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Kent SME Internationalisation Study

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Executive Summary

Background

The Kent SME Internationalisation Study 2016/2017 investigates the internationalisation status of SMEs located in Kent, UK. The core aims of the study are the understanding of the existing levels of SME international activities; the identification of drivers for and barriers to SME cross-border activities; the assessment of the existing support mechanisms; the initiation of the Brexit impact discussion; and ultimately the provision of recommendations on the increase of internationalisation capacity and activity among Kent businesses. The rationale for the SME focus is due to the significant population of SMEs in the region and their contribution to economic growth, as SMEs create employment opportunities, contribute to achieving higher production volumes, boost exports and drive innovation.

Kent Business Population and Sample Characteristics

- The profile of Kent businesses shows similar business characteristics (distribution of firms by economic size (turnover), employment and industry classification) to the ones observed for the whole of the UK.
- Generalisation of this study's findings, especially with regard to Brexit, is possible.
- The study's sample, despite its small size (268 completed questionnaires), is representative of the population and shows no evidence of non-respondent bias.
- Firms in the sample show a normal credit score and low failure rates, and thus current likelihood of bankruptcy is small but subject to substantial changes in the external business environment due to Brexit.

Kent SMEs and Internationalisation

- Operating internationally has become an important business opportunity for SMEs that have a developed domestic portfolio of valuable and rare resources and wish to expand rapidly.
- Size, international experience through building networks and use of new technologies and innovation are key factors driving SMEs' internationalisation.
- Kent SMEs encounter opportunities through product differentiation and focus on quality.
- Kent SMEs lack the ability to develop external networks. Being part of external networks would allow for the utilisation of other firms' international experience. Future policy should aim to address this by focusing on the creation of external networks and linking SMEs with suitable international partners.
- Kent SMEs do not rely on government initiatives to support their activities and lack of engagement with national and local support mechanisms is evident. Kent SMEs view national and local government as a facilitator for their activities through the reduction of obstacles (legislation and bureaucracy) and less as a contributor through direct counselling and source of advice on, for instance, funding.
- Kent SMEs tend to show an inward looking approach with current focus on domestic rather than international markets but represent a potential for increasing internationalisation trend.
- Exports are still a small proportion of the economic activity and only is specific to some sectors such as manufacturing, professional science and information technology.
- EU markets dominate with over 80% of exporting and 70% of importing firms suggesting that these are the most important markets. Emerging markets such as India and China play a much more important role for importers.
- For Kent SMEs the decision to internationalise is a strategic one when they aim to increase growth or profits and not a reaction to the move of competitors or for survival. This is further verified by the relatively positive performance of export activity.

- The importing activity is much less important for Kent SMEs and a substantial proportion of companies that import are exporters as well.
- The corporate characteristics of Kent SMEs influencing exports and imports:
 - Customer focus enhances the export intensity.
 - Technological intensity and customer focus lead to higher export performance.
 - Industry classification determines import intensity and import performance.

Barriers to internationalisation

- SMEs are wary of unfavourable foreign rules and regulations, high tariff barriers and inadequate property rights protection when considering internationalisation.
- SMEs are also influenced by high costs of customs administration and restrictive technical standards. Internal barriers relate to informational issues where SMEs lack access to important information for internationalisation, functional that correspond to resource constraints faced by SMEs and related to marketing which have to do with product characteristics.
- Kent SMEs are driven towards internationalisation by product characteristics and not the development of an international network.
- The lack of access to funding and the lack of awareness of relevant funding schemes and also low in-house experience are key barriers for Kent SMEs.

Facilitators to internationalisation

- Kent SMEs consider advice and support for internationalisation important but they require access to specialised information such as access to customers and marketing.
- Access to this type of specialised information might have a positive effect to the more efficient distribution of internal resources thus tackling the most important barrier to internationalisation.

Support Mechanisms

- A substantial number of support mechanisms exist, often without any significant coordination. Federation of Small Businesses, Institute of Directors and Kent Invicta Chamber of Commerce are the most recognisable ones by Kent SMEs, and also UK Trade and Investment (Department for International trade) and Gov.Uk emerge also as significant support mechanisms specifically for exporters.
- Despite the relatively high awareness there is little use. The diversity of mechanisms creates confusion for SMEs that do not wish to spend substantial time in searching for the most appropriate support.
- In terms of effectiveness the general support mechanisms tend to score high in the wider population but for exporters the more specialised mechanisms, such as UK Export Finance, Export Britain and Federation of Small Businesses are considered very effective.

Brexit Implications

- Currently 1 in 4 companies do not have a full understanding of Brexit impact.
- Industries (primarily services) face the uncertainty of a post Brexit regulatory environment that will no longer be governed by EU regulations. There is no certainty around what the new UK regulations will look like.
- Liberalisation will have positive effects in industries such as accommodation, construction, human health, professional science.
- Administrative support, art and recreation, education, information and communications and manufacturing anticipate a negative impact from Brexit, either due to the loss of access to markets or uncertainty with regards to the regulatory environment.

- In the case of exporters, the proportion of firms that expect a negative impact is close to 60%. This is not unexpected given the uncertainty of the post Brexit trade relationship with other EU markets and the importance of these markets for SMEs located in Kent.
- Positive impact also diminishes due to a potentially weaker pound sterling and its effect on the competitiveness of these organisations to service through imports the UK market or produce final goods with the use of imported raw materials and intermediate goods in the UK market.
- Not all industries will be affected by the same factors. Human resources, low or semi-skilled, such as accommodation, agriculture and transport or highly skilled such as art and recreation, education, information and communications, professional science and trade have indicated that free movement of labour is an important factor in their consideration
- Access to markets is an important factor across industries with manufacturing showing the highest overall proportion of firms, slightly over 60%.
- Brexit success or failure will be based on the negotiated trade terms that will give companies access to markets.