

SME Internationalisation and Its Financing: An Exploratory Study That Analyses Government Support and Funding Mechanisms for Irish and Scottish International SMEs

Authors : L. Spencer, S. O' Donohoe

Abstract : Much of the research to date on internationalisation relates to large firms with much less known about how small and medium-sized enterprises (SMEs) engage in internationalisation. Given the crucial role of SMEs in contributing to economic growth, there is now an emphasis on the need for SMEs internationalise. Yet little is known about how SMEs undertake and finance such expansion and whether or not internationalisation actually hinders or helps them in securing finance. The purpose of this research is to explore the internationalisation process for SMEs, the sources of funding used in financing this expansion and support received from the state agencies in assisting their overseas expansion. A conceptual framework has been devised which marries the two strands of literature together (internationalisation and financing the firm). The exploratory nature of this research dictates that the most appropriate methodology was to use semi-structured interviews with SME owners; bank representatives and support agencies. In essence, a triangulated approach to the research problem facilitates assessment of the perceptions and experiences from firms, the state and the financial institutions. Our sample is drawn from SMEs operating in Ireland and Scotland, two small but very open economies where SMEs are the dominant form of organisation. The sample includes a range of industry sectors. Key findings to date suggest some SMEs are born global; others are born again global whilst a significant cohort can be classed as traditional internationalisers. Unsurprisingly there is a strong industry effect with firms in the high tech sector more likely to be faster internationalisers in contrast to those in the traditional manufacturing sectors. Owner manager's own funds are deemed key to financing initial internationalisation lending support for the financial growth life cycle model albeit more important for the faster internationalisers in contrast to the slower cohort who are more likely to deploy external sources especially bank finance. Retained earnings remain the predominant source of on-going financing for internationalising firms but trade credit is often used and invoice discounting is utilised quite frequently. In terms of lending, asset based lending backed by personal guarantees appears paramount for securing bank finance. Whilst the lack of diversified sources of funding for internationalising SMEs was found in both jurisdictions there appears no evidence to suggest that internationalisation impedes firms in securing finance. Finally state supports were cited as important to the internationalisation process, in particular those provided by Enterprise Ireland were deemed very valuable. Considering the paucity of studies to date on SME internationalisation and in particular the funding mechanisms deployed by them; this study seeks to contribute to the body of knowledge in both the international business and finance disciplines.

Keywords : funding, government support, international pathways, modes of entry

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