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# Passport to Trade: Connecting Europe's SMEs from East to West?

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**Abstract:** An EFER report in 1995observed that little of the growth of Europe's top 500 companies came from existing products in existing markets, but almost two-thirds of the growth came from entering new markets [1]. A large majority of Europe's 500 are active in export markets, with exports accounting for 40% of their turnover as opposed to the 10% export share for SMEs overall. One of the critical reasons for the poor performance of SMEs within the international arena is their ignorance of local business cultures. This paper is based upon the work of an EU initiative with the project title "Passport to Trade" whose primary objective was to improve the existing vocational training materials in business culture for SMEs, incorporating material across the whole EU. A needs analysis was conducted across the EU and qualitative testing in three markets. The on-line delivery method used allows SMEs and their employees to access training materials remotely at their convenience.

Keywords: SME; Trade; International Business; EU; Culture; Entrepreneurship; On-line Support;

#### Introduction

In this age of globalisation, ever increasing importance is placed on international trade as a vehicle for company growth. However, gearing up for such activity presents major hurdles, particularly for small to medium sized companies (SMEs), given their more limited financial and personnel resources. Nowhere are these challenges more prevalent than for the culturally diverse EU trade region.

The Lisbon Strategy was launched in 2000 with the objective of making Europe the most competitive economy in the world by 2010. However targets slipped as governments failed to implement the reforms. In 2005 the REFORM agenda was launched by Gunther Verheugen and is committed to implementing reform in key areas including "Improving the Business Environment". This places particular emphasis on establishing effective support mechanisms for SMEs to breed a more mature culture of entrepreneurship in the EU (Johnson and Turner, 2006). This initiative is also of particular interest to Eastern European countries where entrepreneurship is still at a developmental stage.

The Passport to Trade project (reference number: UK/05/B/F/PP-162\_358) is an EU research initiative with the primary objective being to provide an on-line business support for SMEs to develop business links in other EU countries. The research aims to understand in detail the needs of SMEs with regard to business culture issues when operating within the EU. The particular needs of SMEs from Eastern Europe are also considered, where support infrastructures are still in the process of being built.

This paper will document the background to the development of the Passport to Trade initiative. Then, a brief review of current relevant literature in the area is presented as a context for the project. Research in the form of a needs analysis has been carried out and this provides initial feedback for incorporation into the development of the educational tools. Initial findings from testing will be presented, complete with details about the finished product.

#### **Theoretical Background**

The internationalisation of business is an irregular event, despite media perceptions to the contrary. Doole and Lowe (2004) state that despite the huge number of SMEs, less than five per cent grow to a significant extent, but that many of these achieve this through exporting [2]. They argued that small companies in particular view the international environment as hostile and therefore ignore the possible gains from exporting and concentrate instead on their domestic markets. Barker and Kaynack (1992) identified the major perceived barriers to entry for non-exporting SMEs as [3]:

- too much red tape
- trade barriers
- transportation difficulties
- lack of trained personnel
- lack of export incentives
- lack of coordinated assistance
- unfavourable conditions overseas
- slow payment by buyers
- lack of competitive products
- payment defaults
- language / cultural barriers

These barriers lie beneath the daunting challenge of international business, particularly for inexperienced and lesser resourced SMEs. Yet it is imperative for a country's economic growth that its indigenous firms develop a strong sense of export activity. For example, currently there is concern about Ireland's economic future because only 10% of its exports come from indigenous firms [4]. However, despite these challenges many have made the leap, and many theories have evolved over the years to explain this proces

The concept of internationalisation has been used to describe the process by "which firms adopt international business activities" [5] and also the process through which firms "gradually increase their international involvement" [6]. Lowe and Doole (1997) found that the internationalisation process of SMEs is not necessarily an incremental process, but more like a series of step changes [7]. They suggested that any number of factors could act as a catalyst to step change (such as an unexpected product success or failure), leading to a reassessment of the company's business definition and strategy. Lowe and Doole's model stresses the necessity for a coordinated strategy to change the focus and improve the performance of the firm in international markets.

Zahra and George (2002) developed an integrated model of international entrepreneurship which considered a comprehensive set of factors consisting of organisational factors, strategic factors; factors of proximity or difference; outcomes; and finally environmental factors which highlighted the importance of national culture as a foundation stone for international entrepreneurship [8].

#### The Importance of Culture

The critical role of culture as a key environmental factor which underlies differences in behaviours has long been established [9]. The complexity of culture defies any simplistic definition. Hofstede refers to culture as "the collective programming of the mind, distinguishing one group or category from another" [10]. The failure to take differences in national cultures into account has been the cause of many business failures [11]. Given the critical role of culture in international business many frameworks for developing an understanding of culture have been developed. However the work of Geert Hofstede stands out [12; 13; 10].

Hofstede's cross cultural research based on IBM employees in 50 countries attempts to study and classify cultural diversity. He developed a typology of 4 –later 5 - dimensions of culture:

- 1. Individual vs. Collective Orientation:
- 2. Power-Distance Orientation
- 3. Uncertainty-Avoidance Orientation
- 4. Masculine-Feminine Orientation
- 5. Short-Term vs. Long-Term Orientation

Although criticised for its European slant and the fact that all respondents were IBM employees leading to a focus on work related values, Hofstede's model has stood the test of time and was largely confirmed by subsequent research by Hoppe in 1990 [14].

Recent reseach into European cultures indicates that Eastern European countries fall into two main cultural groups [15]. The Northern countries comprise the Visegrad group: Hungary, Poland, Czech Republic, Slovakia and Poland. Despite regional differences these countries have a tradition of marketing education and can make the transition to the EU quite easily. (The links between the Baltic states and Scandinavia are assumed here) The southern Baltic states however, to which Bulgaria and Romania belong, are traditionally less developed and national identity takes priority over cooperation [15]. Understanding these differences is critical to any understanding of business behaviour in the accession states: Eastern Europe is not a homogeneous bloc!

#### **Passport to Trade Research Framework**

Passport to Trade is an EU research initiative with the primary objective to provide an on-line business support for SMEs interested in developing business links with companies in other EU countries. It is funded by the Leonardo da Vinci programme which pursues three central aims: to facilitate occupational integration, improve the quality of training and access to this training, and to boost the contribution of training to innovation [14]. The primary objectives of Passport to Trade are to:

- Improve existing vocational training materials in business culture incorporating material from across the whole European Union;
- Widen and ease access to vocational training materials in business culture;
- Produce additional training materials in business culture;
- Implement e-learning facilities and support;
- Improve the skill base of SMEs wishing to trade across the 25 EU member states.

The project is concerned with addressing the particular constraints on the provision of vocational training for SMEs who, given their limited resources, cannot easily release personnel for training seminars. The online delivery method is considered crucial for an SME target audience as it allows them to access the materials remotely at their convenience. Users will be able to select their country of interest in a choice of three national languages (English, French and German. The research is divided into two main stages:

• Establishing the needs of SMEs interested in trading outside their borders with companies form other EU nations

• Testing web-based solutions in a multiple of EU markets for accessibility and usefulness.

The initial phase involved carrying out a needs analysis to identify the needs of SMEs either trading, or wishing to trade, across the EU trade region. This was carried out by means of a questionnaire – in English only - which was emailed to SMEs in all 25 countries (Appendix 1). Initially only 70 responses were received and the following results are based on these responses.

### **Main findings**

#### Stage 1: Needs Analysis

Despite efforts made to obtain responses from all sectors, the manufacturing sector dominated with 42% of responses. In addition, only one response was received from Poland which illustrates the linguistic difficulty for Eastern European countries in responding to a questionnaire in English. Figures 1 and 2 document responses by country of origin and company size respectively.

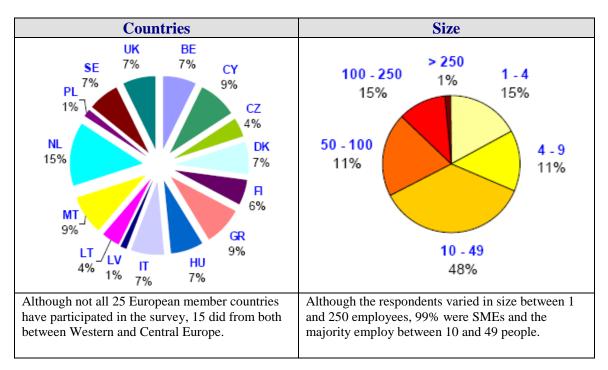


Fig 1: Responses by country of origin

#### Fig 2: Responses by company size

Respondents were asked to rate the importance of various elements of knowledge about potential new markets (Appendix 2). From the analysis it is clear that "data relevant to my industry / business sector" is considered the only vital element of knowledge with 46% of respondents ranking it as vital. Perhaps not surprisingly, sections on the role / importance of family in society and religion were not considered particularly important, accounting for only 15% and 19% of combined important/vital ratings respectively. This would indicate an underestimation of cultural knowledge by SMEs, further endorsing the need for the Passport to Trade vehicle.

Respondents were also asked to comment on any additional cultural factors which, in their view, could impact on business relations. Taking a wider definition of "cultural factors" responses covered a variety of topics including the following:

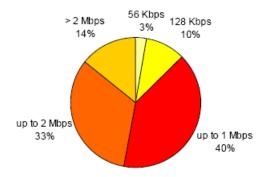
- The degree of environmental protection;
- Communication restrictions due to language

- Variations in terms of payment
- Access to and use of internet and telephone networks
- Business restrictions on import/export
- Interpersonal communication and building of trust
- Import regulations
- Variations in marketing structures across countries
- Information on networks
- History, traditions, relations to neighbouring countries
- Use of slang, particular sense of humour.

This list endorses the findings of Barker and Kaynack (1992) and reflects the legitimate and practical concerns of SMEs embarking on international business relations [3]. International business is venturing into the unknown for inexperienced companies and the comprehensive response to this section indicates that cultural factors underlie many of the fears associated with internationalisation.

When asked which speed of internet connection they use, 40% of respondents answered up to 1 Mbps, and a further 33% up to 2 Mbps. (see Fig. 4)

#### Fig 4: Respondents' internet connection capability



56 Kbps (e.g. dial-up connection)	3%
128 Kbps (e.g. ISDN connection)	10%
up to 1 Mbps (e.g. basic ADSL connection)	40%
up to 2 Mbps (e.g. fast ADSL connection)	33%
more than 2 Mbps	14%

These findings indicate that the majority of SMEs are quite capable of accessing the learning materials online, thereby benefiting from the convenience and flexibility of this delivery mechanism. Over 68% of responses stated they were happy with the website as a means of delivery, however 38% requested some other form of support such as CD Rom or PDF documents.

The delivery method used will not only allow SMEs and their employees to access training materials remotely at their convenience, but also enable on-line support by e-mail. While on-line delivery remains the prime vehicle here, in countries where broadband/internet access is slow or not readily available, CD Roms will also be made available.

Respondents were asked to comment on any factors they considered important for a successful business relationship. The overall response rate was low here, reflecting the fact that answers had to be original and therefore this section was more demanding in terms of time and linguistic capability. Many responses were (understandably) subjective as can be illustrated with the example of Germany: While one respondent positively rated Germany as "Reliable; good attitude towards time and structure; formal; good business

ethics", another respondent felt Germany was "Too protectionist; lack of trust". These issues were further examined during the testing stage of the Passport to Trade website.

#### Stage 2: Testing

The project later addressed, through qualitative research, the accessibility and usefulness of the new website. Three groups of potential users were tested in the Czech Republic and the UK: SMEs, business support companies and third level business academics / students. In addition, further testing was conducted among a group of expert users in Italy. Testing was only possible on the English language version of the site so the Czech companies and Italian experts had to be competent in English. Participants were asked to perform tasks such as locating specific points of information. This was timed and the ease or difficulty of navigation monitored. They were also given the opportunity to comment on their experience. In the Czech Republic linguistic difficulties were highlighted, indicating a need for further translation of country material on the site into other languages at a later time. Design and navigation issues were also discussed and suggestions for improvement have been built into the development plan for the site.

#### Limitations of this Research

The actual number of responses to the needs analysis is low at 70, and can therefore not be viewed as representative of all EU SMEs. Despite unfailing attempts to include SMEs from all 25 EU countries in this initial phase of the research, responses were initially only received from 15 countries (although three further countries later responded) In the case of Austria for example, this was primarily due to stringent data protection legislation which makes it extremely difficult to gain access to company databases.

The fact that the questionnaire was only available in English was undoubtedly a factor in low or nonresponse rates. In Poland for example, only one response was achieved. This may also prove to be an issue for the final product, given that it is planned to deliver the information in three languages only.

#### **The Final Product**

The website will be launched under the brand "Business Culture" and will be available at www.businessculture.org. Testing is now complete and the material is in the process of being translated into French and German. The site is due to go live by the end of 2007.

#### Conclusion

Despite the limitations listed above, the results of the needs analysis and qualitative testing are encouraging and indicate that the Passport to Trade "Business Culture" product is a useful initiative that supports business development on an international basis. The convenient on-line delivery mechanism should ensure that practitioners in SMEs with limited resources all across the EU can access learning materials which will assist them in developing business relationships in other EU countries.

However, the results of testing strongly indicate major problems of accessibility to the site content given its availability in only English, French and German, all of which are Western European languages. It is clear that budgetary constraints are a factor here, however the exclusion of any Eastern European language option has proven to be a major stumbling block for SME owner managers. Critically, the only language which would be common to all of the Eastern countries is Russian. However, as Russian is not an EU language this was not considered appropriate. Viewed from a marketing perspective however, the needs of the target market would normally serve as the benchmark for such decisions.

This paper set out to examine the potential for Passport to Trade's "Business Culture" site to connect SMEs across the EU from East to West. The end product is undoubtedly a highly useful business tool, however its availability in exclusively Western languages would suggest that the Business Culture site will really act as a business driver in connecting SMEs from West to East.

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# Passport to Trade survey

## Introduction

You have been selected to participate in an exclusive survey being conducted by an international team led by the University of Salford (UK), financially supported by the European Commission under the Leonardo da Vinci programme.

Small and Medium sized Enterprises (SMEs, companies with less than 250 employees) account for over 90% of businesses in the European Union (EU). The EU has set itself the vision of becoming the most competitive economic region in the world by 2010, but recognises that, in order to reach this goal, it is necessary to stimulate the development of Europe's SMEs.

The aim of this project is to set up an on-line information service, focussing on cultural differences, in order to assist SMEs in their dealings with other European markets. The first phase of the project has been completed, covering four countries, and is now on-line at <u>www.ember.eu.com</u>. The second phase will extend the information to cover all 25 countries in the European Union.

This questionnaire seeks to identify difficulties and barriers to international business relationships, which can often be intangible.

The questionnaire is aimed at SMEs:

- that are developing, (or are planning to develop) business in another European country (exporting), or
- that are developing, (or are planning to develop) business with a foreign SME in their domestic market (importing).

Your response will enable us to focus on elements of cultural knowledge that are the most beneficial to SMEs.

<u>NB.</u> Information provided for this survey will be treated with strict confidentiality and will not be used for any other purposes.



## 1. Name of the company:

## 2. Full address (Optional):

- Street
- City/Town
- Postal Code
- Region
- Country

## 3. Number of employees:

□ 1 – 4	☐ 50 – 100
☐ 4 – 9	🗌 100 – 250
☐ 10 – 49	□ > 250

## 4. Sector of main activity of the company

(These sectors refer to the NACE codes, http://europa.eu.int/comm/environment/emas/pdf/general/nacecodes\_en.pdf)

please, choose only one:

Real estate, renting and business
activities (including ICT and research)
Public administration and defence;
compulsory social security
Education
Health and social work
Other community, social and personal
service activities
Private households with employed
persons
Extra-territorial organizations and bodies

## 5. Do you have experience of trading with other EU countries?

□Yes □No

If 'Yes', with which countries?

## 6. Do you have experience in trading with countries outside EU?

□Yes □No

If 'Yes', please list the countries.



# Section II: Elements of knowledge

# 1. In the table below, you will find a list of elements of knowledge about a country.

Please indicate their degree of importance in helping you to increase your export potential in Europe.

Needs Analysis (1)	Level of importance			
Elements of knowledge about a country	Not necessary	Useful	Important	Vital
Economic and statistical data on the country				
Data relevant to my industry/business sector				
Travel, visa, public transport/rail timetables				
Import regulations / restrictions (e.g. gifts and samples)				
Personal safety issues				
Medical care / insurance				
	Not necessary	Useful	Important	Vital
Social organisation / social status				
Role/importance of family in society				
Aesthetics (meanings of colour, shape, design etc.)				
Values / attitudes (ethics, bribery, corruption etc.)				
Public Holidays				
Religion (number, importance, role in society)				
· Gender differentiation (level of equality, job differentiation, role of women in the society)				
Communication (language and non-verbal)				
Government (local/central & role in society)				
Education (attitudes / standards)				
Food & drink				



Needs Analysis (2)	Level of importance			
Variations in habits from one country to another with regard to :	Not necessary	Useful	Important	Vital
Meetings and forms of greeting				
Setting up business meetings				
Conducting meetings				
Negotiation skills				
Business ethics / working practices				
Eating out / business lunch & dinner				
Business etiquette				
	Not necessary	Useful	Important	Vital
Political environment (dealing with local/national authorities)				
Legal environment (regulations/legislation)				
Market entry considerations and restrictions/requirements (e.g. export, foreign direct investment, joint venture etc.)				
Personnel (employment legislation etc.)				
<ul> <li>Financial concerns (repatriation of profits, currency exchange rates, banks)</li> <li>Fiscal regulations</li> </ul>				



## 2. Can you think of any additional cultural factors that impact on business relations?

Please list them here:

## 3. Website

What is your overall opinion on the current website - www.ember.eu.com - with regard to

Look and content

Navigation and user-friendliness

What suggestions would you have for improving it?

The next version of the website will be available in three languages – English, French and German. Do you understand one or more of these languages sufficiently well to be able to use the site?

English	Yes [	]No
English	Yes _	

French   Yes   ING	French	Yes	No
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German Yes No

What is the speed of the internet connection that you use?

56 Kbps (e.g. dial-up connection)

- 128 Kbps (e.g. ISDN connection)
- up to 1 Mbps (e.g. basic ADSL connection)
- up to 2 Mbps (e.g fast ADSL connection)
- more than 2 Mbps



# 4. Format

This project proposes to have the information available on a website. Is there any other format in which you would prefer to have access to the information?

□Yes □No

If 'Yes', please tick one of the following:

CD ROM

Booklets

Other electronic support (PDF,...)

Others



## Section III : Factors for a successful Business Relationship

If you traded in other markets,

and had a successful business relationship, please indicate:

- The country of your business partner?
- The factors of success of the relationship

Country	Factors of success	

and had an unsuccessful business relationship, please indicate:

- The country of your business partner?
- The factors of failure of the relationship (e.g. language problem, disagreement, lack of trust, incompatibility, etc.)

Country	Factors of failure

Thank you very much for completing this questionnaire. If you have provided contact data in Section 1, we will keep you informed of the progress on this project. In addition, if you would like further information, please visit our website on <a href="http://www.ember.eu.com">www.ember.eu.com</a>.

Please return your answer to:

Amanda Ratcliffe Dublin Institute of Technology Faculty of Business Aungiet St Campus Dublin 2 Ireland

Amanda.ratcliffe@dit.ie

Tel: + 353 1 4027045



Appendix 2: Findings for "Elements of Knowledge" Section

	Not			
	necessary	Useful	Important	Vital
	17	37	31	14
• Economic and statistical data on the country				
• Data relevant to my industry/business sector	3	13	38	46
· Travel, visa, public transport	22	44	24	10
• Import regulations / restrictions (e.g. gifts and samples)	7	33	33	27
· Personal safety issues	23	42	20	14
· Medical care / insurance	36	39	21	4
Social organisation / social status	21	51	23	4
	41	43	14	1
· Role/importance of family in society				-
• Aesthetics (meanings of colour, shape, design etc.)	30	43	20	7
• Values / attitudes (ethics, bribery, corruption	10	35	45	10
etc.)	10	55		10
· Public Holidays	28	39	26	7
	39	42	16	3
Religion (number, importance, role in society)	0,7			C
Gender differentiation (equality, job	31	41	24	3
differentiation, women's role)				
· Communication (language and non-verbal)	6	16	59	19
· Government (local/central & role in society)	13	46	28	13
Education (attitudes (standards)	18	44	29	9
Education (attitudes / standards)     Food & drink	32	AC	15	7
	32	<b>46</b>	15	
Meetings and forms of greeting	3	29	50	19
· Setting up meetings	1	19	56	24
· Conducting meetings	3	30	48	18
Negotiation skills		10	46	44
• Business ethics / work practise		19	43	39
Eating out / business lunch & dinner	10	49	31	10
· Business etiquette	3	29	44	24
· Political environment (dealing with	9	44	30	17
local/national authorities)				
· Legal environment	3	22	47	28
• Market entry considerations and	3	14	43	39
restrictions/requirements				
· Personnel (hiring and firing)	13	44	22	21
Financial concerns (profit repatriation, currency,	8	20	44	29
banks)				