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Title: Barriers, drivers, and public support instruments on international business development among manufacturing SMEs in Finland

Year: 2019

Version: Final draft (post print, aam, accepted manuscript)

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Please cite the original version:

Yli-Viitala, P., Arrasvuori, J., & Wathen, P., (2019). Barriers, drivers, and public support instruments on international business development among manufacturing SMEs in Finland. Proceedings of the 15th Vaasa Conference on International Business.

Barriers, Drivers, and Public Support Instruments on International Business Development among Manufacturing SMEs in Finland

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Abstract

International business development is critical to manufacturing SMEs since these businesses need to extend their markets internationally in order to stay in the competition. Many barriers, drivers, and regional public support instruments influence their international business development. Appreciating these barriers, drivers, and public support instruments is core to the successful promotion of internationalization. This research aims to study the influences of various types of barriers, drivers, and public support instruments on international business development in Finland. The study draws on diverse data, including qualitative interviews with company representatives and regional innovation actors. The results showed that the barriers of ‘limited managerial information’ and ‘lack of resources’ have a significant negative influence on international business development. Furthermore, the results indicated that the drivers of ‘research, development and innovation’, ‘home government assistance’, and ‘foreign market’ have a significant positive influence on international business development. Here, various public support instruments provided by the regional innovation actors may further strengthen the drivers to overcome the barriers. In addition to the empirical contribution, the article highlights the dynamics between the barriers, drivers and public support instruments, and suggests that national policymakers, regional innovation actors and

SMEs should further strengthen what drives SMEs' international business development to indirectly mitigate the barriers.

Introduction

Today, supporting the internationalization of SMEs is increasingly emphasized by the Finnish national government (Ministry of Economic Affairs and Employment, 2019^{a,b}) as well as on the EU level (European Commission, 2014; European Commission, 2011; Falk et al., 2014; Wymenga et al., 2013). In general, the forms of public support in the EU for the internationalization of SMEs may practically include raising awareness, high value information, human resources' development programmes, supporting financial needs, promotion of networks, providing internationalization services, individualized support, and supporting border zones and cross-border cooperation (European Commission, 2008).

On the business level, the emphasis of the support is based on the fact that SMEs need to extend their markets internationally in order to stay in the competition (Odlin and Benson-Rea, 2017; Pett and Wolff, 2017). New business models building on digitalization (such as exploiting digital platforms) (Yli-Viitala et al., 2019) and service logic have been pinpointed as an area where companies can renew its business (Yli-Viitala et al., 2017) and achieve international competitiveness (Cenamor et al., 2019). However, at the moment many SMEs are unable to capitalize on such opportunities (ibid.). SMEs often have limited capabilities, know how, financial and physical resources (Zucchella et al., 2007) for exploiting new international business possibilities, such as opportunities that emerge from digitalization and service logic.

One reason for this problem is that many manufacturing SMEs have during their existence operated in national markets or local region until very recently, and they haven't needed in-

depth skills in internationalization. Digitalization changes the need for SMEs to become international as their competitors also have become international (Joensuu-Salo et al., 2018). The consequences of this problem are significant. The shortage of essential internationalization capabilities of SMEs is harmful for the future economy because SMEs are characterised by the EU as the backbone of Europe's economy (Rivza et al., 2019).

SMEs need to be capable to extend their markets internationally to keep up with the global competition and to respond to the changes digitalization brings to the local and global business (Joensuu-Salo et al., 2018). For these reasons this research focuses on three broad issues – barriers, drivers, and public support instruments – and examines how they influence on boosting regional manufacturing SMEs' international competitiveness. Understanding these barriers, drivers, and public support instruments is of key importance to the promotion of manufacturing SMEs' international business development. Thus, several studies have been carried out to analyse the barriers (e.g., Forte et al., 2018; Haddoud et al., 2018; Tuzovà et al., 2017; Roy et al., 2016), drivers (e.g., Tuzovà et al., 2017; Demeke & Chiloane-Tsoka, 2015), and public support instruments (Hauser & Werner, 2015; Teixeira & Barros, 2014) of international business development. Even if a clear understanding of the factors influencing internationalization is necessary, the number of papers that combines the perspectives of barriers, drivers as well as public support instruments is limited (Pellicanò & De Luca, 2016; Hauptman et al., 2011; Korez Vide et al., 2010). As such there still remains very little knowledge about the qualitative influences of various types of barriers, drivers, and public support instruments on international business development in manufacturing SMEs in Finland.

This study draws on diverse data, including qualitative interviews with company representatives (22 interviews) and regional innovation actors (7 interviews). In addition, data from innovation actors' official websites was included. The interviews were conducted

between March and June 2019 in three regions in Finland (Ostrobothnia, Central Ostrobothnia or South Ostrobothnia).

The next section provides a summary of literature on internationalization related barriers, drivers, and public support instruments. The section after that describes empirical data and methods used in this study. The chapter on results identifies key barriers, drivers and then public support instruments for international business development of manufacturing SMEs in Finland. In the discussion chapter, we link findings by taking a systemic view in analysing the results. Concluding remarks summarise the contribution of the paper and presents potential paths for future research.

Barriers, drivers and public support instruments on manufacturing SMEs' internationalization

The theoretical background of this study focuses on SMEs' internationalization-related drivers, barriers, public support instruments, and dynamics between them. Many studies have been carried out to analyse the barriers (e.g., Forte et al., 2018; Haddoud et al., 2018; Tuzovà et al., 2017; Roy et al., 2016), drivers (e.g., Tuzovà et al., 2017; Demeke & Chiloane-Tsoka, 2015), and public support instruments (Hauser & Werner, 2015; Teixeira & Barros, 2014) on international business development of SMEs.

Barriers

SMEs may encounter many barriers when entering foreign markets. Leonidou (2004) defines internationalization barriers as all of those obstacles that hinder a firm's ability to initiate, develop, or sustain business operations in a foreign market. The relevance of research on the barriers to internationalization was emphasized by Arteaga-Ortiz and Fernández-Ortiz (2010).

They indicated that such type of barriers could inhibit the development of international business activities, especially in case of small enterprises. Since a comprehensive understanding of barriers is necessary for developing appropriate strategies to overcome the barriers and promote the international business development, the analysis of barriers is worthwhile.

Drivers

Regardless of barriers, factors that cause a firm to strive becoming international are known as motivational factors (Senik et al., 2010). According to Leonidou et al. (2007), “stimuli” also called motives, incentives, or attention evokers, refer to all those factors triggering the decision of the firm to initiate and develop international activities. According to Francioni et al. (2016), there is a lack of comprehensive and systematic reviews of contributions on the drivers of SME internationalization during the past decade, since the last one has been published by Leonidou et al. (2007). These drivers, as benefits to be gained from international business development, when better understood and widely promoted, can encourage SMEs to develop their business internationally.

Public support instruments

In addition, the range of public support instruments is wide. Based on the definition of Pajarinen et al. (2009), public support instruments include different funding forms (loans, grants and venture capital) and business services. Public support and funding - grants, loans, venture capital and business services provided by the public sector – are widely used in Finland to promote private business, such as start-ups, small, growth-orientated and entrepreneur-driven businesses (ibid.). Identifying and implementing proper public support instruments that could concretely facilitate crossing the barriers faced by SMEs, could greatly help to promote the more widespread international business development. In general, the

public support in the EU for the internationalization of SMEs may practically take the form of raising awareness, high value information, human resources’ development programmes, supporting financial needs, promotion of networks, providing internationalization services, individualized support, and supporting border zones and cross-border cooperation (European Commission, 2008).

Research framework

We adapt a framework proposed by Darko et al. (2018) to guide the study of the influences of barriers, drivers and public support instruments on international business development (see Fig. 1). Although Darko et al. (2018) themselves used the frame to study barriers, drivers and promotion strategies on green building technology adoption, the proposed framework is useful for gaining better understanding of the numerous issues associated with international business development of manufacturing SMEs as well.

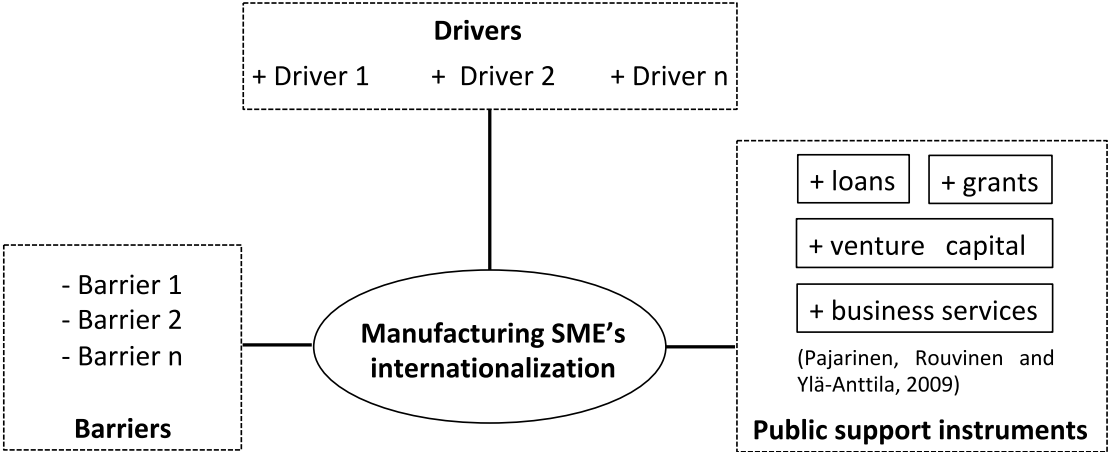


Figure 1. Adaptation of a framework by Darko et al. (2018).

The framework suggests that barriers represent the challenges that prevent SMEs to develop their business internationally. Conversely, drivers and public support instruments motivate SMEs in international business development. Thus, drivers represent the benefits of international business development by manufacturing SMEs while public support instruments

represent factors such as different funding forms and business services (Pajarinen et al., 2009). Therefore, similar to Aktas and Ozorhon (2015), while barriers are assigned negative sign (-) in the proposed framework, drivers and public support instruments are assigned positive sign (+) highlighting the dynamics of the system.

These three issues collectively influence the strive for international business development; therefore it is more appropriate to analyse them simultaneously (Darko et al., 2018) in order to gain a better understanding of the multiple issues associated in international business development from a systemic point of view.

Research Methodology

We conducted a qualitative study in Finland in order to examine how various barriers, drivers and public support instruments influence the international business development of manufacturing SMEs. The study draws on diverse data, including qualitative interviews with company representatives and regional innovation actors. In addition, information from innovation actors' official websites was included. The chosen research methodology has been applied in the recent studies by Caldera et al. (2019) and Senaratne and Wang (2018). Caldera et al. (2019) studied enablers and barriers, used 24 semi-structured interviews as data source, and targeted manufacturing SMEs. Senaratne and Wang (2018) studied drivers and barriers, used 20 qualitative semi-structured interviews as data source and targeted high-tech SMEs in five industries.

Next we summarize the details of our study.

Sample and setting

Twenty-nine interviews were completed among the Finnish representatives of manufacturing firms, firms in their value chain (22 interviews), and innovation actors (7 interviews).

When examining the influences of various types of barriers and drivers on international business development, the qualitative interview data (n=22) was employed with company representatives. Interview participants among the company representatives were selected based on three criteria: 1) the participant should be a senior decision maker (i.e.: Chief Executive Officer (CEO)); and 2) the participant should be from an enterprise with less than 250 employees having either an annual turnover not exceeding EUR 50 million (EUR 40 million before 2003), or an annual balance-sheet total not exceeding EUR 43 million (EUR 27 million before 2003) and which conform to the criterion of independence (i.e. a SME based on the definition by Statistics Finland); and 3) the participant should be from an enterprises located in one of the three adjacent regions in Finland (Ostrobothnia, Central Ostrobothnia or South Ostrobothnia).

The group of manufacturing SMEs (n=14) covered several manufacturing industry areas such as manufacturing of beverages, food products, central heating radiators and boilers, fabricated metal products, and electrical equipment. The firms in manufacturing SMEs' value chain included services providers (n=8) that included organizations such as mechanical and process engineering design, computer software development, research and development on engineering and technology, engineering activities and related technical consultancy. This study deals with both SMEs that have already expanded in foreign markets as well as with those that do not operate in foreign markets

When examining the influences of public support instruments, the qualitative interview data (n=7) with innovation actors was employed. Interview participants among the innovation

actors in the area of Ostrobothnia, Central Ostrobothnia and South Ostrobothnia were selected based on the organizations' public profiles on the Internet concerning their expertise in supporting SMEs in their internationalization activities. The group of interviewed innovation actors included experts from organizations that can be categorized as business development companies (n=4), regional development company (n=1), export advice organization (n=1) and interest and service organization for SMEs (n=1).

The reliability and credibility of the results are ensured by the diversity of survey respondents, i.e. by not excluding any particular manufacturer group and including the perspectives of the innovation actors, the representativeness and thus reliability and credibility of the results are ensured. These perspectives facilitate data triangulation that can yield more in-depth and valid understanding about the studied phenomena. The interviews were conducted between March and June 2019.

Data collection

Potential interviewees were contacted via e-mail. Each interview lasted from 30 to 45 min and was mainly conducted by face-to-face. Three researchers conducted all interviews. Every interview audio recording was transcribed.

The semi-structured interview instrument was used to elicit background information of the interviewed SME, such as short description of the company and its offering. This format allowed exploring interesting areas, which emerged based on the general introductory questions, in more detail. The next set of questions was used to elicit beliefs about the importance of international development in the business by asking the key drivers (plans) for business development and the main barriers that were holding back its implementation in order to find out the dynamics between them. Then questions were asked about organisations'

activity or a strategy towards internationalization. The last set of questions included questions on the potential cross-border collaboration.

Analysis

The qualitative data, i.e. the interview transcripts was organised so that e.g. all responses to a particular theme were grouped. This allowed comparing the responses and identifying similarities and differences between them. One researcher did the analysis.

Results

The section at first includes the results following the sequence of the instrument used: Main barriers (Table 1), key drivers (Table 2), and public support instruments (Table 3) in advancing international business development among manufacturing SMEs.

Table 1. Barriers to international business development.

<i>Themes of internal barriers</i>	<i>Examples of mentioned internal barriers</i>	<i>Number of interviewees mentioning the theme</i>
Limited managerial information	Limited information about the potential customers, partners, markets and business opportunities abroad.	14/22
Lack of resources	Lack of human resources, lack of excess production capacity.	11/22
Research, development and innovation	New products, services, and skills needed in internationalization.	5/22
Marketing and selling	The product itself sets the boundary conditions for internationalization, difficulties in develop the business logic, marketing abroad and access to distribution channels.	5/22
<i>Themes of external barriers</i>	<i>Examples of mentioned external barriers</i>	
Home government assistance, rules and regulations	Failures in previous publicly supported national projects for internationalization, customs formalities in goods liable to excise.	4/22
Foreign government rules and regulations	Acceptance of the product or service abroad may be a political decision, customs formalities in goods liable to excise.	3/22

Competition	Lack of competitive advantage of the domestic product abroad.	2/22
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Main barriers for international business development

Main barriers that hold back international business development were divided into internal and external barriers, as suggested by Arteaga-Ortiz and Fernández-Ortiz (2010), Kahiya (2013), and Leonidou (2004) (Table 1). The influence of internal barriers to international business development was highlighted compared to external ones. In the interview data, the most often mentioned internal barriers were ‘limited managerial information’, and ‘lack of resources’.

Table 2. Drivers to international business development

<i>Themes of internal drivers</i>	<i>Examples of mentioned internal drivers</i>	<i>Number of interviewees mentioning the theme</i>
Managerial drivers	Managerial special skills, special openness to meet foreign partners, special interest in foreign countries.	9/22
Extra resources	Extra production capacity.	6/22
Research, development and innovation	New services, new products, new operation models with partners, R&D&I overall, experimentation, digitalization.	14/22
Financial drivers	Increasing revenue, growth.	8/22
Marketing and selling	New operation models in marketing and selling, good service support, consumer needs abroad, brand issues, access to distribution network, special marketing strength.	8/22
<i>Themes of external drivers</i>	<i>Examples of mentioned external drivers</i>	<i>Number of interviewees mentioning the theme</i>
Home market	Reducing the power of domestic customers or saturation of domestic market, need to reduce dependence on domestic market, regional testing with partners before entering international markets.	7/22
Home government assistance	Participation in publicly supported national projects for internationalization, utilizing of publicly supported services for internationalization.	15/22
Foreign market	Extending market, searching partners or customers abroad.	13/22
Competition	Co-operation with competitors, domestic competition, gaining foreign expertise to improve domestic competitiveness, monitoring competitor’s actions.	7/22

Key drivers for international business development

Main drivers that were motivating international business development were divided into internal and external drivers as suggested by Leonidou et al. (2007) and Francioni et al. (2016) (Table 2). Here, ‘research, development and innovation’ (R&D&I) related issues were seen to be the most mentioned internal drivers, whereas ‘home government assistance’ and ‘foreign market’ related drivers were the most often mentioned external drivers. The respondents mentioned all the other drivers quite evenly.

Key public support instruments

Table 3 presents the public support instruments provided by the innovation actors for SMEs’ internationalization in Ostrobothnia, South Ostrobothnia and Central Ostrobothnia. Based on the interviewed innovation actors and data from their web pages, the most common support instruments for SMEs’ internationalization were International networking or partner-searching services, export promotion trips, and export consulting related services.

Table 3. Key public support instruments provided by the regional innovation actors. The first column identifies each interviewed regional innovation actor.

A	Export consulting	Export promotion trips	International networking services			Advice for export financing	
B	Export consulting	Export promotion trips	International networking services	Exhibition services	Foreign market analysis		
C	Provide information, advice and training						Represent the interest of its SME members in relation to state and municipal government
D	Advice for international growth		Support international partner	Innovations’ international commer-			

			search	cialization			
E	International preparedness analysis	Export promotion trips	Support international partner search			Sorting out export financing	
F	Internationalization assessments			Foreign trade and taxation consulting	Foreign market analysis		
G		Export promotion trips				Advice for financing	

Discussion

This study adapted the framework proposed by Darko et al. (2018) to analyse the influences of barriers, drivers, and public support instruments on international business development among manufacturing SMEs in Finland. Since the drivers typically do not render any specific direct need for the public support instruments, the discussion primarily focus on how the barriers can be addressed, in part by building on the drivers and on available public support instruments. This section discusses the findings of the analysis.

Barriers and the role of drivers and public support instruments

If we take a systemic view we can see that certain of the identified barriers, drivers, and public support instruments are corresponding. The barrier of ‘limited managerial information’ (Table 1) is interpreted to correspond with ‘home government assistance’ (Table 2) and is facilitated with the public support instruments such as ‘export consulting’, ‘provide information, advice and training’, ‘advice for international growth’, ‘international preparedness analysis’, ‘internationalization assessments’, and ‘foreign market analysis’ (Table 3).

The results of the present study suggest that ‘limited managerial information’ was the most significant barrier hampering international business development among the manufacturing

SMEs in Finland. These findings can be interpreted so that the higher the barriers are, the lower the level of international business development is. The research findings are consistent with Kubičková (2015), who found out that lack of information on foreign markets were one of the factors impeding successful internationalization of SMEs.

By participating in publicly supported national projects (i.e. corresponding with the ‘home government assistance’ driver), SMEs are able to increase their level of knowledge for example on market analysing abroad, business plan preparation on internationalization, or assessments and development of management skills. These are the internationalization and growth services offered by national projects to SMEs (Yrittajat.fi, 2018). Thus, ‘home government assistance’ driver and selected public support instruments can work to overcome the barrier of ‘limited managerial information’. See the collective influences of the barriers, drivers, and public support instruments in Figure 2.

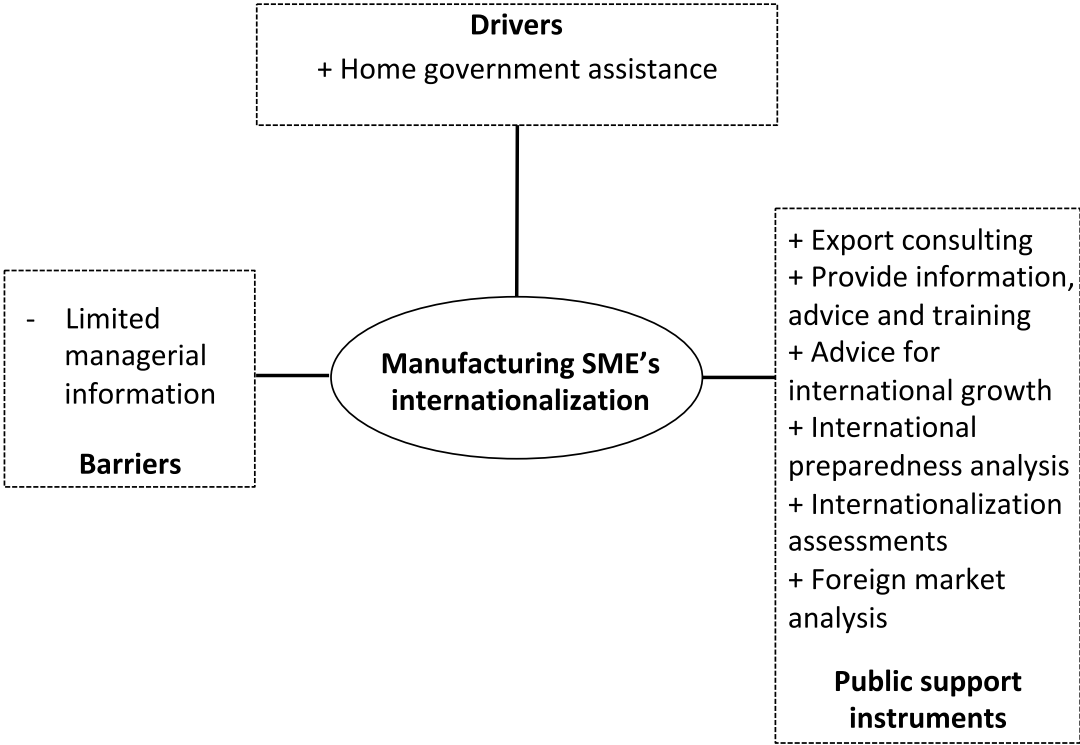


Figure 2. The collective influences of the barriers, drivers, and public support instruments on the individual level.

The results of the present study further suggest that 'lack of resources', both in human resources and in production capacity, was the second most significant barrier hampering international business development among the manufacturing SMEs in Finland (Table 1). The research findings are consistent with Calabró et al. (2016) who pointed out that SMEs' internationalization is often characterized by constraints particularly in resources. A report issued by the Finnish Ministry of Economic Affairs and Employment (Rikama, 2017) further provides support the aforementioned findings by stating that the most significant resource-related obstacle to the internationalization of Finnish SMEs was the availability of skilled labour. The availability of labour force was particularly detrimental to growth-oriented companies. In addition, both already internationalized and strongly growth-oriented companies were clearly more motivated to hire new employees, especially from Finland (Rikama, 2017).

Many of the interviewees stated that the lack of sufficient human resources or lack of excess production capacity imposed barriers for international business development. 'Lack of resources' -related barriers of the present study (Table 1) refer to issues that are at least partly a question of financing. However, according to Leonidou (2004), the percentage of company employees engaged in international business development is, in fact, usually lower than the contribution of internal business development to total company sales. Furthermore, according to (Leonidou, 2004), many small companies engage in international business development only if there is availability of excess production capacity. This seemed to be the case also in the present study, since a successful home market leading to domestic selling of products, was mentioned as a production related barrier to internationalization. However, this is a shortsighted approach, because according to Leonidou (2004), it is very likely that the production related resources could be used more efficiently in serving a foreign rather than the home market. For these reasons, SMEs should follow their motivation to extend markets

abroad (i.e. ‘foreign market’ driver) and increase their potential opportunities for additional sales and profits. Thus, the barrier of ‘lack of resources’ is interpreted to correspond with ‘foreign market’ and is facilitated with the public support instruments such as ‘export promotion trips’, ‘international networking services’, and ‘support international partner search’. See the collective influences of the barriers, drivers, and public support instruments in Figure 3.

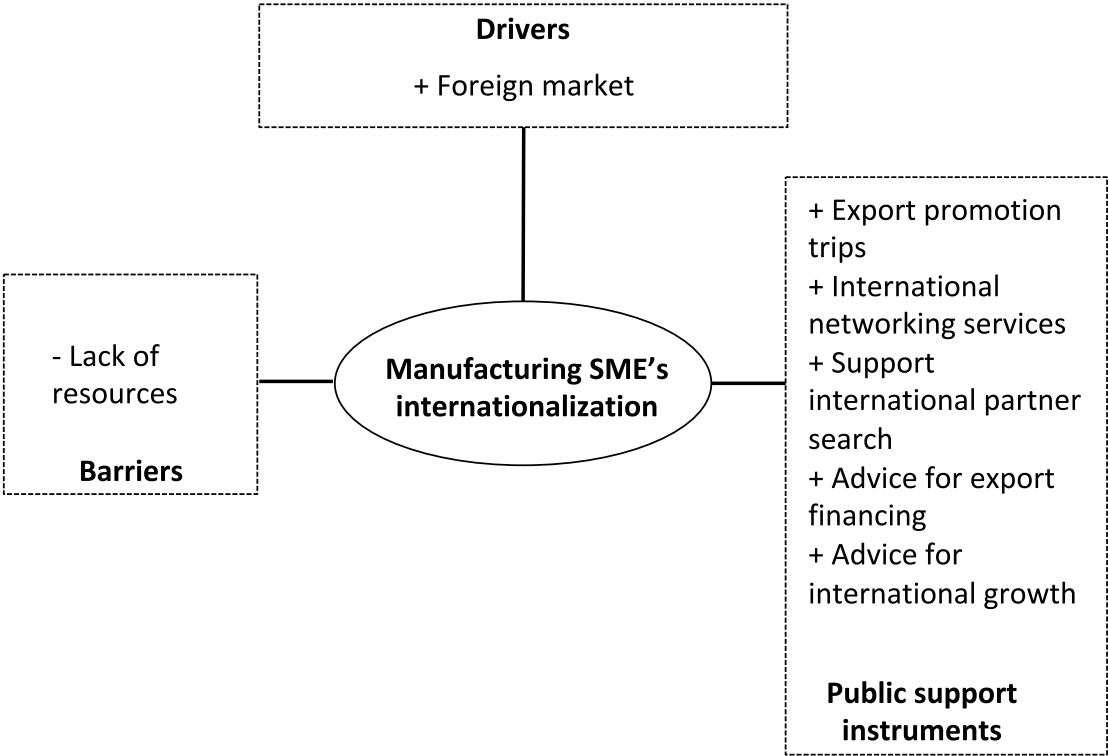


Figure 3. The collective influences of the barriers, drivers, and public support instruments.

Conclusion

Internationalization has been recognized to be critical to manufacturing SMEs since small and medium sized businesses need to extend their markets internationally in order to stay competitive. Various barriers, drivers, and public support instruments influence their

international business development. This study aimed to examine the dynamics of different types of barriers, drivers, and public support instruments in international business development within the Finnish manufacturing SMEs. This study draws on diverse data, including qualitative interviews with company representatives (22 interviews) and regional innovation actors (7 interviews). In addition, data from innovation actors' official websites was included. The interviews were conducted between March and June 2019 in three regions in Finland (Ostrobothnia, Central Ostrobothnia or South Ostrobothnia). The results showed that the barriers of 'limited managerial information' and 'lack of resources' have a significant negative influence on international business development. Furthermore, the results indicated that the drivers of 'research, development and innovation', 'home government assistance', and 'foreign market' have a significant positive influence on international business development. Here, various public support instruments provided by the regional innovation actors may further strengthen the drivers to overcome the barriers.

Implications of the study for national policy makers, regional innovation actors and SMEs

One approach to overcome the barriers is to strengthen the driving factors that facilitate international business to develop among Finnish SMEs. According to the study of Hellsmark et al. (2016), the authors suggest that policymakers would benefit significantly if they depart from what is strong in the innovation system (i.e. the strengths) before considering specific policy options for addressing any weaknesses. Based on the present study, innovations, participation in publicly supported projects, and extending markets abroad, are the factors, drivers that cause international business to develop among Finnish SMEs. Policy should continue supporting these aspects so that they don't diminish from the SME manufacturers.

To address the barriers, regional public support instruments are needed especially regarding the most mentioned barriers that cannot be tackled only by SMEs themselves. As Hellsmark

et al. (2016) suggest, building on strengths is also important since the weaknesses may stem from different underlying beliefs, principles and political constraints that make them very difficult to address directly by national policy makers. Specifically, we point toward the public support instruments that build on both the identified drivers, and address the barriers.

By expanding the systemic view used by Hellsmark et al. (2016) from policy makers to businesses, we suggest that also here strengthening the driving factors indirectly mitigates the barriers. Thus, likewise implications of this study's findings for policy makers, businesses are to support the drivers of 'research, development and innovation', 'home government assistance', and 'foreign market'. These strengths will further drive the international business development among Finnish manufacturing SMEs.

Acknowledgement

This research was conducted as part of the project BID4E (Business and Innovation Development for Enterprises) funded by EU Interreg Botnia-Atlantica -programme, Region Västerbotten, Regional Council of Ostrobothnia, University of Vaasa, Tampere University (Seinäjäki University Consortium), Luleå University of Technology and Mid Sweden University.

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