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POLICY DRIVERS OF INTERNATIONAL ENTRE- PRENEURSHIP IN EUROPE

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Abstract : The diversity of countries and cultures in Europe necessitates an international outlook for most businesses. This paper examines the internationalisation of business in Europe through a literature review on international entrepreneurship theory. The role of the individual business owner and of business and interorganisational activity in facilitating the internationalisation of businesses in Europe is discussed by utilising the theoretical framework of international entrepreneurship and by putting forward three main propositions. The main aim and intent of this paper is to understand how the policies of individual governments and institutions such as the European Union help businesses in Europe to internationalise, with particular emphasis on businesses in the Baltic region. The paper discusses policy implications and suggestions for future research, which highlight the importance for firms in Europe of focussing on international markets.

Introduction and Background to Research

International entrepreneurship is a contextualised activity that occurs across national borders (Fletcher, 2004). The main difference between international business and international entrepreneurship theory is that international entrepreneurship theory examines a number of differing perspectives such as the individuals involved, the type of business and government action, whilst international business theory is typically more interested in the firm only. This paper investigates how international entrepreneurship in Europe differs from entrepreneureship in other parts of the world. National and institutional environments are important in understanding international entre- preneurship (Zahra, Korri and Yu, 2005). Organisations such as the European Union are becoming drivers of their geographic region's international success (O'Gorman and Kautonen, 2004). The business environment existing in Europe has become more competitive as trade barriers have decreased (Dana, Bajramovic and Wright, 2005). In the past, much of the business in Europe was done at the local or regional level but now, because of the increased importance of international trade, business is conducted more at the international level (Dana, Etemad and Wright, 1999b).

Geursen and Dana (2001, p. 332) state that "classic entrepreneurship contends that there are individuals who perceive opportunities in a different international environment by virtue of seeing new combinations". International entrepreneurship theory links classic entrepreneurship theory to international business and is utilised in this paper to understand the international business environment in Europe. International entrepreneurship is defined by McDougall and Oviatt (2000, p. 903) as "a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations".

Europe plays a significant role in the world economy (Fayolle, Kyro and Ulijn, 2005). In this paper it is argued that European international entrepreneurship differs due to the diversity of countries within Europe and the institutional impact of the European Union. International entrepreneurship is thriving because activities and cultures are no longer constrained by national considerations but form part of a global network (Geursen and Dana, 2001). Europe includes a number of countries with diverse cultures, political structures and size (Dana, 2005).

The current political and economic situation in Europe can be characterised by two major trends (Dana et al., 2005). The first trend is the reduction in importance of the nation state. The member states of the European Union are increasingly governed by shared institutions, such as the European Commission. European countries are also becoming more aligned with regional trading blocs and are trading internationally on the basis of these affiliations. The second trend is the decreased importance of the firm as the principal means of conducting business. Increasingly firms are utilising interorganisational collaborations such as alliances, clusters and networks to engage in business activity. Many firms undertake one step of the production process of a product or service, whilst handing over the next part to another firm. For example, one firm may produce cotton, which is then sold to another firm to design clothing that is later passed on to other firms for marketing and selling.

The structure of this paper is as follows: It begins with an examination of the literature on international entrepreneurship and its importance to business. Next, the role of international entrepreneurship is examined through the specific country context of Europe with an emphasis on policy. The way that different countries in Europe encourage international entrepreneurship is then discussed. Finally, the paper examines suggestions for future research and implications of international entrepreneurship for public policy makers both in Europe and throughout the world.

Literature Review

The traditional view of internationalisation (also referred to as the Uppsala school) assumes that a firm undergoes a gradual process in order to become international (Bilkey and Tesar, 1977). The Uppsala school views the internationalisation of a firm as a stage process in which it incrementally enters international markets (Johanson and Wiedersheim, 1975). Other researchers in the 1970s and 1980s took a similar approach to the Uppsala school (e.g. Bartlett and Ghoshal, 1989; Cavusgil, 1980, 1984; Johanson and Vahlne, 1977; Newbould, Buckley and Thurwell, 1978). However, more recently Leonidou, Barnes and Talias (2006, p. 576) state that "traditional exporting research indicates that this developmental export pattern is largely associated with the limited information that the firm has on international markets".

The stages approach has been criticised as being too simplistic as it assumes that every firm undergoes the same stages in the process of internationalisation. Also, exporters suffer from information handicaps that affect their international market performance (Leonidou and Theodosiou, 2004). Firms can have different levels of international experience and resource capabilities which affect the speed at which they internationalise. Markets are now more international in nature as they have globalised rapidly (Levitt, 1983). Competition is also more intense and global in nature which means that for many firms it is not economically viable for them to stay within their domestic market (Ohmae, 1990).

Melin (1992) criticises the stages model for placing too much importance on psychic distance which is a measurement of how close two or more countries are in terms of cultural similarities. Chetty and Campbell-Hunt (2003) indicate that the stages model is too rigid as it does not recognise that firms internationalise at different rates. Luostarinen and Welch (1997) suggest that licensing and franchising are important mechanisms of a firm's internationalisation process. Franchising has provided a means for firms to internationalise at low cost (Stanworth et al., 2004). In Europe, there are an estimated 250,000 franchising units (Miettinen, forthcoming, 2007).

Many firms in recent years have become ‘born globals’ or ‘international new ventures’ (Oviatt and McDougall, 1999). There are many reasons why firms become international very quickly. The technological revolution has changed the way business is conducted and firms can now communicate more cheaply through the internet and mobile phones. The high start-up costs involved in developing and marketing a product makes it more cost effective for firms to become international. Other reasons include small domestic markets and shorter product life cycles (Knight and Cavusgil, 1996). Thus, the stages approach is no longer appropriate for a theory of internationalisation which applies to all firms. The stages approach has also focused on large multinational companies and neglects small firms (Dana et al., 1999a). Small firms internationalise differently and comprise a large percentage of total firms throughout the world (Dana et al., 1999b).

Newer theories of internationalisation such as the born global approach take into account the importance of time as a strategic weapon (Stalk, 1988). In the rapidly changing business environment, time is crucial to a firm’s survival (Stalk and Hout, 1990). Numerous studies have found that the stages approach does not apply to all firms, industries and country settings. For example, Jones (1999) found that initial internationalisation activity in small firms involves importing and not exporting as proposed by the stages approach. Coviello and Martin (1999) point out that many high- tech firms usually do not have a stages approach to internationalisation. Coviello and Jones (2004) also highlight that timing is a critical feature of internationalisation and in entrepreneurial behaviour.

In the European context, the stages approach to internationalisation does not always apply. Whilst in the past the internationalisation activities of many firms were regarded as optional, they are now regarded as a prerequisite for competition in the global marketplace. Some European countries, for example the Netherlands, Spain and the United Kingdom, have historically had long international associations due to the expansionist policies of their governments. Other countries in Europe have had a history of insularity with respect to international trade, and these include the former communist countries of Estonia, Latvia and Lithuania. Today, however, as a result of the increased strength of the European Union, and a changing attitude to internationalisation by many governments in Europe, international trade is increasingly important.

International Entrepreneurship in Europe

The stages approach suggests that firms start exporting indirectly to geographically close markets and then move into direct exporting and more intensive international entry modes such as FDI (Luostarinen and Welch, 1997). Foreign Direct investment (FDI) from Nordic countries to new EU members is crucial to the rate of internationalisation (Elenurm, forthcoming, 2007). The geographic location of some countries in Europe has meant that they have been more inclined toward international trade. For example, in the Netherlands, the port of Rotterdam and Amsterdam’s Schiphol airport are amongst the world’s largest trade hubs (Masurel, van Hemert and de Groot, forthcoming, 2007). In a study of Baltic clothing exporters, Smallbone and Venesaar (1998) found that Baltic countries had a higher level of foreign subcontracting. Table 1 (p. 19) indicates countries in the Baltic region of Europe with the aim of examining their exporting behaviour. The countries differ according to size, export orientation and industry type.

Small and medium-sized enterprises (SMEs) comprise an important part of the European economy; they make up more than 99 per cent of all businesses (European Commission, 2004). Etemad and Wright (2003) argue that SMEs are more reactive than proactive to international market opportunities. The disparity between the number of SMEs existing in Europe and the number of SMEs that export, is shown in the current figures of internationalisation activity in Finnish SMEs. In Finland, SMEs comprise 99.7 per cent of all companies but only 14 per cent of these firms export (Miettinen, forthcoming, 2007).

Small firms are often at a disadvantage due to a lack of financial and managerial resources (Han, 2005). This means that for many small, young firms, it takes time before they feel comfortable in the international environment (Dana, 2005). Research suggests that larger and older firms are more likely to be international (Todorov and Kolarov, forthcoming, 2007). Many large firms have written internationalisation strategies (Mannio et al., 2003).

Large firms utilise their networks in order to create resource efficiencies (Butler and Hanson, 1991). However, small firms utilise both formal and informal networks in order to gain access to a new international market (Welter, Smallbone, Slonimski and Slonimska, forthcoming, 2007). In a study of Swedish biotechnology firms, Lofgren, Tolstoy, Sharma and Johanson (forthcoming, 2007) point out that network coordination can be used to facilitate the use of resources. Similarly, Elenurm (forthcoming, 2007) finds that small firms in Estonia learn from network relationships existing with other countries.

The government has an important role in facilitating and encouraging networking activities. The Government of Monaco encourages networking through its Economic Development Chamber, which organises events designed to link Monegasque firms with foreign companies (Spence, forthcoming, 2007). Through the Malta Crafts Council, the Maltese government encourages networks of cooperative competition which have been successful in the Maltese jewellery industry (Baldacchino, forthcoming, 2007).

In some European countries, like Sweden, large firms comprise a substantially higher

Table 1 **Trade Composition of Baltic countries**

Country	Population	EU Membership	GDP Composition by Sector	Export Partners	Import Partners
Denmark	5,432,335	Yes	agriculture: 2.2% industry: 24% services: 73.8%	Germany 18%, Sweden 13.2%, UK 8.7%, US 5.8%, Netherlands 5.5%, Norway 5.4%, France 5%	Germany 22.3%, Sweden 13.5%, Netherlands 6.8%, UK 6.1%, France 4.5%, Norway

					4.5%, Italy 4.1%, China 4%
Estonia	1,332,893	Yes	agriculture: 4.1% industry: 29.1% services: 66.8%	Finland 23.1%, Sweden 15.3%, Germany 8.4%, Latvia 7.9%, Russia 5.7%, Lithuania 4.4%	Finland 22.1%, Germany 12.9%, Sweden 9.7%, Russia 9.2%, Lithuania 5.3%, Latvia 4.7%
Finland	5,223,442	Yes	agriculture: 3.1% industry: 30.4% services: 66.5%	Sweden 11.1%, Germany 10.7%, Russia 8.9%, UK 7%, US 6.4%, Netherlands 5.1%	Germany 16.2%, Sweden 14.3%, Russia 12.8%, Netherlands 6.3%, Denmark 5.2%, UK 4.6%, France 4.3%
Germany	82,431,390	Yes	agriculture: 1.1% industry: 28.6% services: 70.3%	France 10.3%, US 8.8%, UK 8.3%, Italy 7.2%, Netherlands 6.2%, Belgium 5.6%, Austria 5.4%, Spain 5%	France 9%, Netherlands 8.3%, US 7%, Italy 6.1%, UK 5.9%, China 5.6%, Belgium 4.9%, Austria 4.2%
Latvia	2,290,237	Yes	agriculture: 4.1% industry: 26% services: 69.9%	UK 12.8%, Germany 12%, Sweden 10%, Lithuania 9.1%, Estonia 8%, Russia 6.4%, Denmark 5.4%	Germany 13.9%, Lithuania 12.2%, Russia 8.7%, Estonia 7%, Finland 6.3%, Sweden 6.1%, Poland 5.4%, Belarus 4.8%
Lithuania	3,596,617	Yes	agriculture: 5.7% industry: 32.4%	Germany 10.2%, Latvia 10.2%, Russia 9.3%, France 6.3%, UK 5.3%, Sweden 5.1%,	Russia 23.1%, Germany 16.7%, Poland 7.7%, Netherlands 4%

			services: 62%	Estonia 5%, Poland 4.8%, Netherlands 4.8%, Denmark 4.8%, US 4.7%, Switzerland 4.6%	
Norway	4,593,041	No	agriculture: 2.2% industry: 37.2% services: 60.6%	UK 22.3%, Germany 12.9%, Netherlands 9.9%, France 9.6%, US 8.4%, Sweden 6.7%	Sweden 15.7%, Germany 13.6%, Denmark 7.3%, UK 6.5%, China 5%, US 4.9%, Netherlands 4.4%, France 4.3%, Finland 4.1%
Poland	38,635,144	Yes	agriculture: 2.8% industry: 31.7% services: 65.5%	Germany 30%, Italy 6.1%, France 6%, UK 5.4%, Czech Republic 4.3%, Netherlands 4.3%	Germany 24.4%, Italy 7.9%, Russia 7.2%, France 6.7%, China 4.6%
Russia	143,420,309	No	agriculture: 5% industry: 35% services: 60%	Netherlands 9.1%, Germany 8%, Ukraine 6.4%, Italy 6.2%, China 6%, US 5%, Switzerland 4.7%, Turkey 4.3%	Germany 15.3%, Ukraine 8.8%, China 6.9%, Japan 5.7%, Kazakhstan 5%, US 4.6%, Italy 4.6%, France 4.4%
Sweden	9,001,774	Yes	agriculture: 1.8% industry: 28.6% services: 69.7%	US 10.7%, Germany 10.2%, Norway 8.6%, UK 7.8%, Denmark 6.7%, Finland 5.7%, France 4.8%, Netherlands 4.8%, Belgium 4.5%	Germany 18.7%, Denmark 9.2%, Norway 7.6%, UK 7.5%, Netherlands 6.8%, Finland 6.4%, France

					5.5%, Belgium 4%

Source: Adapted from statistics found on www.cia.gov/cia/publications/factbook

percentage of all businesses (Fletcher, 2004). Large firms often have centralised decision-making authorities which means that most key issues are decided at the firm headquarters. This is in contrast to many SMEs, which in most cases have decentralised decision making that is based on coordination between individuals in the firm. Thus, policy makers in Europe need to ensure that when making key policy initiatives, such as encouraging internationalisation, they take these different decision making mechanisms into account.

Large firms also have access to different sources of finance than do small firms. Often large firms are components of multinational organisations. This enables them to access a larger pool of financial resources (Dana et al., 1999a). Small firms that are family owned and operated are often financially supported by relatives, particularly in Russia. Hence, in order to help both large and small firms internationalise, policy makers need to examine how the firms finance themselves. Individual European governments could offer better tax incentives for SMEs when they borrow from family members, and give tax credits to large firms when the money is internally sourced. Thus, the first proposition is that:

The EU and individual European country governments need to distinguish their policies in order to account for the differences between large and small firms.

The competitive nature of the market helps explain the internationalisation process of firms (Oviatt and McDougall, 1999). Competition in domestic markets helps firms to become more efficient because they must constantly improve their products and services. It is likely that the more competitive a firm's domestic market, the more likely that a firm will move into international markets. In a study of tourism firms in Ireland, Hegarty (forthcoming, 2007) finds that the highly competitive nature of the Irish tourism market means that these firms need to become international, as this is one of the fastest ways to develop their business. On the other hand, in a study of firms in the Ukraine, Goldmann, Slava, Makogon, Orekhova and Dubouskaya (forthcoming, 2007) point out that insufficient competition in the domestic market has meant that firms are not internationally active.

The Lisbon strategy seeks to make Europe the most competitive knowledge-based economy (European Commission, 2004). Some industries are more affected by international competition than others. Firms in the technology sector, for example, internationalise faster than firms in other industries because many of their products are in demand globally and they seek to lower the costs of research and development (McDougall, Shane and Oviatt, 2003). In a study of Spanish firms, Coduras, Cruz, de la Vega and Justo (forthcoming, 2007) find that firms in consumer-oriented, service and transformation industries export more than those in extractive industries.

As the competition in Europe becomes more intense, firms must achieve world class efficiency to compete both domestically and globally. Many small firms can enter the international market by piggybacking on larger firms or linking into the value chain network of a large firm. Hansabank of Estonia is an excellent example of value chain linking. Established in Estonia as the largest active banking institution in the Baltic region, it acquired the Russian bank OAO Kvest. It is largely owned by Swedbank of Sweden (Elenurm, forthcoming, 2007). In a study of Danish firms, Servais, Rasmussen, Nielsen, and Madsen (forthcoming, 2007) point out that the value chain is becoming increasingly important to firms internationalising their business activities.

Increasingly, technology is a key indicator of the competitive intensity of an industry (Almeida and Kogut, 1997). For example, knowledge intensive industries are encouraged in Europe as a way to access more value-added activities that increase Europe's overall economic growth. The biotechnology industry is an example of a highly competitive international industry that requires government funds for R and D to sustain the development of the industry. This has meant that governments of countries in Europe have been trying to foster biotechnology hubs that encourage networking activities between firms. In Germany, Munich has emerged as a biotech hub that focusses on harnessing competition within the biotechnology industry. Also, Sweden has the highest number of biotech companies per capita in the world, which represents an important industry concentration in the Baltic region. This leads to the second proposition which is that :

The competitive intensity of an industry should be taken into account when governments in Europe are evaluating international policy attitudes.

Learning from experience is an important part of the internationalisation process (Johanson and Vahlne, 1990). The internationalisation process is experienced differently in every firm (Yip, Biscarri and Monti, 2000). Thus, learning can be influenced by experiential knowledge of the market, institutions and internationalisation (Eriksson, Johanson, Majkgard and Sharma, 1997). Firms need to invest in learning about their foreign markets by increasing their knowledge of the international market (Zahra, Hayton, Marcel and O'Neill, 2001).

Higher education levels have been found by Hegarty (forthcoming, 2007) to have a positive impact on the internationalisation process of firms. In a study of Spanish firms, Coduras et al., (forthcoming, 2007) find that levels of employee education are higher in exporting firms than non-exporting firms. Firms in southern Europe (Italy, Greece, Spain and Portugal) have been found to invest less in the development of competences such as education than Nordic and central European countries (Norway, Finland, Sweden, Liechtenstein and Austria) (European Commission, 2004).

European Union initiatives designed to facilitate international business include the establishment in 1987 of the European Information Centre, which provides information about doing business in Europe (Risteska and Daskalovski, forthcoming, 2007). The European Commission recently highlighted the importance of the internationalisation of European firms in its 'Green Paper for Entrepreneurship' (European Commission, 2004). Individual governments in Europe can financially encourage or discourage firms to internationalise. Melitz (2003) found that exporting firms have higher productivity rates than non-exporting firms; and Greenway (2004) shows that a more productive firm is more likely to export. In Monaco, the government provides refunds to firms if trade show revenues are less than trade show expenditures (Spence, forthcoming, 2007). In Estonia, the lack of government initiatives such as tax incentives actively discourages firms from becoming international (Elenurm, forthcoming, 2007). In Latvia, there is a lack of domestic funds to support the European Union structural funds given to firms in order to develop the international activities of their businesses (Volkova and Brige, forthcoming, 2007).

Individual governments in Europe are encouraging internationalisation through policy initiatives such as ‘Smart, Successful Scotland’ and ‘Program Pipe’ in Spain (Danson, Helinska-Hughes, Hughes and Whittam, forthcoming, 2007; Coduras et al., forthcoming, 2007). These policies involve providing support, guidance and direction (Danson et al., forthcoming, 2007). In 2003 the Finnish government initiated the Entrepreneurship Policy Programme which is aimed at encouraging entrepreneurship. Legislation has also been passed in European countries with the aim of encouraging internationalisation activities. For example, the Hungarian government has passed the ‘Act on SMEs’ (full name being Act XCV of 1999 on Small and Medium Sized Enterprises and the Promotion of their Development) (Kallay and Lengyel, forthcoming, 2007).

The attitude toward exporting is changing in those European countries, such as Croatia and Slovenia, that are changing to a market economy. However, the legacy of large public sector firms that have had monopolies in their domestic market means that it takes time for the attitudes and willingness of the firms in these economies to internationalise. Many firms in transition economies are young compared to the older more established European economies; thus it may take some time for these firms to become involved in international activities. However, the increase in Foreign Direct Investment (FDI) in transition economies has helped firms to internationalise. In a study of Slovakian firms, Sikula and Hvozdikova (forthcoming, 2007) find that FDI benefits the entry of foreign firms into the Slovakian economy by encouraging investment which helps create the existence of sub-suppliers for large foreign investors in Slovakia. In Slovenia, manufacturing firms provide the basis for much outward FDI (Kalotay, 2004).

In transition economies, it can be difficult to estimate international activity because of deliberate understated export statistics by firms. For example, in a study of Ukrainian firms, Goldmann et al., (forthcoming, 2007) found that firms are reluctant to declare their real export rates because they fear reprisal from criminal networks and corruption in the local government. In many pre-communist economies, governments differentiated between domestic and foreign businesses (Elenurm, forthcoming, 2007). This discrimination provided little incentive for domestic firms to enter international markets.

Transition economies need to establish their market economy by setting up laws and regulations for business. Macedonia, which is a candidate for European Union membership, has begun the groundwork for a market economy. It has signed the ‘Stabilisation and Accession Agreement’ with the EU, which is designed to stabilise its economy by providing regulation and legal frameworks (Risteska and Daskalovski, forthcoming, 2007). In new European Union member countries such as Malta, researchers have argued that the population of the country has an effect on the internationalisation rate as well as the level of economic development. Baldacchino (forthcoming, 2007) states that Maltese firms have a lower internationalisation rate because of the relatively large size of the Maltese population as compared to similar sized islands that have a lower relative population size, such as the Scottish Isles.

New EU members from the Baltic States such as Latvia and Poland, have traditionally focussed more on labour intensive industries than the more developed economies in the Baltic area such as Denmark. Hence, in terms of international development these new EU members have only recently had to compete in the international market because, prior to their entry to the EU, there was not as strong a need to do so (Etemad and Wright, 2003). However, with the enlargement of the EU, transition economies in the Baltic area that were previously communist controlled, such as Estonia, have now moved to a more market controlled economy and have had to compete in the international marketplace as a matter of survival. Thus, the third proposition is that:

Transition economies in Europe will go through different stages of international development than developed economies in Europe.

Implications and Suggestions for Future Research

This paper has examined international entrepreneurship in Europe by focussing on the current policy initiatives used by individual European governments and the European Union and by developing three core propositions. As there is a big difference between the total number of SMEs existing in Europe and the number of SMEs that export, it is crucial to understand how international entrepreneurship can be fostered in these firms in Europe. The policy initiatives which promote networking and FDI were examined, highlighting the importance of government initiatives in facilitating the internationalisation of SMEs in Europe. Individual governments in Europe need to spend more money to make exporting an attractive option for firms. Incentives in the form of lower tax rates for firms involved in exporting should be used more widely, particularly in the Baltic States. The existing structural funds given to Baltic State countries by the EU can be used by local government authorities to invest more substantially in export industries.

Future research should examine the success of government policies in promoting international entrepreneurship. As the business environment becomes more globalised, it is crucial to the economic success of Europe that the rate of exporting activity increases. It is important to examine how SME business owners could be encouraged to internationalise and export more, particularly in transition economies such as those in the Baltic countries. Environmental factors existing within a country help explain export behaviour of firms (Littunen, Storhammar and Nenonen, 1998). The rise of China and India as global powerhouses means that firms in Europe need to compete on an equal footing with firms in these countries. Future research could compare the different policies used by governments in the Baltic States to see what can be done to positively influence export rates. Statistics on export markets from different Baltic States could be compared to see whether the introduction of government policies has affected internationalisation rates of firms. For managers of export orientated firms, examining the different export methods that have been used by other firms in Europe can help them to understand how to increase their export volume. Through government organised networks, managers of firms in different industries with different international experience rates could combine their knowledge in order to help each other in the international marketplace.

The different internationalisation strategies existing between SMEs and large firms suggest that more work on the role of corporate strategy in fostering internationalisation activities needs to be done. Firms often internationalise through serendipitous encounters rather than by following a well thought out process (Crick and Spence, 2005). The role of government policy in facilitating internationalisation strategy should be examined, as well as how SMEs could learn from successful international firms. The high level of internationalisation activity occurring in Ireland and Monaco could be utilised as case studies in order to investigate how government policy affects the internationalisation rates of SMEs. Future research should examine these case studies on a longitudinal basis rather than on a cross-sectional basis so that more information can be collected on the incentives used to promote the internationalisation of SMEs.

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