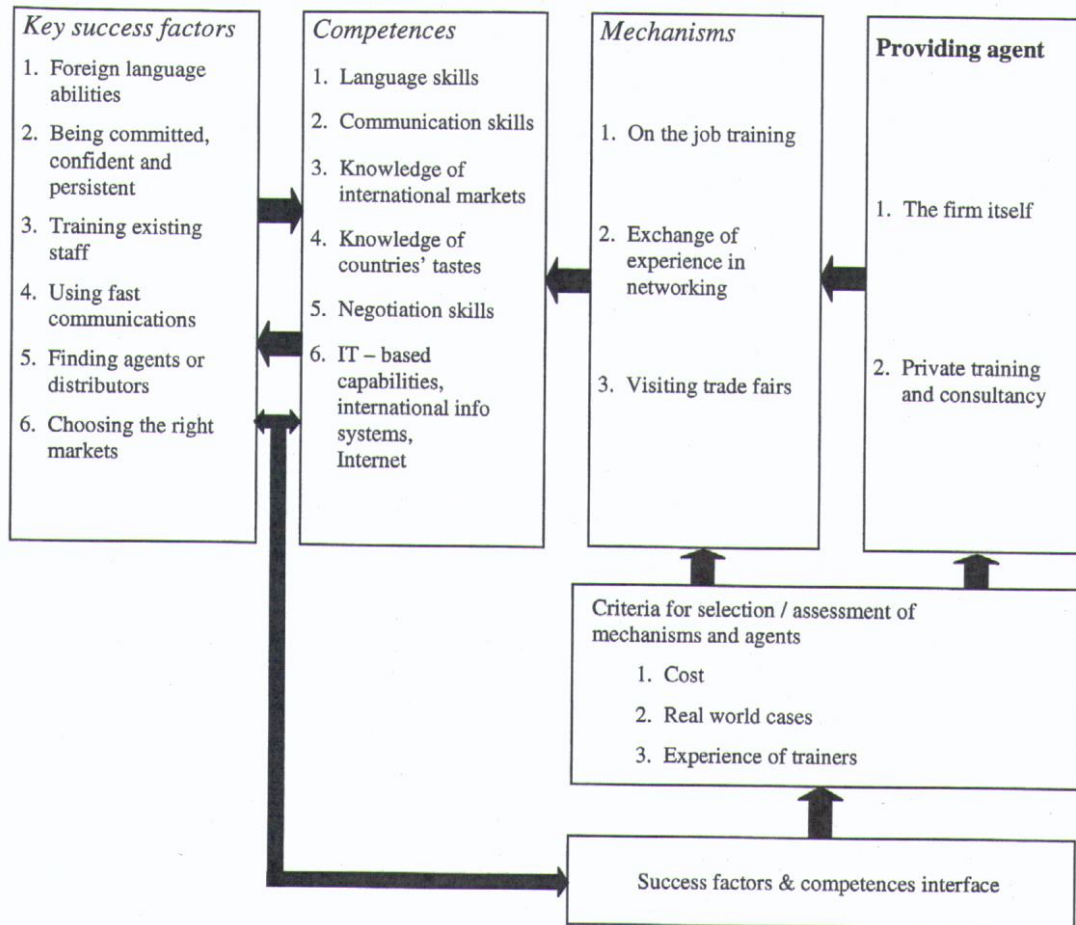


Figure 4. Development process for internationalization-related competences in European small firms. Source: Adapted from the Dutch national report (Section 7, p. 75), but also reflecting the situation in the rest of the countries surveyed.

One of the main weaknesses of the training provided in the regions investigated is its content. However, the delivery modes also condition the success of a training activity. The small firms surveyed clearly rejected high-technology skills' acquisition methods, such as video and CD-ROM.

5.1 General recommendations for policy initiatives

Various actors that are involved in providing small firms with services aiming at facilitating their domestic and international competitiveness should take specific actions at several administrative levels of decision-making. Those, among others, include the following:

- Actions to promote awareness of changes in small firms' economic and institutional environment, as well as technological developments.
- Actions to reduce the cost of training and other support services to the individual small firm, as

well as at minimizing personnel problems associated with training skills implementation.

- Actions taken by policy-makers to develop and implement initiatives, which will help small firms to identify effectively skills' shortages/deficiencies of their managers and employees.
- Actions specifically addressed at matching the demand and supply side of the training and other support services at market level.
- Actions to increase small firms' access to schemes funded by the EU.

5.2 Specific recommendations on technical support and training services aiming at facilitating small firms international activities

- Improved statistics on small firms' trade performance.
- Setting-up of reference libraries on foreign markets.
- Group training programmes.

- Consultancy services customised for small firms.
- Workshops on small exporters' best practices.
- Transnational personnel placements.
- Intensive foreign languages courses.

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