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European and Latin American SMEs:
the challenge of internationalization on another continent

by Florence Pinot de Villechenon*

Since the 1980s, SMEs have been regarded as one of the vectors of European-Latin American relations. What were then called *facilités Cheysson* or ECIP programmes constituted the first cooperation arrangements between European and non-member SMEs. When the programme AL-INVEST was launched in 1994, it formed part of this movement to accompany the internationalization efforts of European and Latin American SMEs. AL-INVEST was developed in four phases between 1994 and 2012 and proved to be –along with ALFA and URBAL– one of the most successful regional programmes implemented by the European Commission for and with Latin America.

The research organized by CERALE has produced some lessons included in this report regarding the determinants of the internationalization process and inherent difficulties and ways of overcoming them in addition to some conclusions on improving public support policies. This is done with a keen awareness that these observations and analyses must be extended to other European and Latin American countries, as CERALE plans to do in the near future.

European SMEs in Latin America

Who does business in Latin America? Studies show a correlation between a businessperson's profile, education and experience and the decision to operate outside their country of origin. For the most part, the business leaders interviewed have experience living and/or working abroad, speak more than two languages (mainly English and Spanish with Portuguese when working in Brazil) and some have prior experience working for multinational companies. Their increased exposure to the international arena goes hand-in-hand with a greater understanding of the risks and uncertainties of internationalization, corroborating the importance of what is called export behaviour. Linguistic and cultural differences are no longer an important obstacle.

What barriers do heads of European SMEs face when beginning to do business in Latin America?

Given the length of this article, only the key elements emphasized by the various leaders in their appraisal of internationalization in Latin America are discussed (those that received a response over 2.5 out of 5). It should be noted that the Mexican market is considered difficult by 50% of the businesspeople interviewed, while the Brazilian market was deemed difficult by 80%.

Two important factors are a lack of time to explore new markets and a lack of capital. On average, these two criteria were given a 3 on a scale of 1 to 5 (1 = low importance and 5 = high importance) by the respondents. On the other hand, since these leaders are increasingly better prepared (cf. the aforementioned experience and training), they are aware of the need for adequate funding to internationalize their activities until they obtain a return on their investment, which in the case of Brazil is an average of 30 months. Because they have suitably planned for the situation, however, this does not amount to a barrier in the end. With regards to the Euro-Dollar parity, this factor is mentioned more emphatically by the firms operating in Mexico, a market in which US competition is stronger.

Target markets and logistics and transportation infrastructures are very important elements since they directly affect costs and operational agility. These factors are regarded as critical – more so in Brazil than in Mexico– as is the bureaucracy (different types of paperwork and procedures: administrative, legal, fiscal), considered the main obstacle to reaching the Brazilian market. The business leaders interviewed rated regulatory matters between 2 and 3.6/5, while saying that the high demands in the European market generally prepared them well to deal with regulations in target countries.

The question of the availability of human resources in target countries merits special attention, being given a rating of 3/5 by European companies. Those operating in the industrial sector find it particularly difficult to locate sufficient technical personnel.

After taking into account the main obstacles discussed here, what led these business leaders to look towards Latin America? The search for new markets beyond the mature and highly competitive EU market was the main factor, and not cost-cutting. Indeed, the business leaders did not regard these countries as "low cost", except for the industrial SMEs manufacturing in Mexico for the United States market. Accompanying a client in their international expansion (so-called client followship) is another reason for internationalization, with access to raw materials being a determining factor for some companies operating in specific sectors such as agriculture or energy.

Compared with other emerging regions, Latin America is not at a disadvantage. For a European SME leader from a romance language speaking country, the geographical distance, which is not very different to the Asian markets, is made up for by the cultural proximity with Latin America. When contrasted with North African countries, the cultural ties resulting from colonization, the tradition of cooperation with Mediterranean Europe and the geographical proximity with this region are in part offset by the uncertainty caused by the Arab Spring movements.

What are the success factors for European SMEs in Latin America? According to the business leaders interviewed and the peculiarities of the markets studied (Mexico and Brazil), innovation and product and service quality constitute a critical element when trying to enter very crowded and/or protected markets. However, this is not the only factor. "Market intelligence" is indispensible when creating a sustainable business model. Measuring the local appetite for the product or service being offered, having a thorough understanding of how the distribution network operates and assessing specific communication needs, considering adaptation to the local market, creating ties with local actors who may become clients, consultants, facilitators, partners and so forth are all necessary, as is good communications and computer technology. Not only do these factors make it possible to surmount the geographical distance, but they also serve as a powerful way to raise the company's visibility at the same time that they constitute –to a greater or lesser extent according to the sector– a marketing vector. One last point is important: SME leaders insist on the importance of taking a long-term approach to operations in Latin America and not being limited to isolated enterprises.

Latin American SMEs in Europe

The analysis of Mexican and Argentinean companies shows that most of the Mexican companies consulted (88%) regard the European market as difficult to break into and that two thirds were unaware of the existence of the European Union-Mexico free trade agreement. The biggest obstacles mentioned were the geographical distance, difficulties controlling distribution channels and European standards.

The most important internal barriers to internationalization are the lack of qualified personnel, the price of company products and the high cost of internationalization itself. The most significant external barriers include the lack of adequate public support, differences with foreign regulations and costs or paperwork related to transportation. A lack of pertinent information was also mentioned by almost two thirds of the interviewees.

As with their European peers, the Latin American companies that participated in the analysis trust that the innovation of their products and services and their high quality standards are a source of added value and differentiation for their customers and also believe that a commitment to human resources will allow them to overcome any obstacles and compete successfully abroad. Personal and business networks are key in terms of obtaining information about markets and establishing long-lasting relationships with their partners abroad. The intensive use of technology is seen as an important factor, as is the opportunity to structure business initiatives around a global brand/country strategy.

Taking into consideration these difficulties and factors for success, to what extent can the public authorities contribute to the successful development of European and Latin American SMEs on the "other" continent?

When evaluating the impact of assistance measures in the respective countries, European business leaders believe that while they are important, they are not decisive. For example, the average importance given this assistance is 2.5/5 by French business leaders, 2.36 by the Spanish and 2.27 by the Portuguese. This indicates that, in short, the decision to internationalize and target one market or another is closely related to the company's strategy, the director's vision and the quality and suitability of its product more than any incentives. However, the qualitative analysis shows that companies do value some public support and desire other measures.

The instruments valued by European SMEs include policies that support the company in the exploratory phase (when initially approaching the market), help them to participate in business round tables or with a specific mission and to identify partners and understand how the market operates. They also appreciate measures that help them to shoulder the economic risk entailed in operating in a new market and assist them in resolving the bottleneck that can result from a lack of sufficient personnel to expand the activity abroad (e.g. French VIEs[1]).

With regards to improving arrangements, the expectations of European business leaders are focused on three areas: a) improving start-up conditions in the country of origin (simplifying paperwork related to creating and maintaining the business, making labour laws more flexible, providing access to credit facilities); b) making important, detailed information available about the business climate and markets they are interested in; and c) facilitating interaction with other actors. All of them call for arrangements that are easy to understand and use. The business leaders want to have instruments that allow them to build networks and exchange experiences (sharing problems and solutions) and facilitate access to circuits of knowledge. This underscores the importance of structures to bridge the academic sector and the business world, the point of intersection for two important topics today: employment and innovation.

Beyond questions related to financing, to reach the European market Latin American business leaders see a need for public authorities to make an effort to provide detailed and precise information about European markets, to ease access to distribution channels and to offer consultation about international standards. When competing abroad, they consider it important to offer an innovative product and have access to the human resources they require. Consequently, they call for support for innovation and more interaction with universities and research centres.

[1] The *Volontariat International en Entreprise* or VIE exempts companies from the administrative and legal management of young professionals (below 28 years old) hired to work outside of France and allows them to benefit from tax deductions, thus alleviating hiring costs.

Finally, they believe that public authorities must provide more information about existing mechanisms to actors who may not be aware of them and encourage other forms of internationalization such as subcontracting, strategic alliances and technology and market access cooperation agreements.

All in all, both Latin America and Europe offer numerous opportunities for SMEs seeking to operate outside of their regional market. Although the quality of the product offered and the suitability of the directors' strategic vision are key, many obstacles to internationalization still exist that the correct member country policies can remove.

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