Foreword: a theory of internationalization for European entrepreneurship

I am both surprised and delighted to be invited to provide this foreword.

I am surprised because, while I am interested in small firms that grow rapidly – some of which do so by selling overseas – I have never undertaken any original work specifically on those SMEs with an international focus: instead my research on entrepreneurship is much more about individuals undertaking activities such as widow cleaning, car repairing and hairdressing – hardly sectors likely to spawn 'born global' enterprises.

My delight comes from being required to read a set of papers and familiarize myself with a literature and data with which I was previously unfamiliar. The evidence proved interesting – at least to me!

Starting with the data, I found that the EU SME Observatory reports that the proportion of SMEs that exported varied considerably from one country to another. While the EU-15 average was 8 per cent, it was much higher, at 19 per cent and 17 per cent respectively, for Finland and Denmark, but much lower for the larger countries – particularly France. However, a somewhat different picture emerges when export performance by size class or firm data, taken from Eurostat (2003), are used. Here, for example, large enterprises in Finland supply 80 per cent of exports by tonne value, whereas micro firms provide only 2 per cent. Of course it is possible that the SME Observatory and Eurostat findings are compatible with one another – Finland could have large numbers of SMEs exporting but still only making, in aggregate, a very modest contribution, but superficially the findings are curious. My curiosity was further stimulated when the Eurostat data compared Finland with another small country – Belgium. In that country micro enterprises provided virtually 40 per cent of all export sales, compared with the Finland figure of 2 per cent. The data therefore appears to tell different stories depending on its source, but my interpretation is that the likelihood of exporting increases with firm size and falls with country size, but that the variance is considerable.

A second interesting question is whether 'internationalization' has increased in recent years. Reliable data on this is very scarce and so confirmation is difficult. Despite this, the general assumption is that small firms are more likely to 'internationalize' than was the case in the past, and that they do so at an earlier stage in their development. This is justified on four grounds: first, globalization is all pervasive and inevitably affects smaller firms. Second, the development of electronic communications means that international contact is easier. Third, smaller firms have played an increasingly important role in economic development and, finally, it is based on cases of individual firms that were 'international from conception' (Oviatt and McDougall, 1994, p. 46).

While justifications one and two seem widely accepted, I have more reservations about justifications three and four. For example, the evidence of a general increase in entrepreneurship is patchy: business ownership rates were in fact higher in 1972 than in 2002 in Austria, Denmark, France, Luxembourg and Norway (Van Stel, 2005). As for justification four, Oviatt and McDougall say 'Actually, international ventures have existed for centuries', and go on to point to the example of the East India Company which was chartered in London in 1600. Clearly the 'born global' business is not simply a late twentieth-century phenomenon.

Of course, change is always of greater interest to researchers than continuity, but my own research on new ventures in Northern England shows that the percentage of sales overseas remains below 1 per cent for new firms in the 1970s, 1980s and 1990s.

My view therefore, since I also have no access to wholly reliable data, is that small firms or SMEs that internationalize are an interesting small sub-sample of the small firm population. In many respects the arguments about why such firms are 'special' are similar to those put forward about fast-growth SMEs or 'gazelles'. These are that, although they are unusual or atypical of small firms generally, they make a disproportionate direct contribution to wealth creation. To most researchers they are also significantly more glamorous and 'interesting' than the vastly more numerous window cleaners and car repairers.

It therefore seems justifiable to investigate these special firms and the set of papers included in this volume provide a comprehensive review covering a remarkable range of EU countries. The theoretical context for such an investigation seems to come from two of the usual suspects favoured by management scholars: stage theories and the resource-based view.

In this context, stage theories are based upon the assumption that firms begin their internationalization with some overseas sales, and some – but not all – proceed to a greater scale of involvement through the appointment of local agents, ending perhaps with outlets overseas. While I find stage theories are a comfortable way of describing or categorizing case studies, they avoid the difficult but interesting questions: why do some firms 'progress' whereas others do not, and why? Why do some firms move in and out of 'internationalization'? What explains these developments?

The resource-based view (RBV) theories at least start the process of addressing these questions. RBV seeks to incorporate a wide range of measures of human and financial capital that can be accessed by the business owner and links this to firm creation and firm performance. For example, Westhead et al. (2001) find a range of human capital variables are associated with whether an SME exporting in 1990/91 continued to export six years later. An interesting paper by Lautenan (2000) captures neatly this concept of relevant human capital by showing that small firms in Finland were more likely to export if their owner spoke one foreign language. Indeed the propensity to export rose with each foreign language spoken. However, from my perspective, the most interesting result generated by Westhead et al. (2001) is that the dominant influence on whether a firm was exporting in 1997 was whether they exported in 1990. It suggests the presence of powerful lags that need to be better understood.

My view is that such an understanding is unlikely to emerge from an RBV perspective alone on the grounds that those favouring such a perspective seem to exhibit an aversion to the concept of 'price'. So, if we are to obtain a better understanding of why small firms export, and why they may or may not continue to export, then Europe provides an ideal testing bed. Here we have some countries that are in the Eurozone and some that are not, so that the role of both fixed costs and currency changes can be examined. The obvious research is to examine changes over time in SME exports in EU countries inside and outside the Eurozone. My expectation is that currency fluctuations would be the key lagged influence on Eurozone SMEs' sales to EU countries outside the Eurozone. Second, I would expect that SMEs from outside the Eurozone would be strongly influenced in their sales to Eurozone firms by currency fluctuations.

Such research could valuably build upon the material in these papers, which I commend to you.

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