Edinburgh Group

Growing the global economy through SMEs

Contents

Foreword

The Edinburgh Group (EG) is a coalition of 14 accountancy bodies from across the world, representing over 900,000 professional accountants in countries from Africa, North America, Asia, Australia, Europe and Latin America. The mission of the Edinburgh Group, which was formed in 2000, is to ensure that the development of the international accountancy profession meets the needs of its diverse stakeholders, reflecting progress in the global economy and society at large.

To do this, the EG champions the interests of SMEs/SMPs, professional accountants in business and developing nations, in particular within IFAC (International Federation of Accountants).

In 2012, the EG commissioned research on the impact of SMEs on economic growth in order to develop a picture of the role of SMEs in the global economy. SMEs contribute to economic growth in both high and low income countries by sustaining employment and contributing to GDP.

The research also provided the opportunity to look at the internationalisation potential of SMEs through surveying members of the EG bodies. Given the EG's global spread, the group felt that a unique perspective on the issue would be provided through this research. A series of case studies are presented in the report, of businesses that have realised or are developing their international ambitions, and the Edinburgh Group is grateful to the business owners for sharing their experiences.

I would like to thank the working group established within the EG for their efforts in bringing together the research: Eamonn Siggins of CPA Ireland, Stephen Heathcote and Rosana Mirkovic of ACCA, and Shahied Daniels of SAIPA. I would also like to acknowledge the Kingston Business School for the literature review they carried out for the research.

The EG is pleased to present this report that demonstrates the substantial contribution of SMEs to the global economy.

Roberto D'Imperio
Chair of the Edinburgh Group

Introduction and executive summary

Small and medium-sized enterprises (SMEs) play an important role in the world economy and contribute substantially to income, output and employment. However, the recent global financial crisis created a particularly tough climate for SMEs, with a reduction in demand for goods and services and a contraction in lending by banks and other financial institutions.

Part 1 of this report draws on cross-country evidence from multiple sources, gathered for the Edinburgh Group by Kingston Business School, to consider the important contribution made by SMEs to the global economy, the challenges they have faced since the financial crisis, and typical governmental responses. It shows that, reflecting the importance of SMEs in the global economy, policymakers all over the world have applied special fiscal and support measures to help the sector. Assistance is targeted not only on sustaining domestic activity, but also at encouraging SMEs to build international businesses.

In **Part 2**, the report captures the key findings of new research among small and medium-sized accountancy practitioners (SMPs) around the world. The Edinburgh Group, a coalition of 14 accountancy bodies and a champion of SMEs and SMPs, commissioned the survey on which it is based. The report investigates the extent to which SMPs' clients (typically SMEs) are currently undertaking international activities, the challenges they encounter in doing so, and the kind of support available to them.

The report reveals a significant amount of international activity among the small and medium-sized business population. Almost three-quarters of SMPs surveyed have clients with an international element of some sort, although closer investigation reveals that these clients are most likely to be simply buying goods or services from abroad. SMPs themselves appear to be missing the potential offered by international business, with only one in five providing the services their clients may need to become international and take advantage of growing markets. Where advice from SMPs might be particularly expected, on foreign exchange, it is typically concerned only with buying and selling currencies.

Given that the majority of SMPs believe that their clients face problems in doing business internationally – particularly in relation to gaining access to markets, fear of competition, identifying new customers and dealing with regulation – there is substantial scope for SMPs to offer more expertise and resources for SMEs entering international markets. These are not just areas where more government action could provide assistance, even though this is something SMPs would like to see.

Globalisation is a force of market and economic reality. Though constrained by the global financial crisis and ongoing recession in some countries, SMEs will want to take part in international growth once recovery is fully under way. They will need advice on finance, risk, regulation and other competitive issues associated with doing business in foreign territories. In order to maximise the benefits of international activity, SMEs will also need to access opportunities in the fastest-growing economies in emerging and newly developed markets. This may require them to look further afield from their home territory than they would otherwise wish to do – but stepping out of 'comfort zones' will be a necessity for all businesses with real ambition.

Professional service firms may also need to challenge themselves to look more critically at the services they provide to SMEs seeking to internationalise. Developing more internal understanding and expertise, strengthening relationships with funding institutions, and building international networks of trusted professional and business contacts could be good starting points for action.

RECOMMENDATIONS

Recommendations for policymakers

- Identify any additional information and support mechanisms that can be targeted toward SMEs to encourage their involvement in fast-growing economies.
- Look for opportunities to reduce unnecessary red tape and regulations concerning international trade and investment.
- Create clear signposting to help SMEs identify and access the full range of financial support available for international activity.
- Assess whether additional targeted tax breaks could encourage SME internationalisation, particularly in the aftermath of the global financial crisis when recovery is proving slow in many economies.

Recommendations for SMPs

- Provide more proactive support to SMEs in their planning for internationalisation, including support in identifying the most attractive, fast-growing international markets.
- Develop knowledge and information resources to guide SMEs through the red tape challenge associated with international activity, and to help them access all appropriate sources of funding.
- Build relationships with banks and other key financiers of international investment and trade, to facilitate introductions between these funding sources and SME clients.
- Identify where SMEs are dealing in foreign currency and seek opportunities to provide value-adding advice in areas such as managing foreign exchange risks and forecasting currency needs.
- Consider whether additional networking opportunities exist to build relationships with other professionals or to help connect SME clients with each other to create mutually supportive environments and information channels.
- Assess how the proactive delivery of services targeted at SMEs with international ambitions could help to grow practice income, as well as strengthening client relationships and the firm's wider reputation.
- Consider whether developing the international resources available to the practice – for example, by participating in an international network of accountancy firms or building more direct close relationships with firms in other countries – could benefit the firm itself, and its SME clients.

Part 1. SMEs: The big picture

What are small and medium-sized enterprises? There is no standard definition of what constitutes an SME (see Table 1.2 on page 9 and Appendix 1), making research into the contributions made by SMEs to economies around the world extremely challenging.

Nevertheless, a substantial amount of work has been done to assess the roles that SMEs play in driving gross domestic product (GDP) growth and sustaining employment. The evidence suggests that SMEs are vitally important for economic health, in both high-income and low-income economies, worldwide.

As this report illustrates, SMEs were adversely affected by the global financial crisis of 2008. Some have continued to struggle, with revenues and employment levels remaining subdued in the following years. Others have recovered relatively fast, indicating the resilience of the SME sector. Many have suffered from reduced access to finance and increased costs of credit.

Governments around the world have responded in a variety of ways. To assist SMEs in particular, policymakers' attention has focused on supporting working capital, easing access to finance, implementing a better regulation agenda, and encouraging SME investment in new technologies or markets.

Evidence also shows that when SMEs become internationalised, particularly when they start exporting to foreign markets, their contribution to their home economy increases. For this to happen, substantial barriers need to be overcome. SMEs can face difficulties in financing international activity, identifying opportunities and making appropriate contacts in their target markets.

SMEs in the global economy

In every region, SMEs are in evidence. They make a huge contribution to gross domestic product (GDP) and employment. The global financial crisis of 2008, however, created new challenges for SMEs. Findings are mixed as to how effectively businesses have recovered from the crisis and coped with recessionary climates, but access to finance has been a problem for many.

THE DOMINANT BUSINESS TYPE

SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari et al. 2011). Japan has the highest proportion of SMEs among the industrialised countries, accounting for more than 99% of total enterprises (EIU 2010). India, according to its Ministry of Micro, Small and Medium Enterprises, had 13 million SMEs in 2008, equivalent to 80% of all the country's businesses (Ghatak 2010). In South Africa, it is estimated that 91% of the formal business entities are SMEs (Abor and Quartey 2010).

Estimated data for the 27 countries in the European Union (the EU-27) for 2012 also illustrate the importance of SMEs (see Table 1.1). They account for 99.8% of all enterprises, employ 67% of all workers and contribute 58% of gross value added (GVA) – defined as the value of their outputs less the value of intermediate consumption and an important factor in GDP.

The contribution made by SMEs does vary widely between countries and regions. Nevertheless, although they play particularly key roles in high-income countries, SMEs are also important to low-income countries, making significant contributions to both GDP and employment (Dalberg 2011). They are also major contributors to innovation in economies, partly through collaboration with the larger corporate sector. SMEs that become embedded in the supply chains of larger businesses can be spurred on to improve their own human and technological capital (ACCA 2010), thus improving their own productivity and performance.

SME CONTRIBUTION TO GDP

When combining the data for those countries for which reasonably good data are available, SMEs account for 52% of private sector value added, which provides a reasonable estimate for the sector's global economic contribution (ACCA 2010).

The contribution of SMEs to economic fundamentals nonetheless varies substantially across countries: from 16% of GDP in low-income countries (where the sector is typically large but informal) to 51% of GDP in high-income countries. Figure 1.1 on page 8 illustrates the contribution of the SME sector to GDP, including both the formal sector and estimates of the informal sector, which is disproportionately large in low-income countries. History and legal tradition can also play a very important role. For instance, former Soviet countries tend to have disproportionately small SME sectors, even when controlling for per capita income (Ayyagari et al. 2003).

Table 1.1: No. of enterprises, employment and gross value added (GVA) figures for the EU-27 by size classification for 2012 (estimates)

	Micro	Small	Medium	SMEs	Large	Total
Enterprises	19,143,521	1,357,533	226,573	20,727,627	43,654	20,771,281
%	92.2	6.5	1.1	99.8	0.2	100
Employment	38,395,819	26,771,287	22,310,205	87,477,311	42,318,854	129,796,165
%	28.5	20.6	17.1	67.4	32.6	100
GVA (€ millions)	1307360,7	1143935,7	1136243,5	3587540	2591731,5	6179271,4
%	21.2	18.5	18.4	58.1	41.9	100

Source: Wymenga et al. 2012

According to the Australian government (2011), SMEs contributed around 60% of Australia's industrial value added in 2009–10. In OECD economies, over 95% of firms are SMEs and micro-enterprises, accounting for some 55% of GDP.

In developing countries, by contrast, over 90% of all firms outside the agricultural sector are SMEs or micro-enterprises. These firms produce a considerable part of GDP. In Morocco, for example, 93% of industrial firms are SMEs, accounting for 38% of the production, 33% of investment and 30% of exports. The contribution of SMEs is considerably higher in South Africa. The estimated 91% of the formal business entities in South Africa that are SMEs contribute 52–57% to GDP. In Ghana, SMEs are even more prominent in the local economy, representing about 92% of Ghanaian businesses and contributing about 70% to Ghana's GDP (Abor and Quartey 2010).

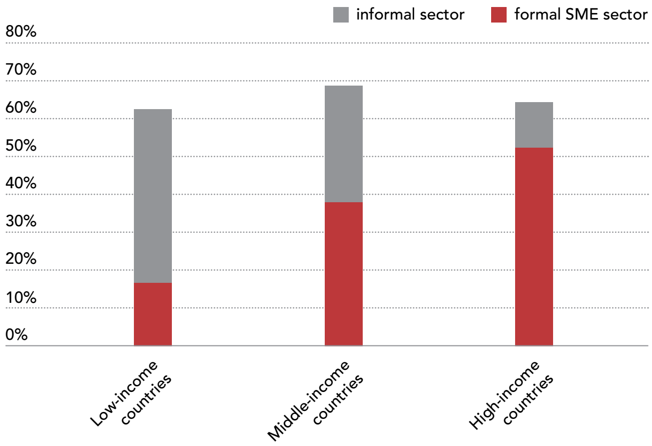
Overall, statistics can sometimes mask the particular contribution made by individual sectors. For example, in 2006/7, the contribution made by micro and small businesses to India's GDP was only around 6%. Even so, manufacturing SMEs accounted for around 40% of industrial output, and 40% of all exports (Ghatak 2010). Similarly, the United States International Trade Commission (2010) reports that SMEs contributed roughly 50% of US private non-agricultural GDP in 2004, a share that had remained relatively stable from 1998 to 2004. The service sectors are by far the most important contributors, accounting for 79% of SMEs' contribution to GDP.

When compared with larger businesses, SMEs' contribution to output tends to be lower per firm because they tend to be more labour intensive than larger firms and concentrated in service sectors. They therefore typically achieve lower levels of productivity, though they do contribute significantly to employment (Wymenga et al. 2011).

SMEs' greater labour intensity means that job creation entails lower capital costs than in larger firms (Liedholm and Mead 1987; Schmitz 1995), which is particularly important for developing countries and economies with high unemployment. Moreover, SMEs are generally more common in rural areas than larger businesses. Especially in developing countries, SMEs thus provide much-needed employment in rural areas.

SMEs can in fact become the engines that sustain growth for long-term development in developing countries. When growth becomes stronger, SMEs gradually assume a key role in industrial development and restructuring. They can satisfy the increasing local demand for services, which allows increasing specialisation, and furthermore support larger enterprises with services and inputs (Fjose et al. 2010).

Figure 1.1: Contribution of SMEs to GDP (median values)

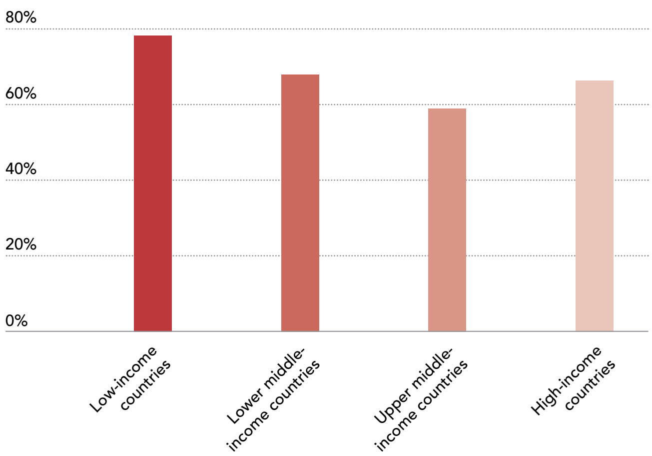


Source: South African Institute of Public Accountants (SAIPA), based on World Bank 2003

SMES AND EMPLOYMENT

As noted, SMEs tend to be more labour intensive and at a macro level, therefore, provide a substantial contribution to employment. A World Bank survey of 47,745 businesses across 99 countries revealed that firms with between 5 and 250 employees accounted for 67% of the total permanent, full-time employment (Ayyagari et al. 2011). SMEs were also creating more jobs than large enterprises. Between 2002 and 2010, on average, 85% of total employment growth was attributable to SMEs (de Kok et al. 2011). Figure 1.2 on page 9 illustrates SMEs' contribution to employment in different country groups.

Figure 1.2: Contribution of SMEs to employment (median values)



Source: SAIPA, based on Dalberg 2011

Job creation is particularly important for countries that are plagued by high unemployment rates and in general for developing and emerging economies. SMEs are key providers of employment in such countries. In Morocco, for instance, SMEs account for 46% of employment, whereas SMEs in Bangladesh (here meaning enterprises with fewer than 100 employees) provide 58% of total employment. In Ecuador, private companies with fewer than 50 employees account for 55% of employment.[1] South African SMEs contribute even more to employment, at about 61% of the total, while SMEs in Ghana provide over 80% of total employment (Abor and Quartey 2010).

Comparing and aggregating data worldwide for SMEs are not straightforward processes because of the different definitions applied in individual countries. Table 1.2 gives a synoptic overview of different definitions used worldwide.

Table 1.2: SME definitions

	VARIOUS COUNTRIES					BRICS					
	EU	USA	Asia (Malaysia)	Egypt	Ghana	Brazil (industrial)	Brazil (commercial)	Russia	India	China	South Africa
Name											
	Small and Medium Enterprise	Small and Medium Business	Small and Medium Enterprise	Micro, Small and Medium Enterprise	Micro, Small and Medium Enterprise	Small and Medium Enterprise	Small and Medium Enterprise	Small and Medium Enterprise	Micro, Small and Medium Enterprise	Small and Medium Enterprise	Micro, Very Small, Small and Medium Enterprise
Number of employees											
Micro	<10	–	<5	1–4	1–5	1–19	1–9	–	0	–	<5
Small	<50	<100	5–50	5–14	6–29	20–99	10–49	15–100	0	<300	20–49
Medium	<250	<500	51–150	15–49	30–39	100–499	50–99	101–250	0	300–2000	50–-200
Annual turnover											
Micro	<€2	0	RM250.000	0	$10k	0	0	–	<Rs50m	–	<R200k
Small	<€10	0	RM250.000–<RM10m	0	$100k	0	0	400m RUB max	Rs50–60m	<Y30m	R3m–R32m
Medium	<€50	0	RM10m–RM25m	0	$1m	0	0	1bn RUB max	Rs60–99m	Y30–Y300m	R5m–R64m

Source: South African Institute of Public Accountants (SAIPA), information drawn from NCR (2011: 23), and South African National Small Business Amendment Act, 2003

Some countries even apply different criteria for specific sectors. (See Appendix 1 for further consideration of the definitions applied to SMEs internationally.) Nevertheless, research suggests that SMEs are the major contributors to employment in all regions, although the scale of the contribution varies. Regional variations are revealed in Table 1.3 on page 10, which shows the median contribution of SMEs to employment in different regions, defining SMEs by relation to employee numbers. For example, SMEs employing up to 500 people account for almost 57% of employment in North America, but 88% in the South Asian region.

1. See WBSCD (undated) and the sources cited therein for the figures on Morocco, Bangladesh and Ecuador.

Table 1.3: SME contribution to Employment Shares by Region – Median

Median across regions	SME100	SME150	SME200	SME250	SME300	SME500
Africa	54.77	63.79	68.15	76.85	80.56	85.11
East Asia and Pacific	56.79	61.58	67.42	65.70	71.34	71.34
Europe and Central Asia	44.71	53.08	59.46	66.32	67.48	75.47
Latin America	53.72	56.71	64.36	67.77	70.99	78.26
Middle East and North Africa	31.20	48.10	36.63	57.31	58.56	62.30
North America	41.73	39.34	41.99		59.27	56.58
South Asian Region	56.68	65.29	73.63	78.00	80.26	88.55

Source: Ayyagari et al. 2011

When the data is arranged by country income groups, it appears that SMEs in lower-income group countries make a higher contribution to employment than those in higher-income countries (see Table 1.4).

Table 1.4: SME contribution to Employment Shares by Income Group – Median

Median across income groups	SME100	SME150	SME200	SME250	SME300	SME500
Low	59.43	65.73	74.21	78.00	83.29	86.71
Lower-Middle	52.58	59.16	64.70	66.19	71.34	77.80
Upper-Middle	41.84	49.15	53.90	58.15	64.03	73.86
High	48.13	54.39	61.46	66.89	67.23	75.16

Source: Ayyagari et al. 2011

CASE STUDY

UK

SWIMFIN

SwimFin is a unique buoyancy aid for swimmers of all ages and abilities. After being ridiculed and rejected on BBC business 'reality TV' show *Dragons' Den* in 2006, the product is now sold in more than 70 countries.

Kevin Moseley was a self-employed swimming instructor living in Burscough in Lancashire, northern England during the late 1980s. For a fun way to end lessons, he would pretend to be a shark and chase children he had been teaching around the pool, wearing a fin he had fashioned from two polystyrene kickboards. The children had to use the skills they had just learned to avoid 'attack'. One day, one of the children asked whether they could have a go of the fin, because it looked fun. It was a 'Eureka moment' that left Kevin wondering whether his self-made fin might have commercial potential.

Dragons' Den

Fast forward to 2006. *Dragons' Den* is a popular BBC 'reality TV' programme featuring entrepreneurs who pitch their business ideas with the aim of securing investment from one of more members of a panel of venture capitalists known as 'the Dragons'. After hearing that *Dragons' Den* was looking for participants, Kevin created a basic business plan for his pioneering product – SwimFin. He had a prototype made, having already registered a trademark, and he had patents pending.

'The Dragons were extremely scathing. I was criticised heavily – they failed to recognise the viability of my idea. Afterwards I was angry and frustrated, but I was determined to show them they were wrong', he recalls.

Kevin and wife Nicky remortgaged their home, borrowed money from the bank, cashed in their life savings and sold Kevin's swimming school business, which raised some £200,000 of start-up capital.

'We redesigned the product and had it tested rigorously to make sure it conformed to international safety standards. Then we had to find a manufacturer, develop the branding, sort out distribution, learn about importing and exporting and so many other things. We launched the business in 2008 and ran it from our garage, but almost immediately sales were very encouraging.'

SwimFin was soon endorsed by the ASA, the UK's governing body for swimming. Kevin stresses:

'That was a fantastic seal of approval. As word spread, local authorities contacted us, swimming schools started buying in bulk, retailers were expressing an interest and many parents were buying SwimFins for their kids.'

Internationalisation strategy

In the first two years of trading, 70,000 units were sold – including sales to customers in 46 countries overseas.

Source: ACCA

'Probably about 5% of our turnover came from exports, but we didn't particularly target overseas markets, people just heard about the product and contacted us. We received help from UKTI [a UK government department working with UK-based businesses to ensure their success in international markets], but everything we did was self-financed. At the time, we'd only just scratched the surface as regards UK sales, but we couldn't ignore demand from elsewhere.'

Although Kevin was mindful of the risks of focusing on many markets – particularly the danger of overstretching his business finances – he had total belief in his product.

'Initially, I'd visit swimming conferences overseas and people would buy there and then. I also used to get approaches from individuals who wanted to become suppliers or distributors. Once we were exporting to a large range of countries, others quickly followed. Exports grew very quickly and by 2010 we were selling to customers in more than 60 countries and exports probably accounted for about 30% of our sales.

You have to bear in mind that culture can be totally different in one market when compared to another. You must do your research and tailor your approach to that market. Whether you're dealing with potential customers, distributors or suppliers, in some countries it doesn't pay to try to rush people or be too pushy. In other markets you have to be more direct.'

Now more than half of SwimFin's sales come from outside the UK, mainly via retailers and distributors.

'There's no doubt that overseas sales have been key to the development of my business. Our domestic UK sales remain good, too, but we're developing a new sales and marketing strategy for 2013, which we hope will really push us forward in all markets. Overseas sales have provided welcome additional cash for the business, some of which has been reinvested to fuel growth.'

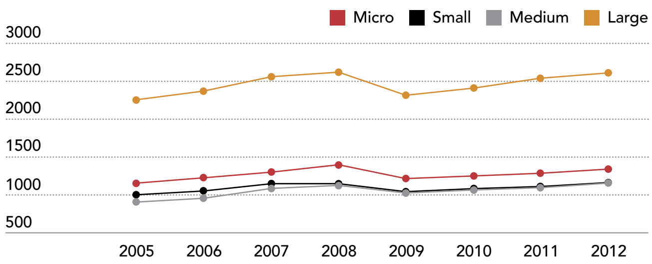
Top Tips

- Get in touch with UKTI – or whatever similar agency exists in your country geared toward helping small businesses internationalise – and make full use of the support they offer. You can access a wealth of information and they are likely to have contacts overseas that could help you.
- Exercise patience and caution when looking for suppliers and distributors. Many will promise you the Earth, but not everyone will be reliable. You have got be able to trust your suppliers and distributors.
- Finally, do not be frightened by the prospect of trading internationally. As well as lessening your reliance on domestic sales, selling overseas really could make a huge difference to your profits and help you to take your business forward.

Impact of the financial crisis

The impact of the financial crisis and the economic downturn that it entailed was substantial. Many companies, SMEs included, suffered negative repercussions such as reduced revenue or were even forced to close down. In the post-crisis era SMEs in particular have faced challenges in relation to accessing finance.

Figure 1.3: GVA by size class, EU-27, 2005–12 (in billions)



Source: Eurostat cited in Wymenga et al. 2012

IMMEDIATE IMPACT, MIXED RECOVERY RATES

SMEs in the EU-27, alongside larger enterprises, saw their gross value added decline from 2008 to 2009. After 2009, however, SMEs recovered to their pre-crisis GVA (Figure 1.3).

SMEs do not appear to have suffered equally from the economic downturn. According to a 2010 survey in the UK, 28% of SMEs reported turnover exceeding that of the pre-crisis period 2007/8, while 34% stated it was lower. For the remaining 34%, turnover had remained the same (BIS 2011).

One effect of recession may have been to increase the productivity of SMEs. Data for the EU for the three years from 2008 to 2010 show the negative impact on enterprise numbers, employment and GVA for SMEs in the immediate aftermath of the global financial crisis (Table 1.5).

Even so, in 2010 SME numbers were holding steady and GVA increasing, although employment continued to fall.

It is a general observation that following a time of subdued economic activity, employment levels do not pick up as quickly as economic output. Companies (including SMEs) generally hesitate to employ new staff until they are confident that the increasing demand they observe is not merely of a temporary nature. This suggests that even after countries have recovered from the crisis, it will take some time until SMEs will resume their crucial role in providing and creating employment.[2]

Table 1.5: Annual growth percentages for number of enterprises, employment and gross value added, EU-27, 2008–10 (estimates)

	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
2008	2.1	1.3	0.7	2.0	2.0	2.0
2009	–2.0	–3.2	–3.1	–2.1	–3.1	–2.1
2010	0.1	–1.0	–1.1	0.0	–0.9	0.0
Employment						
2008	1.9	1.1	0.7	1.3	1.9	1.5
2009	–2.0	–3.4	–3.2	–2.7	–2.9	–2.8
2010	–0.8	–1.0	–1.0	–0.9	–0.6	–0.8
Gross Value Added						
2008	1.6	1.2	0.1	1.0	–0.2	0.5
2009	–4.8	–6.3	–8.5	–6.4	–7.6	–6.9
2010	2.6	3.1	4.6	3.4	4.8	3.9

Wymenga et al. 2012

2. In general, the stricter employment protection is, the longer it takes for employers to (re-)employ people after they are dismissed during an economic downturn. While employment protection is important, it may contribute to sustaining high unemployment levels for a considerable time and may be preventing SMEs from making their full contribution to employment after the recent financial and economic crisis.

An interesting trend, evident before the global financial crisis and which has contoured since, is the growth in businesses without employees (Figure 1.4). In the UK, for example, the estimated number of private sector businesses has increased in each of the last 12 years since 2000, and by 1.33m (38.6%). Much of this increase has been by micro businesses and businesses without employees: 3.9m people (out of 23.9m) work in one-person enterprises. This trend is not confined to the UK. Evidence from the US also shows the shift toward micro-enterprises. It may reflect the fact that individuals, for lifestyle or economic reasons, are choosing to work for themselves in a business structure rather than find employment elsewhere.

SME FINANCE

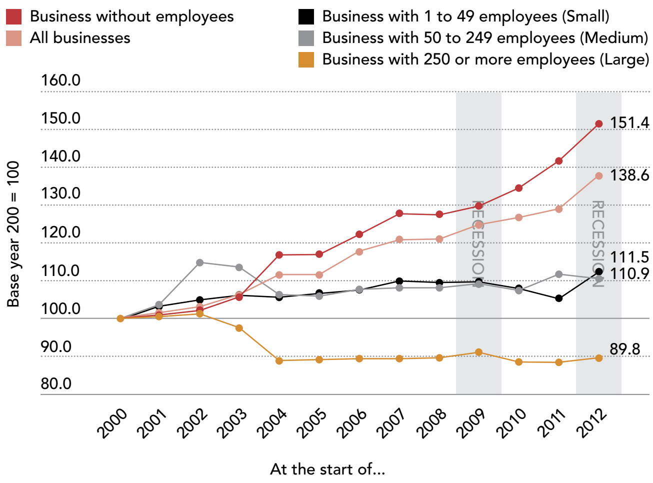
The 2008 financial crisis and subsequent widespread economic downturn have had a huge impact on the availability of finance to SMEs. Already, before the crisis, SMEs in many developing countries had been strongly restricted in accessing the capital that they needed to grow and expand. Banks do not provide SMEs with adequate capital in many of these countries. In fact, only 20% of African SMEs have a line of credit from a financial institution. The financial crisis has further increased the financing gap for SMEs in developing countries (AfDB 2012; Dalberg 2011).

In many Western economies, such as the US and UK, banks also reduced their lending (loans and overdrafts) to SMEs in a drive to reduce risk. This falling finance trend has continued as SMEs have themselves reduced their demand for external funding as the recession has continued (Williams 2012; BDRC Continental 2012).

The immediate impact of the 2008 financial crisis on lending was dramatic. In many countries in Europe, both inside and outside the Eurozone, and elsewhere around the world (in Australia and the US, for example) demand for credit fell and / or businesses reported finding it harder to borrow funds (OECD 2009b).

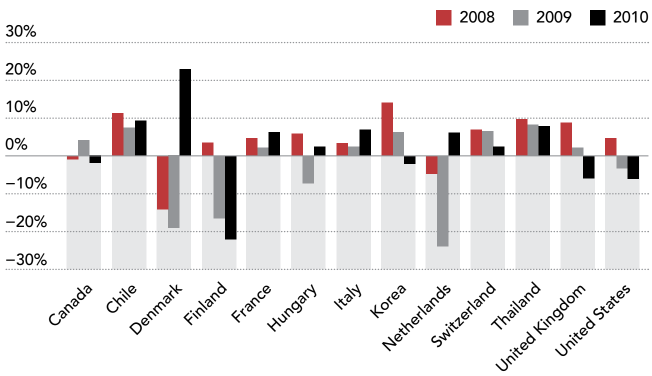
Many jurisdictions saw a slowdown in growth rates of loans to SMEs, though lending recovered more quickly in some countries than in others. In Finland, the UK and the US, the rate of growth of SME loans continued to decline through the 2008–10 period (Figure 1.5). Other countries, such as Chile, France and Thailand, experienced growth in the amounts lent to SMEs. Denmark and the Netherlands showed considerable improvement in the SME loan growth rate in 2010 (OECD 2012).

Figure 1.4: Change in the number of UK private sector SMEs by size band 2000–12 (indexed)



Source: BIS 2012

Figure 1.5: Growth of SME business loans (2008–10) – % year-on-year growth rate



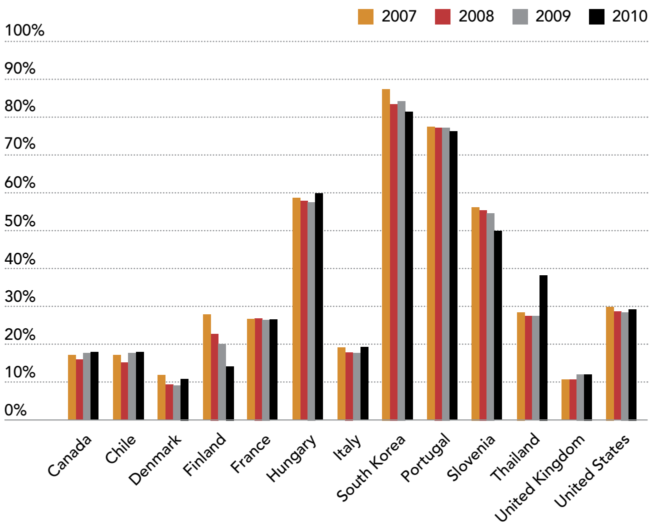
Data source: OECD 2012

Smaller businesses appear to have been harder hit than larger corporates by the reduction in lending. Evidence shows that the share of SME loans to total business loans varies quite strongly between different countries. Although generally ranging from 12% to 30% (Figure 1.6), in some countries, such as South Korea and Portugal, the share of SME loans is well above 50% (OECD 2012). In general, during the recession, lending to SMEs declined more than lending to large enterprises, resulting in a further decrease in the share of SME loans to total business loans.

Research in the UK emphasises the impact of the financial crisis in increasing the challenge and costs faced by SMEs in obtaining credit. Term loan and overdraft rejection rates increased significantly between 2004 and 2008 (by 2.5 times and 3.5 times respectively). Overdraft arrangement fees increased by 86% and overdraft margins by 83%. The average size of overdrafts and loan facilities also increased, by 30%; the main beneficiaries were low-risk firms and those with collateral. Higher-risk businesses found it difficult to access credit after the financial crisis (Fraser 2010).

Another study of SME financing in the UK before and during the global financial crisis found that, between December 2008 and February 2010, 24% of SME owners had tried to obtain finance for their businesses in the previous 12 months (Cowling et al. 2012). Of these applicants, fewer than 70% secured finance. Before the financial crisis, 27% of SME owners made finance applications and 90% were successful. These results confirm both the reduced demand for business loans after the financial crisis, and the greater difficulty in obtaining them.

Figure 1.6: SMEs' share of total business loans (2007–10)



Data source: OECD 2012

CASE STUDY
SOUTH AFRICA

BLACKBALL RENTERTAINMENT

Blackball Rentertainment was established in 1987, renting out a gradually increasing array of entertainment equipment for events and functions, backed up with excellent service and high quality at competitive prices.

Today, the business has three different elements – long-term rentals, casual rentals and sales. In its three offices (Cape Town, Durban, Johannesburg), the business employs a total of 20 staff. Blackball Rentertainment continues to roll out innovative ideas and entertainment products into new markets, tailoring the products to suit clients' needs to either rent or purchase.

Over time, associated businesses have grown out of the initial business. These include Rent-A-Juke, a business that rents out original authentic juke boxes, or Mr Mista, an affiliate company of Blackball Rentertainment based in Cape Town, and Bigfoot Promotions based in Gauteng. These companies have serviced the events and entertainment industry throughout Southern Africa. Being leaders in innovation, the companies have successfully forged a coveted reputation based on excellence and integrity.

Internationalisation strategy

International business – mainly in the form of sales – started not long after the establishment of the company. Marketing in the *Sunday Times*, a news magazine bought in South Africa and in the neighbouring Southern African countries, created considerable interest in Blackball Rentertainment's new (now patented) invention, the L-shaped pool table.

Sales to Namibia started in around 1988/9 and the business began exporting its concepts (eg L-shaped pool tables) to countries such as England and the US between 1990 and 1993. Since then, Blackball Rentertainment has traded with various other countries, such as the directly neighbouring states of Namibia, Botswana, Zimbabwe and Swaziland, and with countries further afield, including Gabon and Mauritius.

'EMBRACE ONLINE ADVERTISEMENT. IT IS A COMPARATIVELY CHEAP WAY OF ADVERTISING YOUR BUSINESS, BUT IT CAN REACH A BROADER MARKET, BOTH NATIONALLY AND INTERNATIONALLY.'

BLACKBALL

Source: South African Institute of Public Accountants (SAIPA)

The owner of Blackball Rentertainment points out that the financial implications of diversifying into international markets need to be carefully budgeted for as a long-term expense. From the initial visit to attend trade shows with the aim of procuring knowledge of the local market requirements, to setting up either agents or local distributors and later on continuously supporting them with advertising, etc, a number of visits to the new market are required and this involves long-term costs.

Support

Access to capital is a frequent problem for SMEs at their early stage. Although there were export subsidies available from government, Blackball Rentertainment was not eligible. The subsidies were primarily aimed at exports of goods and not at exports of concepts. With no support from government, the young business had to look for alternative ways of obtaining capital. It was able eventually to secure finance from the Small Business Development Corporation (SBDC; now known as Business Partners).[1] The money borrowed from SBDC helped Blackball Rentertainment over its early stages when the availability of external capital was crucial.

Tips for prospective SME owners looking to internationalise

1) *Learn to empower yourself.* Seek out and recognise opportunities and capitalise on them.

2) *Embrace online advertisement.* It is a comparatively cheap way of advertising your business, but it can reach a broader market, both nationally and internationally. Online advertisement is very effective and can create many opportunities, including cross-border opportunities. Even so, the importance of using the regular media for the local marketplace must not be ignored as this is a direct link to potential customers who require service and back-up locally on the ground.

3) *Find a local partner.* Having someone on the ground in the country where you want to expand your business helps tremendously. Not only is there a direct representative of your business, but you also have someone who knows about local customs and business practices. It is worth making this person a business partner who makes a personal financial commitment. With a vested interest in the business and its success, the local partner is much more likely to contribute positively to the international expansion of the business.

4) *Lastly, try to be an entrepreneur at all times.*

1. See www.businesspartners.co.za

Policy responses to the financial crisis and SME needs

Governments across the world have recognised the challenges faced by SMEs in the aftermath of the financial crisis. They also understand the importance of maintaining a vibrant SME sector. It is no surprise, therefore, that policymakers have adopted a variety of anti-crisis packages.

GENERAL ANTI-CRISIS MEASURES

According to analysis by the Organisation for Economic Co-operation and Development (OECD), anti-crisis measures have tended to cover three lines of action (OECD 2009b):

- stimulation of demand (consumption packages, infrastructure programmes, tax policies)
- credit enhancement measures, including recapitalisation of banks, which, in some cases, included explicit provisions or mechanisms for preserving or enhancing banks' capacity for financing SMEs (such as public credit guarantees), and
- labour-market measures (reduced employment taxes or social security charges and extended temporary unemployment programmes).

MEASURES TO SUPPORT SME FINANCE

The OECD (2009b) has also classified the various measures taken by governments to address the problem of financing SMEs that has resulted from the global financial crisis. Again three types of response have been identified:

- measures supporting sales, cash flows and working capital
- measures enhancing SMEs' access to bank lending
- measures aimed at helping SMEs maintain their investment level and build capacity to respond in the short term to any possible surge in demand.

WORKING CAPITAL SUPPORT

Many governments implemented stimulus packages to support SME cash flows, seeing these as critical for the development and growth of these firms. In Germany and France, for example, governments allowed accelerated depreciation on all or specific assets, thus reducing the tax burden on SMEs. Other countries reduced corporate tax rates for SMEs (for example, Japan) or altered tax brackets to reduce SME taxes (the Netherlands and Canada). Some introduced policies of refunding VAT payments (the Czech Republic, France and Spain).

To alleviate the working capital issues of SMEs, some countries such as France have legislated to shorten payment delays. Others, such as Australia, France, Hungary, Italy, New Zealand, the UK and the Netherlands, have taken steps to reduce delays associated specifically with payments by government (OECD 2009b).

ACCESS TO BANK LENDING

According to the OECD, governments have used two different approaches to increasing the availability of credit to SMEs:

(a) on the incentive side, the creation and extension of guarantee schemes for loans to SMEs, or when that fails, direct public lending;

(b) on the discipline or sanction side, setting targets for SME lending for banks that have been recapitalised by public monies, putting them under administrative monitoring or putting in place specific procedures to solve problems between individual SMEs and banks (OECD 2009b).

Developed economies have enhanced their credit guarantee schemes for SMEs. In France, for example, the easing of the rules on SME lending made it possible for loan guarantee schemes to cover up to 90% of the loan risk, compared with 50–60% previously. In the UK the government guarantees up to 75% of loans to businesses, in Japan 80% and in South Korea 100%. In some cases, governments have resorted to direct lending to SMEs through public institutions. In Belgium, for example, the Ministry of SMEs provides businesses with pre-fund agreements on the basis of which they can obtain guaranteed loans from banks. Sweden, too, has increased by 50% the lending capacity of the subsidiary SME banks of state-owned business bank Almi.

Despite loan guarantee schemes and the recapitalisation of banks, some countries have seen a disappointing response in SME lending. In such cases, governments have resorted to independent monitoring to pressurise banks to continue lending to SMEs. Belgium and France, for example, have appointed a credit mediator, Ireland has established a Credit Review Office, while the UK has established the SME Lending Monitoring Panel (OECD 2009b).

Overall, although governments have attempted to stimulate the supply of finance for SMEs and interest rates continue at an all-time low, SMEs remain reluctant to take up loans because of a lack of demand for their products and services. In addition, in some regions, banks have been reluctant to lend because of increasing financial requirements from regulators. Basel III, the latest regulatory framework, is focused on banks' capital adequacy and so may also have affected the capabilities of banks to lend to SMEs: the drive to improve the banks' balance sheets may have led to a reduction in liquidity for SMEs (ACCA 2011).

The current situation in relation to SMEs and their finance opportunities therefore remains uncertain. It does seem clear, however, that the conventional sources of finance are not sufficient to meet the needs of SMEs in the current economic climate.

INVESTMENT SUPPORT

Many SMEs have reduced or delayed their investment plans as a response to recession. In order to prevent SMEs losing their competitive edge and to help them prepare for expected rising demand during the recovery phase, governments have taken measures to strengthen SMEs' capital base and develop their productive capacities.

Canada, for example, provided financial assistance for innovative SMEs by allocating $200 million over two years to its Industrial Research Assistance Programme. Innovative SMEs could access non-refundable contributions toward the costs of innovative business strategies and technology-related projects. Germany increased the funding available to support SMEs' research and development projects by an additional $450m a year for 2009 and 2010. Within the EU, the Structural Funds of the European cohesion policy give member states and their regions considerable flexibility for supporting SMEs, including through investment projects in specific technologies or sectors. Many member states have used these opportunities, including Romania and the Czech Republic (OECD 2009b).

BETTER REGULATION AGENDA

The financial crisis of 2008–9 called the regulatory reform agenda in some parts of the world into serious question. In the middle of the deepest economic downturn, plans for regulatory reform were overtaken by acute economic problems such as falling demand and lack of access to credit. Coupled with this, the economic downturn itself was seen as having been brought about at least to some extent by a failure of governance, market discipline and regulation and supervision. Hence there was little public sympathy with arguments that regulation was too intrusive or deterred business growth, especially in economies most affected by the 'credit crunch'.

Nevertheless, considering that a 'deregulatory stimulus' could help compensate for the government's reduced spending powers, the case for better regulation in fact remains stronger than ever. A wealth of empirical research shows that perceptions of regulation influence business start-up rates and employment decisions, and are thus central to accelerating recovery and halting the rise in unemployment (Grilo and Thurik 2008; World Bank 2013). Additionally, regulatory reform could contribute to business survival by reducing distraction among owner-managers (Decker et al. 2008). Finally, in today's adverse credit environment, regulations requiring high levels of investment on the part of the SME owners are likely to create further barriers to entry (BIS 2008).

It is encouraging to see that governments across the world are taking this message to heart. In its tenth year of measuring progress, the World Bank's *Doing Business* report (World Bank 2013), assesses the ease of doing business in 185 economies and measures annual progress across 11 indicators, providing valuable insights. The 2013 report shows that economies in Europe that are witnessing an acute fiscal deficit are making efforts to improve their business environment, putting Greece among the ten economies that have improved the most over the past year. More generally, however, with ten years of data behind the initiative, the World Bank concludes that there has been 'a steady march from 2003 to 2012 toward better business regulation across the wide range of economies'. With a handful of exceptions, every economy covered by *Doing Business* has narrowed the business regulatory practice gap between its own performance and the top global performance in the areas measured by the indicators (Figure 1.7 on page 18). The World Bank calls this is 'a welcome race to the top' (World Bank 2013).

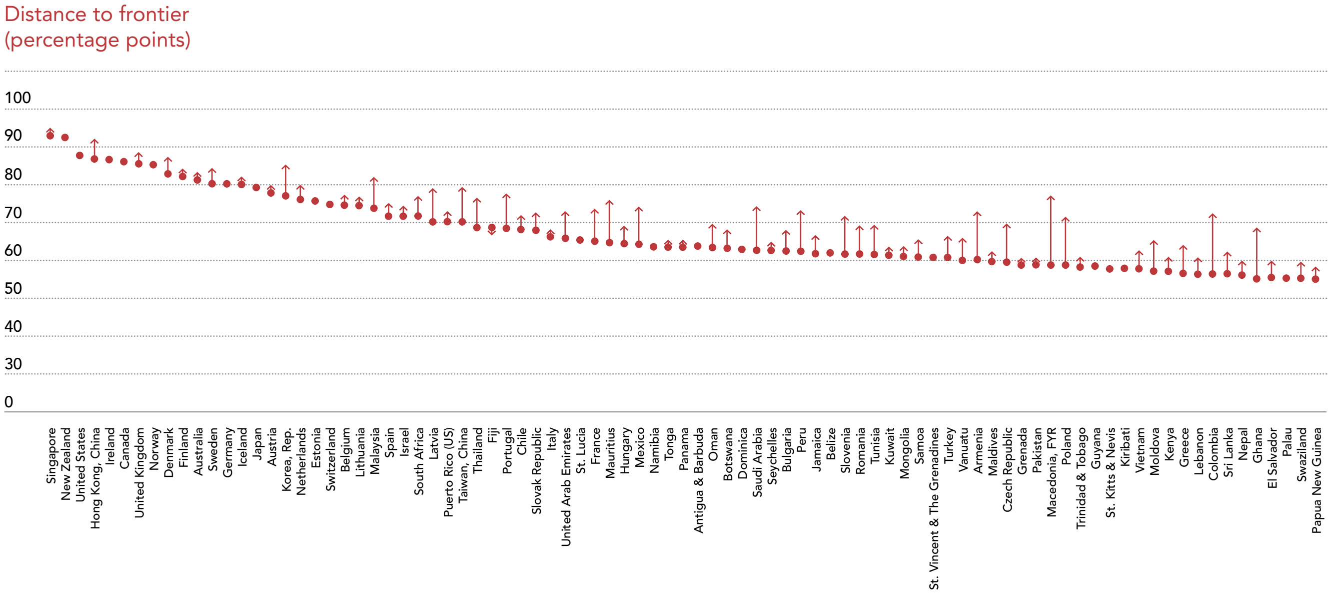
SMP INSIGHTS

As the SME adviser of choice (IFAC 2010), small and medium sized accountancy practitioners (SMPs) are able to offer valuable insights into the challenges SMEs are experiencing. Accountants provide a variety of services that go beyond tax advisory and other compliance-related advice. Independent evidence suggests that the profession is, for example, the most frequently used intermediary on regulatory advice (FDS International 2010) and access to finance (ACCA 2012b) and evidence is continuing to reveal new aspects of SMPs' offering to their SME clients in areas that go beyond accounting and finance, including HR advice and succession planning.

The most comprehensive global survey of SMPs consistently ranks the burden of regulation and economic uncertainty as the two most significant challenges facing their SME clients (Figure 1.8 on page 18). The accountant's unique role in offering regulatory advice to SMEs may reflect some of the emphasis placed on the challenge of regulatory burden by practitioners. These two problems are closely followed by the inflationary pressures and difficulties in accessing finance. Views were broadly consistent across all the regions excluding Asia, where rising costs are cited as the number one challenge for SMEs, reflecting high levels of inflation witnessed in the region (IFAC 2012).

Owing to their limited resource and management capacity, SMPs naturally have many things in common with their SME clients. This is very much reflected in their reporting of the challenges in 2012, where keeping up with new regulations and standards, rising costs and competition ranked as the biggest challenges facing their own practices, very much mirroring the concerns of their own clients (IFAC 2012). The close relationship between the profession and the sector and thereby the unique perspectives this tends to generate ought to be more widely understood and used by policymakers in their efforts to raise awareness and encourage uptake of many of the initiatives identified in this report.

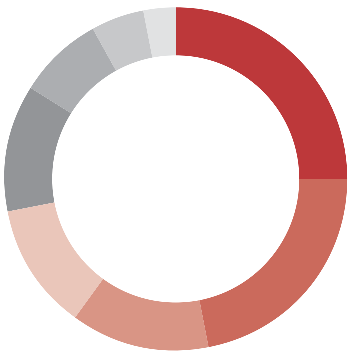
Figure 1.7: The closing of the gap in regulatory practice between best-performing countries and the rest



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each Doing Business indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in Doing Business 2006 (2005). Eleven economies were added in subsequent years.

Source: *Doing Business* database

Figure 1.8: What is the biggest challenge faced by SMPs' SME clients?



Burden of regulation	**25%**
Economic uncertainty	**22%**
Rising costs	**13%**
Difficulties accessing finance	**12%**
Pressure to lower prices to their products and services	**12%**
Lack of demand for their products and services	**8%**
Competition	**5%**
Attracting and retaining staff	**3%**

Data source: OECD 2012

The internationalisation of SMEs

Internationalisation is important for the competitiveness of enterprises of all sizes, particularly for SMEs. Public policy at local, regional and national level can and does play a significant role in encouraging internationalisation of SMEs through the negotiation of the various market failures that can occur.

LEVELS OF INTERNATIONALISATION

SME internationalisation can take the form of exporting, the creation of partnerships across national borders, and the establishment of operations in other countries (Wilson 2007). Data suggest that SMEs contribute between 15% and 50% of a country's exports, and that between 20% and 80% of SMEs are active exporters (OECD undated a).

Focusing on the EU, about 25% of SMEs in the EU-27 are exporters of goods or services; of these, 50% export beyond the internal market. Some 29% of SMEs import, of which 50% import from beyond the internal market. Far fewer SMEs are active in foreign direct investment (FDI) – only about 2% of SMEs in the EU-27, and their partner countries are mostly other European nations. Except for imports from China, business with other countries in the BRIC grouping (Brazil, Russia, India and China) is underdeveloped. In fact, BRIC countries make up only about 7–10% of the EU-27 export market (van Elk et al. 2009).

SMEs also play an important part in sustaining the exports of countries in Asia (Table 1.6). In India, for example, for the 10-year period from 1998 to 2008, SMEs accounted for 38–40% of the country's total exports (Tambunan 2009). In China, SMEs contributed 60% to the country's exports (Tambunan 2009). Research has also indicated that the global financial crisis did not have a significant impact on Asian SMEs' bilateral trade (Tayebi et al. 2011).

More recent research on the BRIC countries found that SMEs make up a relatively high percentage of the total number of firms in all these countries. Lamprecht (2011) also uncovered another commonality between these countries, namely the low percentage of SMEs that export. South Africa was found to have the highest percentage of exporting SMEs, followed by India, Brazil, Russia and China.

BENEFITS OF INTERNATIONAL ACTIVITY

We know that SMEs with greater internationalisation tend to report higher turnover growth (BIS 2010). There is also other evidence that an international outlook is good for business. More than 50% of EU SMEs that invested abroad and that were involved in international subcontracting reported increasing turnover from 2007 to 2008, compared with 35% of all SMEs (van Elk et al. 2009).

Table 1.6: Share of SMEs' exports as a percentage of total exports in select Asian countries, average for the period 1998–2008 (Tambunan 2009)

Country	Share
China	60%
India	38–40%
Vietnam	20%
Singapore	16%
Malaysia	15%
Indonesia	18%
Thailand	46%
Philippines	22%
Pakistan	25%

Internationally active SMEs also demonstrate higher employment growth. While non-exporting SMEs experienced 3% employment growth from 2007–8, exporting SMEs achieved 7%. The difference between non-importing and importing SMEs was even more stark (they experienced 2% and 8% employment growth respectively). SMEs involved in both importing and exporting showed 10% employment growth, compared with 3% for the rest. Finally, SMEs with FDI demonstrated 16% employment growth in 2007–8, compared with 4% for the rest (van Elk et al. 2009).

For developing countries, an increase in SMEs' international activities has some additional benefits. Economic growth has been spurred by exports in many developing countries. For example, Kemal et al. (2002) empirically tested the export-led growth hypothesis for Bangladesh, India, Nepal, Pakistan and Sri Lanka. They confirm in their study that export growth has been instrumental in accelerating economic growth in all the economies. Furthermore, economic growth in developing countries is crucial for poverty reduction and employment creation.

BARRIERS FACING SMES

Becoming internationally active is clearly good for business and the wider economy, but SMEs face a range of both internal and external barriers when they seek to internationalise (ACCA 2010). Internal barriers include the pricing of products and the high costs involved with internationalisation. External barriers include a lack of capital to finance international activity, a shortage of adequate and reliable information, lack of adequate public support and the costs and difficulties of paperwork associated with transport.

Research focused on SMEs in OECD countries has identified the main barriers to SME internationalisation as being limited financial resources (particularly for smaller businesses), the difficulty of identifying foreign business opportunities, and information shortages (Table 1.7 on page 20).

Table 1.7: Barriers to internationalisation ranked by SMEs using the 'top ten' ranking method

Rank-weighted factor	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information for locating/analysing markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalisation
7	Inadequate quantity of and/or untrained personnel for internationalisation
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Lack of managerial time and staff expertise were also issues. Limited financial resources seem to be a particularly common problem for smaller firms (OECD 2009a).

GOVERNMENT INITIATIVES

Governments and policymakers acknowledge that SMEs face a range of barriers when they seek to internationalise their businesses. Various governments have therefore employed a number of practices to encourage SME export activity. The Australian government in 2002 set out to double national exports and developed several programmes for achieving this goal, such as Export Market Development Grants. These programmes helped businesses, particularly SMEs, to cover some exporting costs. Subsequently, the number of Australian exporting companies increased from 25,000 to 32,000 (Snyder et al. 2012).

In Germany, where SMEs account for 98% of exporters, each region has a development bank that provides SMEs with access to business development loans. Germany has also made extensive use of clusters that, among other benefits, help smaller companies to reach out to global markets. The power of clustering has also been recognised in Romania, where it is considered to support innovation and economic growth by helping to develop cooperative multi-sectoral approaches (ACCA 2012a). In Germany, funding for the majority of cluster formations comes from the federal or regional governments. In addition, to attract FDI, Germany Trade and Invest was established in 2009 with a mission to promote Germany as a location for industrial and technological investments.

In the case of Canada, where exports account for 38% of the country's GDP, the government provides multiple funding options for companies wanting to export. These include the International Trade Assistance Programme, the Business and Market Development Programme, the Business Networks Programme and the SME Fund (Snyder et al. 2012).

OECD research also reveals a range of initiatives by national governments to overcome finance and other barriers to international trade faced by SMEs (OECD 2009a). Belgium provides financial coverage for SME exports within the EU, Norway and Switzerland and also provides regularly updated analysis reports on foreign markets to actual and potential exporters. In the Czech Republic, the Export Guarantee and Insurance Corporation (EGAP) and its subsidiary, KUPEG Credit Insurance, provide specially tailored insurance facilities to support SME exports. The Czech Republic also offers SMEs assistance in identifying trade partners and developing export alliances.

Beyond Europe, in Brazil, APEX-Brasil, a private agency linked to the Ministry of Development, Industry and Foreign Trade, provides not only financial support to SMEs, but also market analysis and export consultancy. The Brazilian Micro and Small Business Support Service also assists SMEs in building export capabilities and facilitates their participation in foreign business meetings (OECD 2009a).

In South Africa, exports account for close to one-quarter of the country's GDP. In view of the effect that international activities have been shown to have on poverty reduction in developing countries, South Africa strives to achieve faster and more inclusive growth. The key elements of the strategy for achieving this include raising exports and lowering the regulatory burden of small businesses (National Planning Commission 2011). South Africa's Department of Trade and Industry (the DTI) has put a number of incentive schemes in place to promote small, medium and micro-sized enterprises, and undertakes investment and export promotion activities in targeted markets.

Part 2. SME internationalisation challenges

SMEs have been shown to make vital contributions to global economic health. There is also evidence that more internationalised businesses tend to be more successful. It is important, therefore, to understand thoroughly the challenges faced by SMEs when they seek to internationalise.

Much research on SMEs and their role has been done, but obtaining data that are comparable from one country to another is challenging. Accessing SMEs directly can also be difficult. One solution is to tap into the experiences of those who know SMEs and their needs well – their professional advisers.

At the beginning of 2013, the Edinburgh Group, a coalition of 14 accountancy bodies around the world and a champion of both SMEs and SMPs, commissioned a substantial survey among its members. (For information on the survey sample, see Appendix 2.) The aim was to find out more about the extent of international activity among SMPs' clients, the challenges those SMEs face in developing themselves internationally, the support available to SMEs and any further assistance governments could provide.

This survey was conducted in early 2013. SMPs from over 70 countries on all continents were surveyed, with a particularly strong response rate from South Africa (24.1%), the UK (21.6%) and the Republic of Ireland (16.8%), and with good responses also being received from Romania (6.9%) and Turkey (4.6%).

The original sample consisted of 1,350 accountancy practices around the world. Of this sample, 358 respondents indicated that they had no clients undertaking any of the international activities covered by the survey and therefore took no further part in it. This resulted in a core sample size of 952 (apart from a specific question addressed only to the 437 SMPs with clients dealing in foreign currencies). Table 2.1 gives an overview of the number (and relative share) of the answers from the different countries. (For more information on the survey sample, see Appendix 2.)

The findings suggest substantial scope, not only for governments but also for SMPs, for providing more support to SMEs seeking to internationalise. While some professional services firms may associate international business with a higher degree of risk, if SMEs develop international activities they will also develop a more resilient client base. Not only could SME clients benefit from more proactive support, but the SMPs themselves could also benefit from giving that support.

Table 2.1: Survey responses (main countries)

Main countries represented	Number of respondents	In %
South Africa	229	24.1%
UK	206	21.6%
Rep. of Ireland	160	16.8%
Romania	66	6.9%
Turkey	44	4.6%
Rest of World	247	25.9%
TOTAL	952	100%

Limited scope of international activity

SMEs are more likely to be successful on a range of measures when they develop an international focus in some form. So how internationalised are SMEs? And how ambitious are they in considering foreign markets and business opportunities?

EXPORTING AND IMPORTING DOMINATES

A substantial majority of the 1,350 SMPs surveyed (71%) have clients that undertake at least one type of international activity. Around half have clients undertaking import and export activity, but absolute levels of internationalisation are nevertheless low. Relatively few SMPs have clients participating in a high number of international activities. The mean number of international activities selected was slightly less than three and almost 30% of respondents picked only one or two types (Figure 2.1).

The most frequent international activity among client SMEs is the importing and exporting of goods or services. Among all SMPs surveyed, 56% have clients purchasing goods internationally and just fewer than 50% have clients selling abroad.

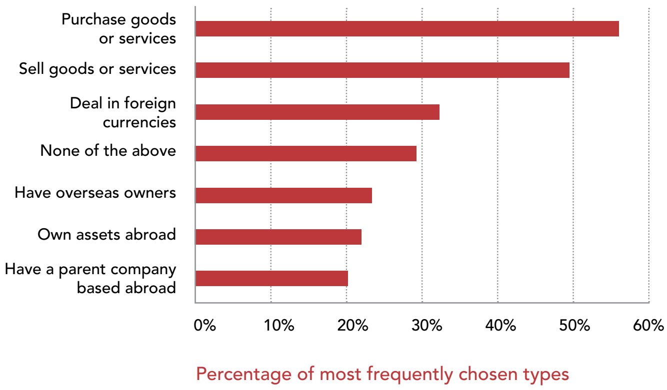
Exports and imports are the lifeblood of the international economy and through information and communications technologies small businesses are as integrated into the global market as their larger counterparts. European respondents are more likely to have clients buying goods and services from abroad than those in any other region, reflecting the importance of the European supply chain, and possibly the free trading zone within the EU.

OTHER INTERNATIONAL ACTIVITIES

Almost one-third (32%) of SMP respondents have clients who deal in foreign currencies – a smaller percentage than those who have clients actively engaged in foreign trade. This is probably owing to the relatively high levels of trade between businesses within the European currency union, but could also indicate the use of export agents rather than companies selling directly abroad.

Just over one-fifth (23%) of SMPs have clients with foreign owners or investors, and 20% have clients with a foreign parent. UK SMPs are most likely to have clients with overseas owners. Across SMPs surveyed as a whole, just over one-fifth (22%) have clients that themselves own international assets and around 12% have clients with joint ventures or partnerships with companies based abroad.

Figure 2.1: Types of SME international activity



Turning to other international activities, a minority of SMPs have clients with offices in foreign countries (15%), overseas subsidiaries (15%) or some part of their business infrastructure or operations abroad (15%). Among all SMPs surveyed, 15% have clients with loans from foreign banks or denominated in a foreign currency – possibly for export credits. SMPs in Ireland are most likely to engage in these activities. Fewer than one in ten SMPs (8%) have clients that outsource any part of their business infrastructure or operation to an overseas supplier.

Overall, these findings suggest there is considerable potential for SMEs to expand the scope of their international activities. Those that do not currently buy or sell goods or services internationally could be encouraged to consider how looking beyond home markets could boost business performance.

INTERNATIONALISED SMPS

Participating firms with offices in several countries have higher percentages of clients undertaking international activities than those with offices in just one country. In particular, 61% of these firms have clients with a parent company based abroad, compared with just 20% of firms overall. SMPs with more than one office in one country also have a higher percentage of clients undertaking international activities than those with just one office.

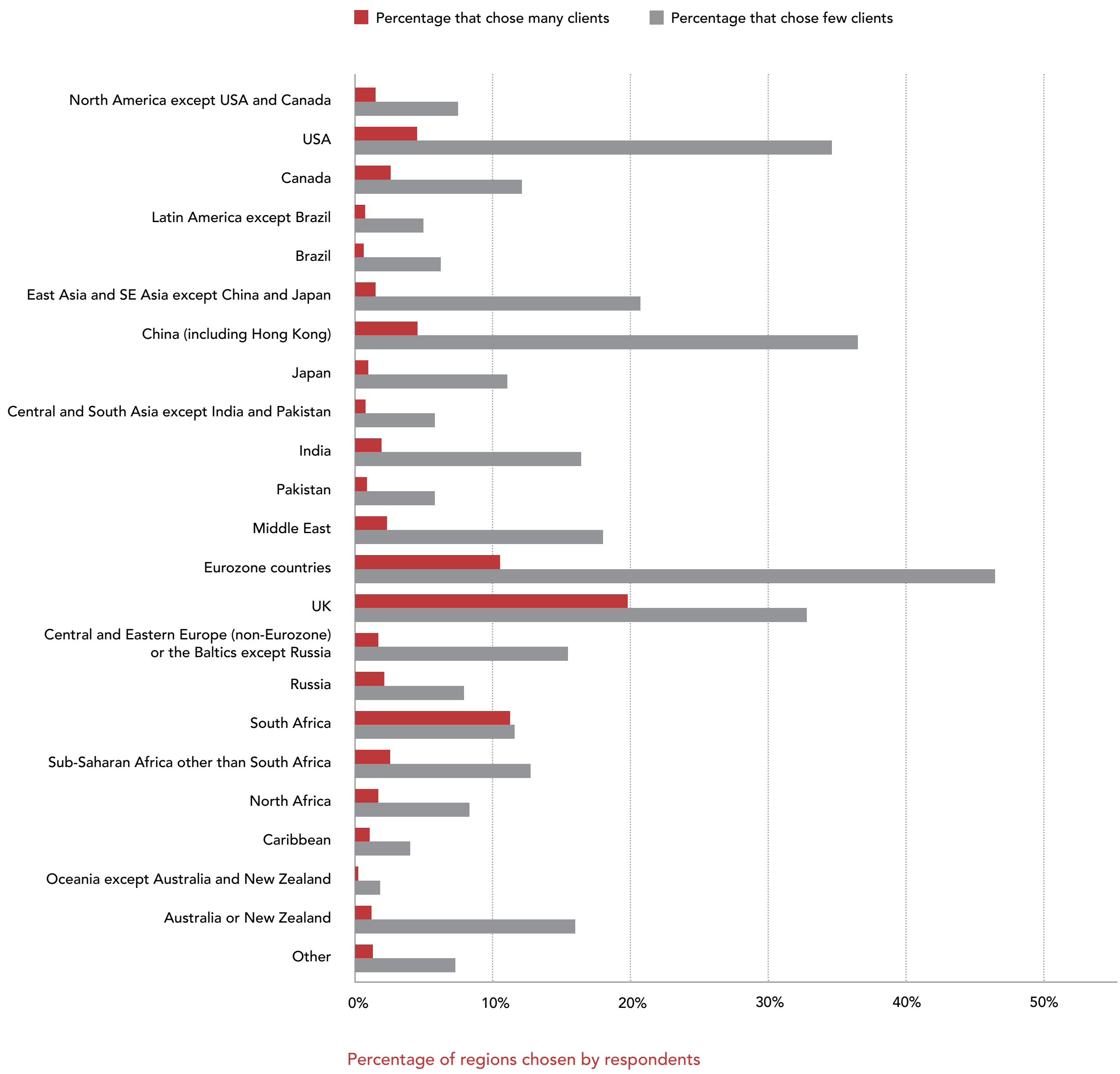
It is logical that SMPs with a more international outlook or established network would attract clients with similar international ambitions. Specifically, the survey showed that companies with more than one office in one country also have a higher percentage of clients undertaking international activities than those who have just one office in one country. It may also be the case, however, that more internationally focused SMPs are better equipped to help their clients develop international businesses from a standing start.

REGIONAL AND NATIONAL ANALYSIS

Among SMPs in Europe, those in the Eurozone have a higher percentage of clients purchasing goods abroad than those outside the Eurozone (Figure 2.2). Conversely, European SMPs not based in the Eurozone have a higher percentage of clients selling goods abroad than those in the Eurozone. They also have more clients who deal in foreign currencies.

UK and Irish companies are generally more internationalised than the other nations in the survey. Nearly 60% of UK SMPs, for example, have clients with exposure to foreign currency dealing. This reflects the fact that UK companies are more likely than Eurozone companies to be exposed to foreign currency risk when buying and selling because their export markets are predominantly in Europe, but they are not in the Eurozone.

Figure 2.2: Foreign markets where SMEs undertake international activity



SMES STAY CLOSE TO HOME

Where does most international activity involving SMEs take place? SMPs were asked to indicate whether they have many or few clients (by reference to practice income) doing business in a range of countries outside their home nation.

Given that nearly half of SMP respondents are based in Europe, it is no surprise that the Eurozone and the UK rank as the most likely markets in which the SMPs' home clients to do business. Overall, 56% of respondents have clients active in the Eurozone and 52% have clients doing business in the UK. Although nearly one-quarter of the SMP respondents are based in South Africa, it is noteworthy that African countries do not rank highly as markets for international activity, even though some of the fastest-growing economies are now found on the African continent.

Activity outside the Eurozone and the UK is generally much lower, suggesting that SMEs are more likely to trade with immediate neighbours. This is confirmed by the fact most clients of the SMPs surveyed undertake any international activities within their home continents. Nevertheless, substantial minorities of SMPs overall have clients doing business in China (41%) and the US (39%).

Focusing on SMPs with many clients (more than 25% by practice income) doing business in a particular international location, the largest proportion (20%) have many clients doing business with the UK, followed by South Africa (11%) and the Eurozone (11%). The findings suggest that many SMEs could be missing out on opportunities in the fastest-growing markets if they keep their international activities close to home.

INTERNATIONALISED SMPS

Multiple-office SMPs again report more client activity internationally. In particular, 14% of firms with offices in several countries have many clients undertaking activities in the US.

REGIONAL AND NATIONAL ANALYSIS

The percentage of Eurozone firms identifying many active clients in foreign locations was generally low, only reaching high levels in relation to other Eurozone countries and Central and Eastern Europe. In most other regions, SMPs are more likely (than firms in Europe) to have internationally active clients.

The clients of UK SMPs are more likely to be active in any given international market than those of SMPs based elsewhere SMPs from other countries only disrupt this pattern when markets have a close relationship with their home location. For instance, Turkish firms have the highest percentage of clients undertaking activity in the Middle East, while Romania has the highest percentage of clients undertaking activity in Central and Eastern Europe. These findings confirm the fact that, in general, SMEs prefer to trade with markets close to their domestic base, even if that means missing out on the potentially greater benefits to be gained from becoming active in fast-growing emerging economies.

Challenges facing SMEs with international aspirations

Doing business internationally is associated with a number of challenges that businesses have to address.

Understanding these challenges is an important first step before developing potential policy solutions. By identifying SME challenges, professional services firms could also discover new areas where they could offer additional support and so develop their own practices.

WIDE-RANGING CHALLENGES

SMPs surveyed perceive their clients as most likely to face their greatest problems in finding reliable business partners and competing with similar businesses, closely followed by the challenge of winning new customers (Figure 2.3). The most frequent minor problems concern foreign and domestic regulation, language and culture, and foreign exchange. Sourcing good employees at home or overseas is also seen to be a significant issue.

These are perhaps areas where advisers could usefully offer support and advice to SMEs seeking to internationalise their businesses.

Poor infrastructure is mostly not considered problematic. Intriguingly, many respondents do not see problems in dealing with domestic regulations and overcoming language and cultural barriers, even though these two issues are also among those most often cited as a 'minor problem'.

REGIONAL AND NATIONAL ANALYSIS

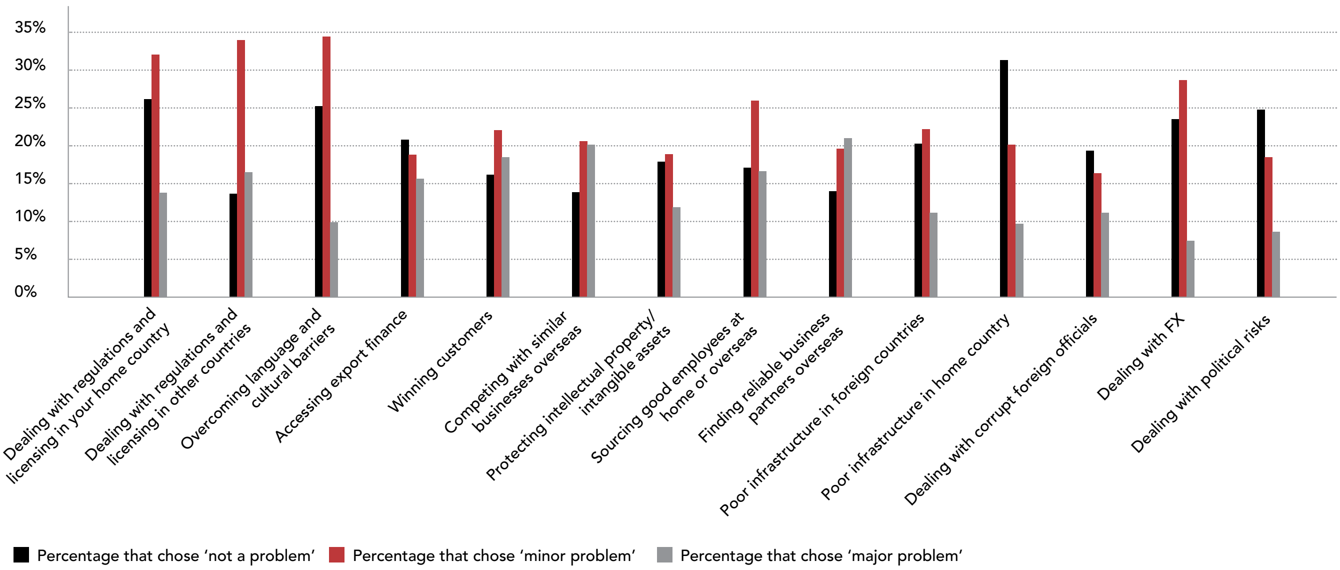
Accessing export finance is overwhelmingly less of a problem in Europe than elsewhere, with 57% of firms there stating that it is not a challenge. In contrast, Africa has the highest percentage of firms seeing export finance as a major problem (17%).

Eurozone firms think their clients have least difficulty dealing with regulation and licensing in their home country, with 33% saying this is not a problem. The same group, however, see their clients as having a major challenge in dealing with regulators and licensing in other countries – 34% doing so – more than the countries in the rest of Europe and the rest of the world. Given that most of their clients' trading is within the Eurozone, where similar EU regulations should apply, this seems a somewhat odd result and shows that the development of the Single European Market still has some way to go before business on the ground is able to appreciate its benefits.

Among SMPs in the major countries represented in the survey, those in Ireland find licensing and regulation the least problematic – 35% finding it be no problem at all and only 9% finding it to be a major problem. Companies in the UK see dealing with licensing and regulation in their home country (29%) as a bigger challenge than dealing with the same in other countries (18%). This points to an interesting area for policymakers, who often focus on how businesses deal with regulations in foreign markets as the biggest obstacle for SMEs, yet for many it may be the regulation in their home market that is proving most challenging. The same applies to South Africa, where the burden of regulation is seen as one of the biggest challenges faced by SMEs.

Figure 2.3: Challenges faced by SMEs seeking to internationalise

Percentage of respondents that chose 'not a problem', 'minor problem' or 'major problem'



CASE STUDY

IRELAND

SONRU

Sonru was founded in July 2007 by Edward Hendrick in response to hearing friends and colleagues complain about the process they were going through when applying for jobs, and the unnecessary cost and hassle involved.

Sonru is an automated online video selection tool for screening candidates, which replaces first-round telephone and on-site interviews. It is Sonru's mission to have every first-round interview screened using Sonru's platform. The name Sonru stems from the Gaelic phrase 'Bí le sonrú' which means 'to stand out'.

Sonru was launched in Public Beta on 27 February 2009 and launched commercially in October 2009. A real turning point in the company was the recruitment of a senior management team.

Sonru's internationalisation

Sonru employed a number of strategies toward internationalisation and the first of those was to open local offices in the target markets. Sonru has a UK office based in London and an Asia Pacific operation based in Singapore. Both these operations work closely with the company's head office both for direct sales/key account management and to expand the regional reseller networks.

Sonru pursued a limited number of Reseller Partners to 'sell' the online video solution via the resellers' own sales channels. Sonru currently has resellers in Poland, Singapore, Australia and New Zealand, UAE and Malaysia.

Finally, Sonru has signed strategic partnerships with highly respected players in the HR/recruitment market such as webRecruit, Alexander Mann Solutions and Oracle/Taleo.

'THE KEY FACTOR IS TO FAIL AND FAIL FAST – LEARN QUICKLY AND TRY NOT TO MAKE THE SAME MISTAKES AGAIN. ALSO, IF YOU ARE AN OWNER MANAGER, IT IS IMPORTANT TO RECOGNISE YOUR OWN SHORTCOMINGS'

Source: CPA Ireland

'We initially entered the UK market with MyJobGroup – the leading jobsboard group in the UK. However, we came to realise that there was not an ideal fit between our sophisticated software sale and classified advertising. To this end, we find it more successful to both sell direct and to partner with high-end HR/recruitment consultancies.'

Success to date

Sonru is now a global leader in the field of video interviewing and selection. As recently recognised by both Gartner and Bersin as a leader in this market, Sonru has established the effectiveness and validity of using video in the recruitment process. Companies such as Volvo, Arvato, Nestlé, Bertelsmann, Apple, CERN, Johnson & Johnson, EA Games, Magnox, Kuehne & Nagel, Allianz, Schroders and Taleo have innovated in their talent acquisition processes by using Sonru's video interview solution.

Sonru is headquartered in Ireland; has regional offices in the UK, Singapore, Australia, South Africa and Poland; and has representation in Malaysia, Singapore, New Zealand, Australia and the Middle East region.

Support

'We have found Enterprise Ireland excellent and hugely professional in all our dealings with them – not only in providing us with excellent market information but the Enterprise Ireland's inbound visit (IBV) programme has been hugely successful. We have used the programme to fund prospective clients to attend seminars in Dublin, London and shortly in Geneva. It makes for an intimate sales encounter and we've experienced very large conversions from these events.'

Tips for other SMEs

'The key factor is to fail and fail fast – learn quickly and try not to make the same mistakes again. Also, if you are an owner-manager, it is important to recognise your own shortcomings in some of the many disciplines you need to get a good idea off the ground and abroad, so you have to be open to bringing other skill sets to the management team.'

Support offered to SMEs

SMEs do face considerable challenges when they seek to develop an international element to their business. Nevertheless, different forms of support are available, from export finance products to the services of SMPs, which can potentially draw on a range of resources to support their clients.

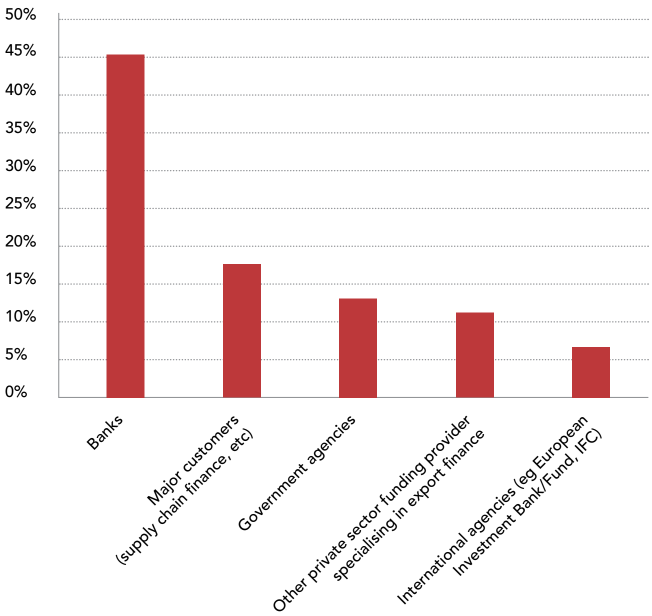
FINANCE FOR INTERNATIONAL ACTIVITY

A range of export finance products and providers is available to SMEs in different countries. Which sources do SMEs actually use to finance their international activities?

Perhaps predictably, banks are by far the most typical source of export finance support (Figure 2.4), identified more than twice as often than major customers (who could provide supply chain finance), and more than three times as often than government agencies. In fact, both public sector (government and international agencies) and other private sector sources were all identified by only a small minority (under 15%) of respondents.

Figure 2.4: Sources of finance for international activity

Percentage of respondents that chose source



Over half of respondents did not identify any funding source, suggesting that either the majority of SMEs do not use export finance products or they have access to other sources (such as their own internally generated funds). An alternative explanation could be that many SMEs are not aware of the whole range of export finance products and support that is available from different sources, whether they qualify for these and, if so, how to access them.

REGIONAL AND NATIONAL ANALYSIS

Export finance products and services provided by banks have a particularly high take-up among the clients of SMPs in Turkey (68%), but are also popular among South African SMEs (50%). In general, the clients of SMPs in Turkey make good use of all finance products available, acquiring the most export finance products from government agencies, as well as from other private sector funding providers specialising in export finance (21%), and making most use of export finance products and services from international agencies (11%).

Clients of Eurozone respondents use the highest level of export finance services from governments and agencies (15%). A slightly higher level of Eurozone companies also use export finance products from international agencies.

INTERNATIONALISED SMPS

Unsurprisingly, firms with offices in several countries are most likely to have clients using export finance products or services from international agencies (16%), reflecting other high levels of internationalisation among these firms. In contrast, such services are used by clients of just 6% and 11% respectively of firms with one office in one country and more than one office in one country.

The percentage of clients using export finance from banks increases significantly among respondents with more than one office in one country (60%), compared with those with only one office (42%). This may be indicative of the broader portfolio of clients held by larger SMPs.

THE ROLE OF SMPS

As trusted advisers, SMPs are well placed to offer their clients support when they embark on differing types of international activity. Nonetheless, few appear to make the most of this opportunity.

Firms with international clients were asked to indicate any areas in which they act on behalf of their international clients. The majority (60%) did not select any. Assuming there is no other service they provide to international businesses, the finding suggests that for most firms, acting on behalf of their clients internationally does not make up any of their work nor generate any fees.

Figure 2.5: Advice and support provided by SMPs

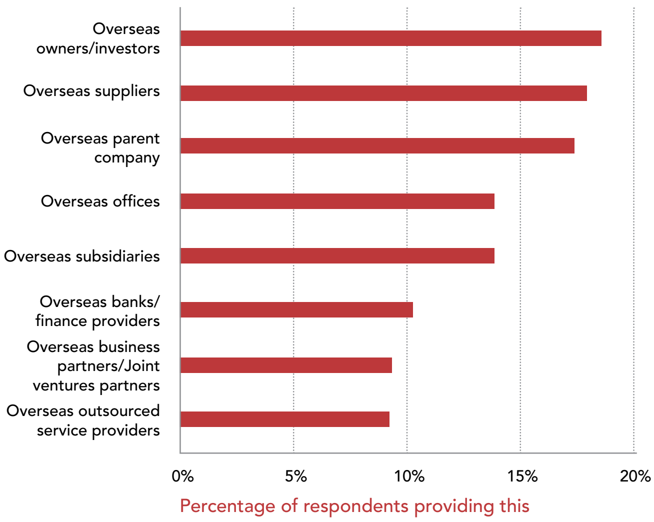
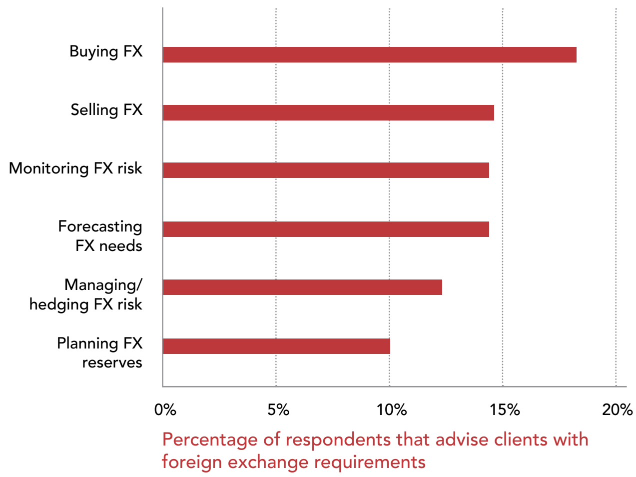


Figure 2.6: SMP support in foreign currency areas



Nevertheless, some SMPs do act in a variety of ways for their internationally active clients (Figure 2.5), most typically in relation to overseas owners (19%), suppliers (18%), parent companies (17%), subsidiaries (14%) and offices (14%). It is striking, however, that for every category of service, fewer than 20% overall act on behalf of their clients.

REGIONAL AND NATIONAL ANALYSIS

In the most frequent service areas, such as advising in relation to overseas owners, parent companies and suppliers, SMPs in Europe have the highest activity levels. In contrast, SMPs in Asia are substantially less likely to provide these services. There is a case for more research in this area to investigate whether this is a result of business culture or service sector maturity.

Eurozone SMPs appear more likely to offer services (of any type) than SMPs overall, indicating more client involvement in international activities in this region than in others.

SMPs from the UK, however, are most likely to act for international clients in relation to overseas suppliers, parent companies and offices. SMPs from the Republic of Ireland are most likely to act in relation to overseas subsidiaries, service providers and banks. In contrast, Romanian SMPs show below-average activity levels for each service option.

SMP INTERNATIONALISATION

SMPs with more than one office or an office in several countries are always on average (often quite significantly) more likely to offer the services identified to their international clients. In particular, over one-third (34%) of firms with more than one office in one country act in relation to overseas owners, a substantially higher proportion than the 19% overall. In addition, 33% of companies with offices in several countries advise on overseas parent companies, again a far higher result than the 17% of firms overall.

FOREIGN CURRENCY HELP

Almost one-third (32%) of SMP respondents have clients dealing in foreign currencies (Figure 2.6). These SMPs could potentially provide support and advice to their clients in a range of ways, for example, in relation to buying or selling a foreign currency, monitoring foreign exchange risks, forecasting currency needs, managing or hedging foreign currency risks, or planning foreign currency reserves.

Among the 437 SMPs with such clients, levels of service activity are low. For no suggested category of foreign currency assistance are more than 20% of SMPs active. Only 30% provide at least one such service, suggesting that SMEs that do deal in foreign currencies either need little assistance, or obtain it from sources other than SMPs.

REGIONAL AND NATIONAL VARIATIONS

In general, non-European SMPs are more likely to provide client assistance on foreign currency matters than European SMPs. In particular, African firms are more likely than their European, Asian and North American counterparts to do so.

Within Europe, the proportion of non-Eurozone SMPs offering foreign currency services is in line with overall results. Not surprisingly, European SMPs inside the Eurozone evidenced a low level of activity.

SMPs from the UK and the Republic of Ireland are consistently less likely to offer foreign currency services, while those from South Africa, Turkey, Romania and the Rest of the World are more likely to do so. For most options, SMPs from Romania are most likely to assist their clients in dealing with foreign exchange issues – a striking 31% help their clients with selling foreign currency, double the overall average of 15%.

SMP RESOURCES

Accountancy firms could draw on a range of potential resources when advising SMEs on international matters. Potential sources of information and help include colleagues in other countries; business networks, including industry associations; informal social networks; and informal social media networks, such as LinkedIn (Figure 2.7).

In this survey, however, internal resources (in the sense of partner or employee knowledge and experience) are drawn upon by far the most often (by 68% of respondents). This applies across all countries, continents and sizes of SMP and may in fact be the most economical way of obtaining information, in terms of both time and money.

It is also notable that 9% of respondents did not choose any of the suggested information sources. It seems that, when advising their clients on international activity, these individuals rely solely on their own knowledge and experience. It is also striking that informal forms of social media are rarely drawn upon. No doubt these informal networks are useful for minor queries, but are not considered sufficiently trustworthy or powerful to resolve strategic questions concerning matters of funding and market access.

REGIONAL AND NATIONAL ANALYSIS

Respondents from firms in Asia are more likely to use all types of advice source, business networks excepted, than respondents in other continents.

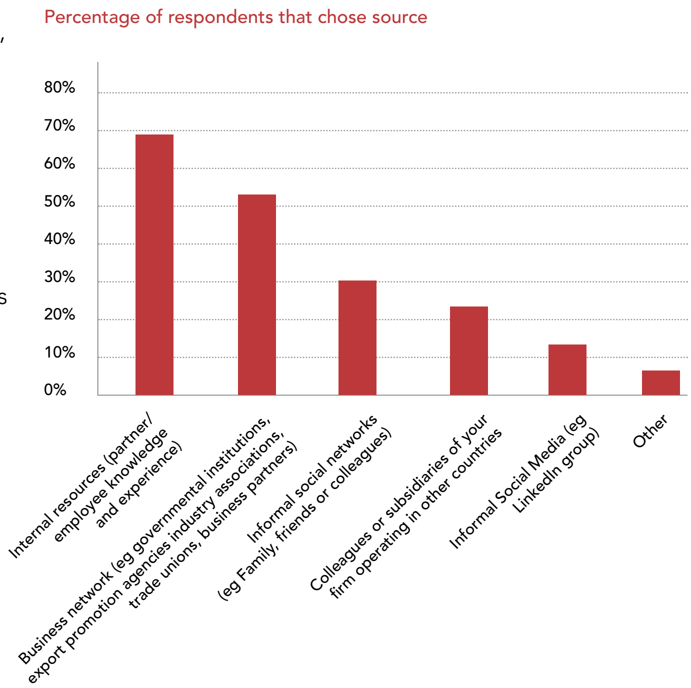
Informal social networks and social media in particular are more important for respondents in the Rest of the World (largely Asia) and South Africa than they are for participants anywhere else.

SMP VARIATIONS

The larger the respondent's practice, the more likely they are to rely on internal resources. Four out of five respondents (81%) from firms with several offices draw on internal resources, compared with 66% from firms with only one office. Participants from larger practices are also more likely to access advice from colleagues (67%) than those from practices with more than one office in one country (38%). This is as would be expected, given the wider knowledge base likely to exist within a larger practice.

Accordingly, smaller practices are more likely to look externally for information, a higher proportion using business networks, social networks and social media.

Figure 2.7: SMP resources used when advising SMEs on international issues



What could governments do to help?

Given the nature of the challenges faced by SMEs seeking to internationalise, there is clearly a role for policymakers to play in helping smaller businesses overcome them. While governments around the world have already taken action, as illustrated earlier in this report, SMPs believe there is still more that they could do.

MULTIPLE AREAS FOR ACTION

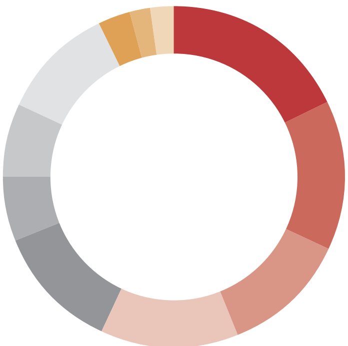
When asked for their unprompted suggestions, SMPs identify a number of areas where governments could take action to help SMEs undertake international business (Figure 2.8). Their ideas reflect the challenges already identified as facing SMEs keen to do business abroad.

Many SMPs see dealing with red tape (licensing and regulations in particular) as a challenge for SMEs. Accordingly, among SMP respondents making suggestions for government, 18% would like to see a reduction in red tape – repeating the perennial cry of many participants in the SME sector. A substantial proportion (14%) call for tax breaks for SMEs, another popular request. Improved access to finance (13%), the provision of more support (12%) and more information (12%) also feature strongly.

These pleas are aimed at governments. There must, however, be an opportunity for SMPs to step in and provide at least some of the support and information that SMEs need. Additional information and support could help those clients steer their way through the red tape associated with international business. SMPs could also play an important role by making connections with banks and investors to improve SMEs' ability to access finance.

Figure 2.8: How governments could help SMEs seeking to internationalise

Percentage of respondents that chose each type of support



Reduce red tape	**18%**
Provide tax breaks for SMEs	**14%**
Provide more information	**12%**
Improve access to finance	**13%**
Provide more support	**12%**
Work with other governments and international agencies	**6%**
Manage foreign exchange rules	**7%**
Promote SME competitiveness	**11%**
Eliminate corruption	**3%**
Don't know	**2%**
Don't need to do anything	**2%**

CASE STUDY

CANADA

CYPRESS SOLUTIONS

Based in Vancouver, British Columbia, Cypress Solutions Inc. specialises in the design and manufacture of wireless products for industrial and commercial markets. Founded in 1997, the company began selling to the US and Australia five years ago and now has its sights set on Europe.

Casey O'Neill is president and a co-founder of Cypress Solutions. He is also a Certified General Accountant (CGA) who feels his designation has served his business well, allowing him to assume the company's lead finance position and keep an eye on the big picture. Three of the firm's employees are now working toward their CGA designation.

Cypress Solutions produces a comprehensive range of wireless solutions and can integrate wireless technologies into existing industrial systems. The possibilities are virtually limitless: transportation companies can remotely connect to a vehicle's computer and anticipate mechanical issues or know its exact location; construction companies can quickly set up wi-fi anywhere, anytime, in areas that are not yet wired; utility companies can protect workers in remote locations with devices that provide automatic alerts in case of emergencies. These are big solutions from a small company.

Playing in the big leagues

Engineering is at the heart of Cypress Solutions' product line, but relationships and the firm's reputation are key to its success. *'When you have a major client recommending you to other companies, it's a whole lot easier than having to go out on your own and knock on doors'*, says O'Neill.

In 2002, Cypress Solutions announced its first major supplier agreement with Telus Mobility, Canada's third-largest cellphone provider. Today, Cypress Solutions works with all the largest cellular firms in Canada.

Those recommendations do not, of course, come overnight. It can take years to develop a strong reputation built on the right products and service. If one thing has served Cypress Solutions particularly well, it has been its exceptional responsiveness. O'Neill notes that the company is first and foremost a hardware integrator. Its speciality is taking existing products and adapting them to match their customers' specific needs – quickly. He says:

'We are a small player in a competitive market but we offer flexibility both in our hardware and our engineering services. Industrial wireless is fairly complex and we have the ability to add new technologies to our platforms as soon as they come out. Doing the necessary work upfront has worked out well.'

In 2003, Cypress Solutions had eight employees. Today it has 20 and is doubling its operating space to 8,000 square feet.

Source: CGA Canada

Exporting: a natural next step

Moving beyond the Canadian market was a natural evolution for Cypress Solutions. Today, the US accounts for about 15% of sales; Australia about 3%. O'Neill says:

'Our plan from the very beginning was to leverage our reputation with cellular carriers. We establish a relationship and then they bring us into their respective markets. We also went to some trade shows supported by one of our main suppliers and that allowed us to make some very good contacts. I'd say the relationships we have right now in the US are as good as those in Canada.'

'Typically, the business comes in stages. A customer may buy two units initially and, a year later, order several hundred more.' 'Once they're sure that it's the right fit, it can move quite aggressively', O'Neill says.

Cypress Solutions' carriers in the US include Verizon and US Cellular, two of largest wireless telecommunications companies in the country. Utility companies, such as electricity, water, telephone, and natural gas companies, which require remote metering technology, are a big area of potential growth in the US and abroad.

This year, O'Neill went on the company's first trade mission to Europe, with help from the Canadian government and Canada's national wireless association. He visited five cities in five days and met with all the major wireless carriers.

'Our products will work around the world', he says. *'It's a matter of getting them into the right hands and making people aware of them.'*

What would O'Neill say to other small businesses looking to sell their products internationally? *'Work with others, rely on key suppliers or key business partners'*, he advises. *'They'll make you aware of any issues. Don't go it alone.'*

'WHEN YOU HAVE A MAJOR CLIENT RECOMMENDING YOU TO OTHER COMPANIES, IT'S A WHOLE LOT EASIER THAN HAVING TO GO OUT ON YOUR OWN AND KNOCK ON DOORS'

Opportunities for SMPs

Many SMPs have at least some clients with international activities, but this does not necessarily mean that these clients make a significant contribution toward practice income. Also, even though SMPs provide internationally related services to SMEs, they may not necessarily see such work as important for their own growth. Limited international networks may also restrict the ability of SMPs to provide useful help to SMEs that want to capitalise on international opportunities.

It seems, therefore, that considerable opportunities exist for SMPs to take a more proactive stance toward developing services of value to SMEs seeking to build internationally focused business.

HOW EXTENSIVE IS INTERNATIONAL ACTIVITY?

For each category of international activity undertaken by their clients, SMPs were asked to indicate whether the clients involved represented over 25% or under 25% of practice income – or nothing at all.

The results indicate that even where SMPs do have clients undertaking some type of international activity, these clients typically represent a relatively small proportion of practice income – less than 25%. This is true regardless of the type of international activity, applying even to the most frequent activities – importing, exporting and foreign currency dealing. Of the 952 SMPs with internationally active clients, just 16% have many clients purchasing goods or services abroad, 12% have many clients selling abroad, and 11% have many clients dealing in foreign currency.

REGIONAL AND NATIONAL ANALYSIS

In general, the survey indicated that more Asian and European SMPs have a high proportion of clients with international activities than do SMPs in African and North American countries. In particular, Asian SMPs are most likely to have many clients in all the international activity categories, except for joint venture involvement.

Romanian SMPs are most likely to have many clients undertaking foreign currency dealing, over one-quarter of them doing so, substantially exceeding the overall percentage of 11%.

UK SMPs are most likely to have few clients for nearly all categories of international activity; for example, only 28% have more than a few clients selling goods or services abroad, 20 percentage points below the overall average, while 72% have few clients selling goods or services abroad, 20 percentage points higher than the overall average.

INTERNATIONALISED SMPS

Notably, 44% of SMPs with offices in several countries have more than 25% of clients (by practice income) selling goods abroad, much higher than the 12% recorded overall. It seems likely that these firms are more likely to attract SMEs with international ambitions than smaller, one-country SMPs.

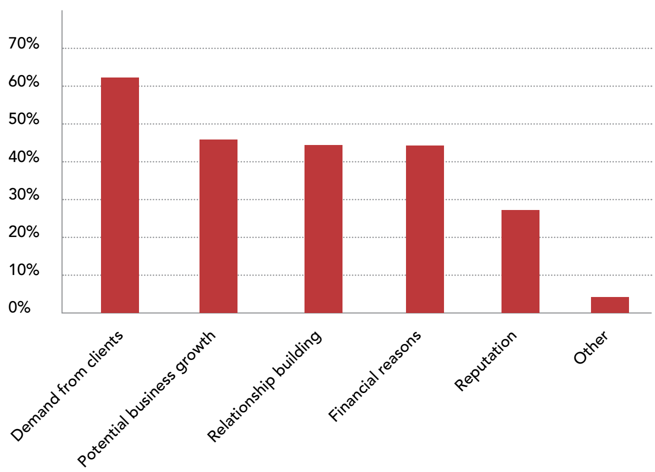
SMP MOTIVATIONS

SMPs could have a number of incentives for providing advice to SMEs that are seeking to build international businesses. According to this survey, however, SMPs generally appear to be reacting to their clients' requests for help, rather than seeing the provision of international support as an opportunity to develop their own firm.

Asked why they provide international advice, the largest proportion of SMPs (62%) do so simply in response to demand from clients (Figure 2.9). Under half (46%) identify the potential to generate business growth, closely followed by financial reasons or relationship building, and 27% are motivated to provide client support in order to build their firm's reputation.

Figure 2.9: SMP motivations for advising SMEs on internationalisation issues

Percentage of respondents that chose each source



REGIONAL AND NATIONAL ANALYSIS

Asian respondents are more likely to provide advice for reasons of relationship building, business growth or reputation, whereas EU respondents are primarily responding to client demand (68%). This suggests that SMPs in emerging markets see more growth and branding potential in providing this type of advice than do firms in developed nations, which have a more demand-led focus.

SMP VARIATIONS

Larger practices are more likely to be motivated to provide international advice for financial, relationship-building or business growth reasons. Smaller firms tend to respond to demand, as well as seeing benefits for reputation and business growth. Smaller firms are more likely to have leaner operations, so have less scope to go out to the market speculatively for international advisory work.

NETWORK LIMITATIONS

If SMPs have professional contacts in foreign countries, either personal contacts or through their membership of a professional body with international memoranda of understanding (MOUs), this could be of potential help to SME clients that need local support such as market intelligence and advice.

The UK is the location where SMPs have by far the most contacts, chosen by 34% of respondents with international clients. This is despite the earlier finding that more UK SMPs have clients doing business in the Eurozone, perhaps reflecting the tendency for parent companies to be established in the UK. In fact, the professional support network is significantly stronger in the UK than in the Eurozone, where 24% of all respondents have professional contacts abroad. In the US, roughly 20% of the respondents have contacts abroad, 17% in South Africa and 13% in China.

Over 80% of respondents have professional contacts in less than three locations, suggesting that most SMPs' reach is limited. Furthermore, over one-quarter of respondents have no professional contacts in any of the locations suggested, indicating that a substantial minority still cannot or do not make use of professional contacts abroad.

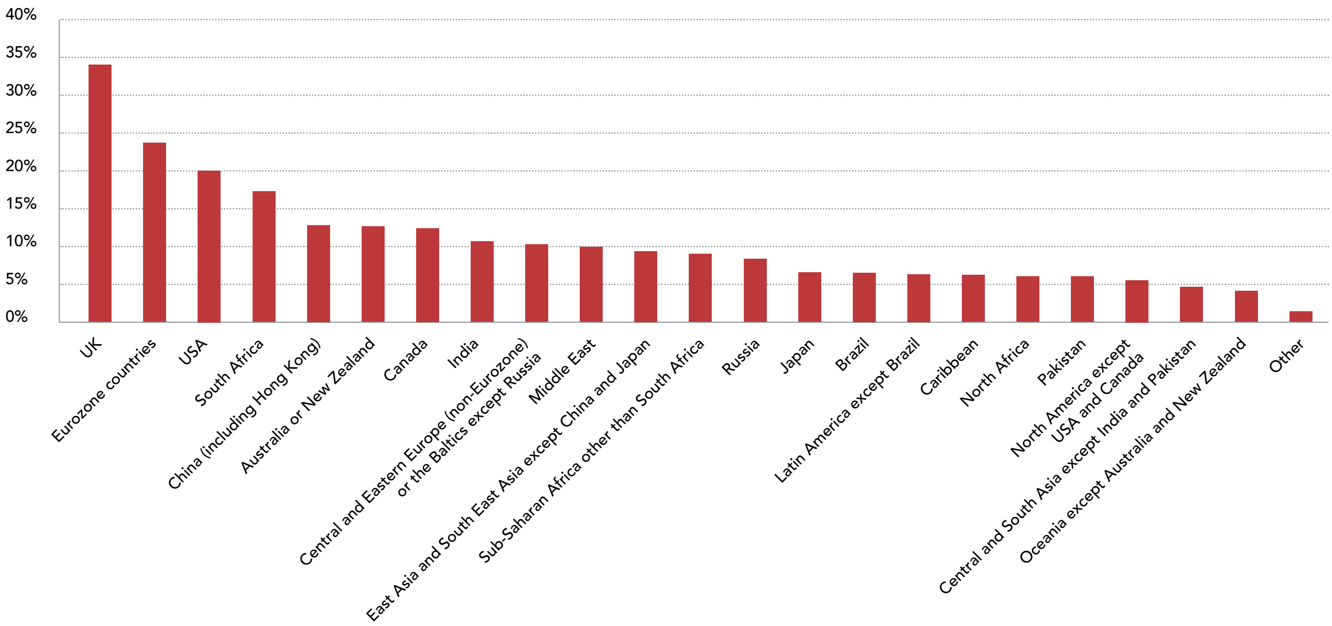
Generally, Eurozone SMPs are more likely to have international professional contacts than non-Eurozone firms, the only exceptions being contacts in South Africa and China. Overall, SMPs have their highest percentage of contacts in the continents in which they are based.

INTERNATIONALISED SMPS

SMP respondents with other international offices would be expected to have more professional contacts in other countries, and this is in fact the case. The biggest firms are more likely to have contacts elsewhere, and the smallest least likely to do so. Similarly, firms with offices in several countries are often substantially more likely to have overseas contacts than those with just one office. For example, just 4% of one-office firms have professional contacts in Pakistan compared to 28% of SMPs with offices in several countries.

Figure 2.10: Location of SMP contacts

Percentage of respondents that have professional contacts in countries/regions below



CASE STUDY
AUSTRALIA

EDIBLE BLOOMS – ONLINE BUSINESS EMBRACING DIGITAL MARKETING

Edible Blooms is an online gift delivery business that has grown quickly over the past eight years thanks to clever business and marketing strategies.

Founder Kelly Baker-Jamieson describes the business as being similar to a florist, with a unique twist.

'The main difference is that our customers get to eat our bouquets when they arrive. Our gifts include gourmet chocolate bouquets, edible arrangements of fresh fruit bouquets, and often include champagne for the girls and beer for the blokes.'

Managing fast-paced growth

Kelly explains that while the concept of Edible Blooms is somewhat quirky, it always made practical sense and grew really quickly from day one.

'Our first year of operating was really intense. Like many small business owners that finance their own start-ups, I was working 30 hours a week as a consultant for a law firm, while also opening up stores in Brisbane, Sydney, Melbourne and Adelaide.'

One of the key business decisions Kelly made early on was to implement cloud-based business systems and develop a strong online presence.

'Cloud-based systems allowed me to be on the go and work in different locations and to keep moving forward. I also made sure that I had a fully transactionable website from day one. Looking at the financials for the business and the cost of rent in in capital cities, it made sense to locate our premises near our suppliers and focus our marketing online.'

The key to success

One of Kelly's favourite quotes is 'you miss 100 per cent of the shots you never take' and reflecting this, she wholeheartedly embraces trying new ideas and having fun at the same time.

'We have a genuine approach to giving it a go and trying new things. At the same time, I believe one of the keys to success with a small business is quality and consistency. This is really important for ensuring that customers have peace of mind, especially when transacting online.'

Embodying these values has worked well for Edible Blooms, as Kelly estimates that 60% of business now comes from returning customers.

Using digital marketing and social media to engage customers

Kelly explains that employing a full-time marketing strategist has been one of the best decisions she has made.

'As small business owners, we are already wearing so many hats that it doesn't make sense to try and do everything ourselves. Having a dedicated online marketing specialist has really made a difference and I'd advise other small businesses to bring in digital experts to help.'

Source: CPA Australia

Edible Blooms focuses on more traditional digital marketing, such as Google Adwords, email marketing, and affiliate marketing campaigns to find new customers and tends to use social media channels more for customer engagement.

'The great aspect of having an online business is that you can see where your customers are coming from and tailor your online marketing strategies accordingly. We find that eDMs [electronic direct mails] are a really great way to build up a customer database.

When it comes to social media and channels such as Facebook and Twitter, we find that they don't directly translate into sales, so we use them more as engagement channels.'

Branching out further

In 2012, Andrew joined Kelly in the business and started a new business, Green Thumb Gifts from their farm in Hindmarsh Valley, South Australia. It follows the same business model as Edible Blooms, and is proving to be a complementary business as it targets a different demographic. Kelly explained:

'Green Thumb Gifts tend to be a popular choice for sympathy gifts and are really suitable for people that are really big on gardening.

It fits really well with our ethos around sustainability, as plants are the ultimate gifts that keep on giving if the recipient looks after them.'

So what's next?

Kelly commented:

'If we didn't have the internet and reliable mobile systems, my business would probably be just me. Instead I am able to employ over 35 people across Australia and New Zealand and start new businesses as well. Going forward, I am also looking at new offshore opportunities.'

Conclusions and recommendations

All the evidence reviewed for this report, from both previous studies and the newly conducted survey-based research, indicates that SMEs are important for economic success – particularly when they become active on the international stage.

There is considerable scope for SMEs to increase their international activity levels and target growth markets more effectively. There is also substantial potential for both governments and professional services firms to provide more support to SMEs to help them fulfil their international growth ambitions in the most effective ways.

SMES MAKE IMPORTANT CONTRIBUTIONS TO NATIONAL GDP AND EMPLOYMENT

Across all regions of the world, SMEs play a vital role in generating national wealth, not least because of the numbers of people they employ.

THE FINANCIAL CRISIS HAS HAD A MIXED IMPACT ON SMES

Despite the difficulties in comparing cross-country data owing to the lack of consistent definitions of SME status, it is clear that the global financial crisis, and the ensuing global economic downturn, worsened the performance of SMEs around the world. Many have faced serious challenges in accessing finance owing to the banking system's tightening of lending criteria. Despite this, recent studies have shown that in many countries – particularly high-income ones – a significant proportion of SMEs have thrived despite the tough macroeconomic conditions. Even so, the benefits of such partial recovery have yet to be felt in terms of employment and the scenario is unlikely to change in the short to medium term.

GOVERNMENTS HAVE IMPLEMENTED A RANGE OF POLICIES TO SUPPORT SMES

Because of the important role that SMEs play in sustaining employment and generating GDP, governments around the world have paid substantial attention to developing policies designed to support them. The main focus of government intervention has been towards the provision of stimulus packages to strengthen cash flow, to sustain SME investment, and to facilitate their access to credit. Even so, SMEs continue to face difficulties resulting from reduced bank lending due to stricter regulation in many countries and macro-regions, particularly in the EU and US. In addition, many SMEs are reluctant to expand credit lines and hire staff, owing to persistent weak demand. Calls for further government intervention are thus likely to remain high.

EFFORTS ARE BEING MADE TO SUPPORT THE INTERNATIONALISATION OF SMES

Policy measures focused on supporting the internationalisation of SMEs are particularly crucial. SMEs with international activities tend to perform better and support higher employment than domestically focused businesses. Regional and national governments have introduced a range of policies and practices aimed at supporting SMEs in their efforts to become more international. Nevertheless, much of the potential of the internationalisation process remains untapped. Most EU SMEs, for example, still look only to the European market.

SMES DO HAVE INTERNATIONAL REACH

Many SMEs have at least some international element to their business. Seven out of 10 SMPs surveyed have clients undertaking some type of international activity, and on average their clients perform three different international activities. By far the most frequent is the buying and selling of goods abroad – undertaken by 56% and just under 50% of clients respectively.

SMES TEND TO INTERNATIONALISE IN MARKETS CLOSE TO HOME

When SMES do run international businesses, they tend to focus on foreign markets relatively close to home. The geographical reach of SMEs' international activity is predominantly confined to the continents in which they are based. For SMEs located in Asian and Latin American countries, surrounded by other fast-growing economies, this should not restrict their growth potential. For SMEs in more developed and slower-growing regions (such as in western Europe) it could, however, mean that they miss out on the best opportunities elsewhere. Nonetheless, substantial minorities of SMPs overall have clients doing business in China (41%). National governments and SME advisers, including SMPs, have a role to play in encouraging SMEs to identify the most attractive and appropriate international markets.

SMES FACE SUBSTANTIAL BARRIERS TO INTERNATIONALISATION

In the view of SMPs, the major challenges faced by SMEs when they internationalise are the difficulties of finding reliable business partners and competing with similar businesses. Regulation at home and abroad is often seen as an issue as well, but a more minor one. Nevertheless, the desire for governments to reduce red tape is strong – the most common plea among SMPs in this survey.

SMES RELY ON TRADITIONAL FUNDING SOURCES FOR INTERNATIONAL ACTIVITY

Banks are the single most important source of financial support for SMEs' international activity. Funding from government and international agencies is used only rarely. There could be a case for more active promotion of these other sources of finance, both by government and the funding bodies themselves and by SMP advisers.

SMPS PLAY A RELATIVELY LIMITED ROLE IN SUPPORTING INTERNATIONAL SME ACTIVITY

The majority of SMPs do not provide any specific support to SMEs in relation to their international activity. Those that do, typically act in relation to overseas suppliers and parent companies. This suggests there is huge scope for SMPs to become more proactive in offering support to SMEs in areas where they face particular challenges.

SMPS PROVIDE LIMITED ADVICE ON FOREIGN CURRENCY TRANSACTIONS AND RISKS

Although almost one-third of SMPs have clients dealing in foreign currencies, few of these firms (30%) provide any related services. Support in buying and selling currency is the most common activity, but firms are generally failing to advise on areas such as foreign exchange risks, hedging and forecasting.

SMPS MAINLY DRAW ON INTERNAL RESOURCES WHEN ADVISING CLIENTS ABOUT INTERNATIONALISATION

The vast majority of SMPs rely on internal resources when advising SMEs, potentially missing out on the information and support available through business and other networks, particularly the fast-developing social media networks such as LinkedIn.

GOVERNMENTS COULD PROVIDE ADDITIONAL SUPPORT

Alongside cutting red tape, many SMPs believe governments could do more to help SMEs achieve their international ambitions. In particular, SMPs see scope for tax breaks targeted at SMEs, the provision of more information to support international activity and improved access to finance.

SMPS COULD BECOME MORE PROACTIVE IN SUPPORTING SMES' INTERNATIONAL ACTIVITY

The majority of SMPs react to client needs or demands, rather than seeing the provision of services related to international activity as a strategic act to generate practice growth. International businesses tend to be more successful, and successful clients tend to require more services from their advisers. SMPs could be missing out on the opportunity to develop and strengthen their own businesses. Though some firms may associate international business with increased risk, there are increased rewards to be gained.

LARGER, MORE INTERNATIONAL SMPS HAVE MORE INTERNATIONALISED SME CLIENTS

Larger SMPs and those with international offices consistently provide more international support to SMEs and have more internationalised clients. This may be because they attract more ambitious SMEs, or that less ambitious, smaller SMPs focus on more domestically focused clients. Given the links between international activity and business success, there is a case for all SMPs to consider how they could expand their international expertise and capabilities and hence provide enhanced international SME support.

RECOMMENDATIONS FOR ACTION

The research findings captured in this report suggest there is considerable scope for action by both governments and SMPs to encourage and support international activity by SMEs. Key areas potentially deserving of consideration are suggested below.

Recommendations for policymakers

- Identify any additional information and support mechanisms that can be targeted toward SMEs to encourage their involvement in fast-growing economies.
- Look for opportunities to reduce unnecessary red tape and regulations concerning international trade and investment.
- Create clear signposting to help SMEs identify and access the full range of financial support available for international activity.
- Assess whether additional targeted tax breaks could encourage SME internationalisation, particularly in the aftermath of the global financial crisis when recovery is proving slow in many economies.

Recommendations for SMPs

- Provide more proactive support to SMEs in their planning for internationalisation, including support in identifying the most attractive, fast-growing international markets.
- Develop knowledge and information resources to guide SMEs through the red tape challenge associated with international activity, and to help them access all appropriate sources of funding.
- Build relationships with banks and other key financiers of international investment and trade, to facilitate introductions between these funding sources and SME clients.
- Identify where SMEs are dealing in foreign currency and seek opportunities to provide value-adding advice in areas such as managing foreign exchange risks and forecasting currency needs.
- Consider whether additional networking opportunities exist to build relationships with other professionals or to help connect SME clients with each other to create mutually supportive environments and information channels.
- Assess how the proactive delivery of services targeted at SMEs with international ambitions could help to increase practice income, as well as strengthening client relationships and your firm's wider reputation.
- Consider whether developing the international resources available to the practice – for example, by participating in an international network of accountancy firms or building more direct close relationships with firms in other countries – could benefit the firm itself, and its SME clients.

Appendix 1: Defining SMEs

One of the challenges when conducting international research into SMEs is the lack of any standard definition of what size of business actually constitutes an SME.

Definitions of an SME vary widely across countries and regions although the criteria include a maximum level for one or more of the following criteria (Senderovitz 2009):

- number of full time employees
- annual sales turnover
- amount of total assets in the firm.

There may also be a requirement of ownership/ management independence of larger corporations.

For policy purposes, SMEs in the EU are defined as enterprises with fewer than 250 employees (Table A1), provided that they are independent of other enterprises and do not have sales that exceed €50 million or an annual balance sheet that exceeds €43 million (Eurostat 2011). SMEs are further subdivided into micro, small and medium-sized enterprises (50 to 249 employees). Larger enterprises are defined as those with 250 or more employees.

Table A1: Definition of SMEs: European Union

Region	Micro	Small	Medium	Large
EU	< 10 employees	Between 10 and 49 employees	50–249 employees	>250 employees

Source: Eurostat 2011

Table A2: Definitions of SMEs: US

Sector	Definition
Manufacturing firms	<= 500 employees
Wholesale trade firms	<= 100 employees
Agriculture	Maximum $750,000 in average annual receipts
Retail trade and most service firms	Maximum $6.5 million in average annual receipts
General and heavy construction (except dredging)	Average annual receipts of maximum $31 million.

Source: Senderovitz 2009

Some countries, such as the US and South Africa, apply differing criteria for different business sectors. Table A2 gives the definitions of SMEs in various sectors as set out by the Small Business Administration of the USA, while Table A3 shows the definition in South Africa as set out in the National Small Business Amendment Act of 2003. Small businesses are classified as micro, very small, small and medium enterprises. The classification distinguishes between different sectors, and takes full-time equivalents, annual turnover and total gross asset value into account.

National criteria for defining SMEs are useful at the local level and are often used for policy purposes. Most economies have some data on the distribution of firms measured by size of enterprise. These differing SME definitions and the somewhat patchy and inconsistent national data render international comparisons problematic. The challenge is exacerbated by exchange rate variations and the distortions from inflation over time. Many comparisons, therefore, are reduced to simple 'enterprise size' classifications and in some cases even these are difficult to develop with confidence.

Table A3: Definitions of SMEs: South Africa

Sector	Employees (full-time equivalents)	Total annual turnover	Total gross asset value (without fixed property)
Agriculture	<= 100	R5m	R5m
Mining and quarrying	<= 200	R39m	R23m
Manufacturing	<= 200	R51m	R19m
Electricity, gas and water	<= 200	R51m	R19m
Construction	<= 200	R26m	R5m
Retail, motor trade and repair services	<= 200	R39m	R6m
Wholesale trade, commercial agents and allied services	<= 200	R64m	R10m
Catering, accommodation and other trades	<= 200	R13m	R3m
Transport, storage and communications	<= 200	R26m	R6m
Finance & business services	<= 200	R26m	R5m
Community, social and personal services	<= 200	R13m	R6m

Source: South African Institute of Public Accountants (SAIPA); National Small Business Act of 1996, amended in 2003 and 2004

Appendix 2: Survey sample

This survey was conducted in early 2013, with an original sample of 1,350 accountancy practices around the world. Of this sample, 358 respondents indicated that they had no clients undertaking any of the international activities covered by the survey and therefore took no further part in it. This resulted in a core sample size of 952 (apart from a specific question addressed only to the 437 SMPs with clients dealing in foreign currencies).

SMPs from over 70 countries in all continents were surveyed, with particularly strong representation from South Africa, the UK and the Republic of Ireland, and from Romania and Turkey.

Country	Number of respondents
Afghanistan	1
Antigua and Barbuda	1
Armenia	2
Australia	6
Azerbaijan	1
Bahrain	1
Barbados	3
Benin	1
Bermuda	1
Botswana	3
Brazil	1
Brunei	1
Bulgaria	2
Cameroon	3
Canada	20
Channel Islands	4
China	3
Cyprus	25
Dominica	1
Egypt	1
England	183
Eritrea	1
Ethiopia	4
Finland	1
Gambia	1

Country	Number of respondents
Germany	1
Ghana	1
Greece	1
Guyana	1
Hong Kong	18
Hungary	1
India	3
Iran	1
Israel	3
Italy	14
Jamaica	2
Kenya	2
Latvia	1
Luxembourg	1
Macau	1
Macedonia	1
Malawi	1
Malaysia	23
Malta	2
Mauritius	14
Netherlands	1
New Zealand	2
Nigeria	2
Northern Ireland	5
Pakistan	4

Country	Number of respondents
Qatar	1
Republic of Ireland	160
Romania	90
Scotland	11
Sierra Leone	1
Singapore	7
Slovenia	1
South Africa	229
Sri Lanka	1
St Kitts and Nevis	1
Sudan	1
Sweden	1
Tanzania	1
Trinidad and Tobago	1
Tunisia	1
Turkey	139
UAE	2
Uganda	5
Ukraine	1
USA	1
Wales	7
Zambia	3
Zimbabwe	3
No country selected	18

Appendix 2: Survey sample

Respondents with clients that conduct some international activity were divided by country, continent, currency and size into statistically significant groups.

Main countries represented	Number of respondents
South Africa	229
UK	206
Rep. of Ireland	160
Romania	66
Turkey	44
Rest of World	247

Continent	Number of respondents
Asia	69
Europe	536
Africa	281
North America	38
Latin America	2
Australasia	8
No continent selected	18

Size of practice	Number of respondents
One office	771
More than one office in one country	116
Offices in several countries	43

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