

Bi-regional
economic perspectives



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The Internationalisation of Latin American SMEs and their Projection in Europe



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PROLOGUE

This study was carried out by CERALE (Centre d'Etudes et de Recherche Amérique Latine Europe) - ESCP Europe Business School, at the request and with the support of the EU-LAC Foundation and the Institut des Amériques.

SMEs account for a large proportion of the European and Latin American business network. Their contribution towards national wealth and the creation of employment is widely known and warrants the attention that they receive from all those who work to develop competitiveness and employment.

In the current globalised world, SME's development goes hand in hand with its internationalisation, in other words, with all the types of foreign connections that it has. This qualitative study focuses on the internationalisation of Latin American SMEs using samples from nine countries¹. Interviews with entrepreneurs/CEOs from 225 SMEs were conducted in order to analyse the capacities of the SMEs (those related to the CEO's experience and those concerning the organisation of activity, as well as processes of internal innovation and training), and thus better understand the process of internationalisation.

The aim of the study is to analyse the barriers that Latin American SMEs must overcome in order to gain access to international markets and their value chains and to identify the factors that promote bi-regional partnerships.

Internationalisation is examined from various angles: types of contact with foreign markets, the début process - factors and determining causes -, support programmes and target markets. Particular focus is placed on the way in which the entrepreneurs/CEOs perceive the obstacles. The study is aimed at contributing to the development of the bi-regional strategic relationship by strengthening business cooperation and bi-regional company expansion, and considers Latin American entrepreneurs' perceptions of the European market and the importance they place on the difficulties to be overcome. The text is completed with an overview of the factors of success and failure in the European market.

¹ Focusing on an exploratory analysis, the study does not cover the whole region but is rather limited to nine Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Uruguay.

Lastly, the document concludes by suggesting possible means of development and/or consolidation of the selective public policies.

Latin American SMEs are in an early phase of internationalisation: they have command over basic factors such as exporting and importing, but have few strategic alliances and direct foreign investment is practically non-existent. This lack of diversification in their interaction with foreign markets hinders their integration into and upgrading within global value chains.

In order to accelerate the internationalisation process for Latin American companies and to promote their interaction with European companies, the design and implementation of ad hoc public policies serves as an area of opportunity for all those actors aiming to foster and strengthen SME capacities and capabilities.

In terms of public policies, two fields of action may be identified: training and information. Both fields may be conceived and implemented on both a regional and bi-regional level. Training involves promoting technical training aimed at strengthening the staff's capacities; fostering international connections that favour student exchanges and stays in foreign countries as well as business internships; and encouraging training that allows the SME CEOs to improve their managerial capacities and strategic vision as well as their cross-cultural and negotiation skills.

Information involves providing spaces for sharing internationalisation experiences, which would allow SMEs to learn from one another; to make every effort to inform about foreign markets; to improve and increase communication about free trade agreements; and to make the support devices user-friendly for the SMEs so that they can recur naturally to them.

In sum, it is necessary to reinforce all the initiatives that enable the actions of SME CEOs and future CEOs to be fine-tuned and to maximise the power of initiative across borders. Latin American economies have registered poor or no growth over the last biennium. For this reason, improvements in terms of competitiveness are a burning issue for governments and entrepreneurs. The end of the commodity boom cycle has inevitably created new challenges for the actors in the region that call for, amongst other things, increased and improved relations with the world economy. Identifying the strengths and weaknesses of Latin American SMEs in their efforts to approach the European market should shed light on possibilities for increased bi-regional cooperation in the economic sector, where the current and future trade agreements must be reflected in collaborations and partnerships between companies from both continents.

Florence Pinot de Villechenon

Director of CERALE and member of the Scientific Council of the Institut des Amériques

INTRODUCTION

1.1. History

SMEs form a key link between the Latin American and European economies. They undeniably contribute towards creating wealth and employment. However, their participation in the internationalisation of economies is heterogeneous and offers wide scope for improvement; considering the strong pressures caused by technological advances and the competitive pressures resulting from the globalised economy.

Latin American and European SMEs are natural and main actors of European Union-CELAC relations. This is reflected in the document jointly published by the CEPAL and the EU-LAC Foundation in 2015 entitled “CELAC-EU. Reinforcing Production Cooperation & Dialogue Spaces: the role of SMEs”. Interlinking the individuals, strategies and interests that collaboration between them can generate represents a crucial element in bi-regional dialogue. Proof of this is the incorporation of the Business Summits into the EU-CELAC Summits of Heads of State and Government from 2006 onwards. Indeed, the topic chosen for the 5th Business Summit (Brussels, 2015) was “Europe, Latin America and the Caribbean: Promoting inclusive and sustainable growth by enhancing the role of Small and Medium Sized Enterprises”.

The EU-CELAC 2015 Action Plan makes various references to the promotion of SMEs. Chapter 8 on “Investments and entrepreneurship for sustainable development” states that efforts should be made to “facilitate the conditions that foster entrepreneurship and innovation, remove obstacles, build capacity and increase competitiveness of micro, small and medium enterprises (MSMEs) and new social actors of the economy”, and proposes various cooperation activities and initiatives.²

CERALE (Centre d’Etudes et de Recherche Amérique Latine Europe of the ESCP Europe Business School, member of the Institut des Amériques) commenced its research on SMEs in 2010 with a study on French SMEs operating in Mexico, completed with an equivalent study on the performance of Mexican SMEs abroad with a focus on Europe. The focus adopted on this occasion was maintained in the further research, that is, a qualitative analysis based on interviews with CEOs of SMEs.

² EU-CELAC Action Plan 2015, pg. 20-23. https://eulacfoundation.org/es/system/files/EU-CELAC%20action%20plan_es_corr.pdf

This focus enabled the study to identify the strengths, limits and challenges of the CEOs when handling the internationalisation process of their respective companies. The first report was edited in 2012 under the name Les PME à l'international, which included the following chapters: "L'internationalisation des PME françaises en Amérique latine: regards sur le Mexique", "Les PME de Jalisco à l'international: l'expérience de l'industrie tequilera" and "Un estudio exploratorio de la internacionalización de la PyME de México".

See <http://cerale.eu/wp-content/uploads/2014/03/RapportPME-France-Mexique-oct2012.pdf>.

During the second stage, the study was extended to two hundred SMEs in southern Europe (France, Italy, Spain and Portugal) present in Brazil, the main Latin American market in Europe. The study entitled Les PME à l'international. L'internationalisation des PME d'Europe du Sud au Brésil, reflects the French version of the research findings. <http://cerale.eu/wp-content/uploads/2015/03/Reporte-PyMEs-FR.pdf>.

With sponsorship from the Institute of the Americas, the EU-LAC Foundation and the CAF – Development Bank of Latin America, CERALE organised a seminar in February 2014 in which the first results concerning Brazil were presented, as well as an analysis of problems faced by "SMEs" from a Latin American point of view, which are contained in the report entitled Las PyMEs actores del diálogo entre Europa y América Latina. Internacionalización e inserción en la cadena de valor global: análisis desde Europa y desde América Latina. The study was presented in numerous academic and business forums and was the subject of various publications³. An extended version in Spanish may also be consulted at <http://cerale.eu/?p=1717&preview=true>.

For its part, through its programme of activities with SMEs and its work on a sub-state level regarding Competitiveness Clusters, the EU-LAC Foundation is reinforcing its activities linked with the economic relationship between the EU and the CELAC countries, with a focus on the following themes: SMEs, internationalisation, competitiveness, innovation, sustainable development, climate change, as well as professional training and access to financing. Its objectives include working on factors able to accelerate bi-regional competitiveness and, more specifically, on key business features for bi-regional undertakings. Once these factors have been identified, the objective is to work on a sub-state level and in collaboration with various actors –local governments, companies and trade-union organisations, knowledge generation centres and financial institutions– to promote their development.

³ "European SMEs and the Brazilian market: the key role of social networks", Salvador Elisa, Pinot de Villechenon Florence and López Rizzo Humberto in *European Business Review*, Volume 26, Issue 4 ; "Le Brésil est-il accessible aux PME?" , Pinot de Villechenon F. et López Rizzo H. in *Accomex* no. 110-111, pg. 81-83, April 2014 and "PyMEs europeas y latinoamericanas: el reto de internacionalizarse en el otro continente" in *EU-LAC Foundation Electronic Review*, special issue on SMEs, June 2014.

In this context, in late 2014, CERALE launched a third phase with the support of the EU-LAC Foundation and the Institute of the Americas. The phase consisted of studying Latin American SMEs and their performance in foreign markets, in particular, the European market. This report is focused around this subject.

1.2. Research team

To carry out the research, CERALE mobilised its academic members in Latin America and formed the following research team:

- Sergio Postigo and María Fernanda Tamborini, School of Administration and Business, Universidad de San Andrés (Argentina and Uruguay)
- Edson Riccio, Faculty of Economics and Administration – Universidade de São Paulo (Brazil)
- Soledad Etchebarne, Faculty of Economics and Business – Universidad de Chile (Chile)
- Luz Marina Ferro and Juana García Duque, School of Administration and Business – Universidad de los Andes (Colombia)
- Luis Umaña, INCAE (Costa Rica)
- Wilson Araque J., coordinator, Universidad Andina Simón Bolívar, Ecuador campus, Andres Arguello and Roberto Hidalgo (Ecuador)
- Norma Hernández Perales, coordinator, TEC de Monterrey (Mexico), Marianela Adriaenséns Rodríguez, Elvira Elena Naranjo Pliego, Marcia Nelly Villasana Pliego, Bertha Elizabeth Cárdenas Hinojosa, Ana Isabel Meraz Espinoza, Alfonso Ernesto Benito Fraile, José Manuel Maraboto Quepons and Miguel Angel Flores Cárdenas
- Vanina Andrea Farber, Graduate School - Universidad del Pacífico (Peru)
and
- Florence Pinot de Villechenon, CERALE ESCP Europe and Institut des Amériques, responsible for the design, coordination and implementation of the study with the collaboration of Humberto López Rizzo, CERALE and Université Paris 1 - Panthéon Sorbonne.

1.3. Methodology

The study is part of the strategy promoted by the EU-LAC Foundation in favour of cooperation between SMEs from both regions. It thus places emphasis on a qualitative research approach, based on interviews with SME CEOs.

The aim of the study is to analyse the barriers that Latin American SMEs must overcome in order to gain access to international markets and their value chains and to identify the factors that promote bi-regional partnerships.

The study involves 225 semi-planned interviews, mainly conducted via telephone or Skype and carried out by the members of the team between January 2015 and June 2016. A single questionnaire-guide was prepared, which included multiple choice questions with responses measured on 5-point Likert scales (1-5, from least important to most important), in order to assess the level of importance of the topic in question; and, open questions aimed at detecting the perceptions of the CEOs. The questionnaire, drawn up by CERALE, is centred on four main pillars: 1) General information on the SME, 2) The internationalisation process, 3) Internationalisation support policies and 4) The perception of the European market.

The interviews were conducted directly with people involved in the companies' internationalisation processes, such as the CEOs (owners, shareholders) or the heads of the international departments (exports and other modalities). They were carried out in Spanish or Portuguese. On average, they lasted around 60 minutes. The results were processed using statistical software SPSS version 19. All in all, the total time taken to conduct and process the 225 interviews was 625 hours, without considering the time spent by CERALE on research design, monitoring and results analysis.

1.4. Sample

Focusing on an exploratory analysis, the study does not cover the whole region but is rather limited to nine Latin American countries - Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Uruguay - and to the following sectors: agroindustries, automotive and aeronautics, renewable energies and environmental technologies, tourism and creative industries.

It must be noted that, with the field research under way and during the subsequent analysis of the results, CERALE proceeded to reclassify the sectors in the following way:

- Information and Communication Technologies (ICT)
- Creative industries: includes furniture and clothing design, crafts, advertising and gaming.
- Pharmaceutical, health and cosmetic: includes supplies for medicines, healthy foods and health establishments.
- Tourism: includes hotels and hostels, tourism services and consulting services.
- Extraction, processing and marketing of vegetable, animal, forest and mining raw

materials (EPM): includes the coffee, cocoa and fishing sectors, sawmills and industrial furniture manufacturing.

- Food and drink: includes ready-to-consume goods, e.g.: premium coffee, wines, sea products.
- Industrial equipment: includes the production of pieces for specific industries (automotive, aeronautics, etc.), the production of household appliances and air conditioning equipment, the production of agricultural machinery and other industrial components.
- Energies, recycling and environmental technologies: involves the production of goods (equipment, software, etc.) and services (consulting, environmental solutions).
- Services and solutions for companies: this section includes logistics, consulting activities and engineering, maintenance and construction services.

The sample of SMEs to be interviewed was taken from the list provided by the EU-LAC Foundation and their partners from the Latin American Competitiveness Clusters. The sample is therefore non-probabilistic, given that the SMEs interviewed form part of the competitiveness clusters of the previously mentioned industries and they have already begun their internationalisation activity, have experience in this area or are planning to start internationalising in the near future.

A total of 25 CEOs were interviewed in each country, meaning that the sample comprises 225 SMEs.

Table 1. Sector breakdown

Energies, recycling and environmental technologies	4,5%
ICT	6,7%
Creative industries	7,1%
Tourism	7,6%
Pharmaceutical, health and cosmetic	8,9%
Extraction, processing and marketing (EPM)	14,3%
Services and solutions for companies	15,2%
Food and drink	17,0%
Industrial equipment	18,8%

Table 2. Number of employees

	0 < 10	11 - 49	50 - 249	+ 250
ICT	13%	67%	13%	7%
Creative industries	25%	63%	12%	0%
Pharmaceutical, health and cosmetic	15%	50%	35%	0%
Tourism	24%	47%	29%	0%
Extraction, processing and marketing (EPM)	12%	23%	52%	13%
Food and drink	10%	37%	42%	11%
Industrial equipment	3%	41%	33%	23%
Energies, recycling and environmental technologies	0%	78%	22%	0%
Services and solutions for companies	16%	38%	37%	9%

Table 3. Amount of turnover

	< 500.000 USD	500.000 - 1 million USD	1 - 2 million USD	2 - 10 million USD	10 - 50 million USD	More than 50 million USD
ICT	53%	7%	13%	20%	7%	0%
Creative industries	63%	25%	6%	6%	0%	0%
Pharmaceutical, health and cosmetic	17%	12%	18%	41%	6%	6%
Tourism	41%	23%	6%	18%	12%	0%
Extraction, processing and marketing (EPM)	23%	16%	0%	32%	29%	0%
Food and drink	22%	17%	11%	30%	17%	3%
Industrial equipment	10%	16%	16%	24%	26%	8%
Energies, recycling and environmental technologies	38%	25%	0%	25%	12%	0%
Services and solutions for companies	26%	26%	10%	22%	13%	3%

2 THE LATIN AMERICAN ENTREPRENEUR PROFILE

According to the sample, the average age of the Latin American entrepreneurs is around 45. There was a broad range of ages, with all of the CEOs interviewed falling between 25 and 72 years old. It should be noted that there was a difference of ten years between the average age of the Brazilian and Chilean entrepreneurs, and that Brazil was the country with the youngest entrepreneur - this may be due to the fact that until recent years, Brazil has enjoyed a thriving and dynamic economy and a highly diverse business network.

Table 4. Interviewed CEOs - Age range per country and sector

	Average Age		Average Age
Argentina	47 (24 - 69)	ICT	41 (29 - 55)
Brazil	38 (26 - 59)	Creative industries	42 (27 - 67)
Chile	48 (30 - 64)	Pharmaceutical, health and cosmetic	49 (27 - 69)
Colombia	45 (25 - 68)	Tourism	49 (32 - 65)
Costa Rica	46 (25 - 69)	Extraction, processing and marketing (EPM)	47 (25 - 72)
Ecuador	46 (27 - 69)	Food and drink	43 (24 - 70)
Mexico	43 (25 - 72)	Industrial equipment	44 (26 - 63)
Peru	46 (28 - 67)	Energies, recycling and environmental technologies	45 (31 - 64)
Uruguay	45 (35 - 70)	Services and solutions for companies	45 (25 - 69)

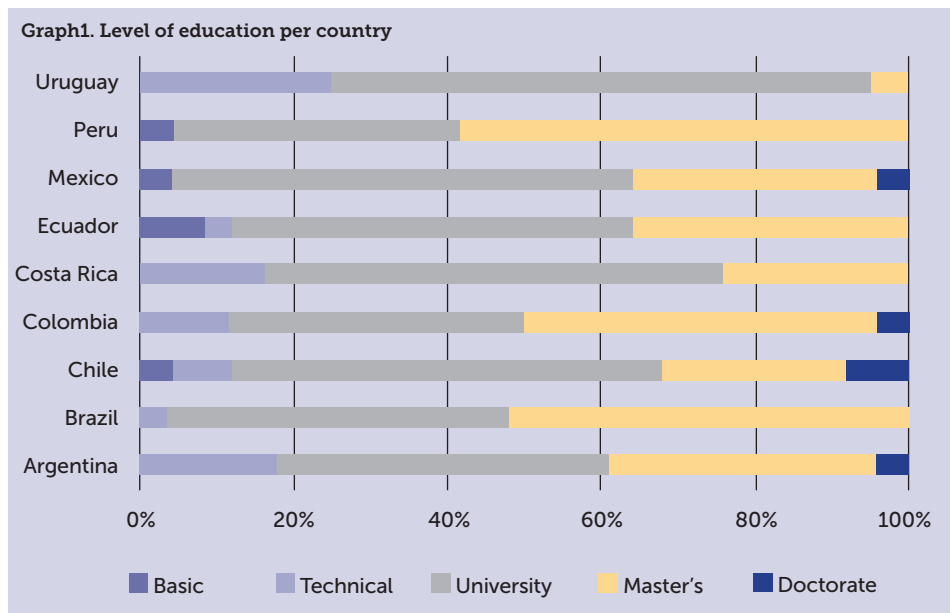
The table registers the average and, between parenthesis, the extremes observed.

It should also be noted that, according to the sample, both the ICT and creative industries sectors have lower average ages than the rest of the sectors. This may be explained by the fact that it is usually easier for young people to pick up new skills: these are sectors that have experienced recent developments, with skills and competencies related with new technologies playing a main role.

2.1. Interviewed CEOs - Level of training per country and sector

On average, more than 80% of Latin American entrepreneurs hold a university degree. A comparison with the European samples previously analysed by CERALE shows that the European entrepreneurs have more years of university training, as the majority of them have a master's degree.

In terms of activity sectors, the more knowledge-based sectors (ICT, energies and health) have higher levels of education (master's and doctoral degrees).



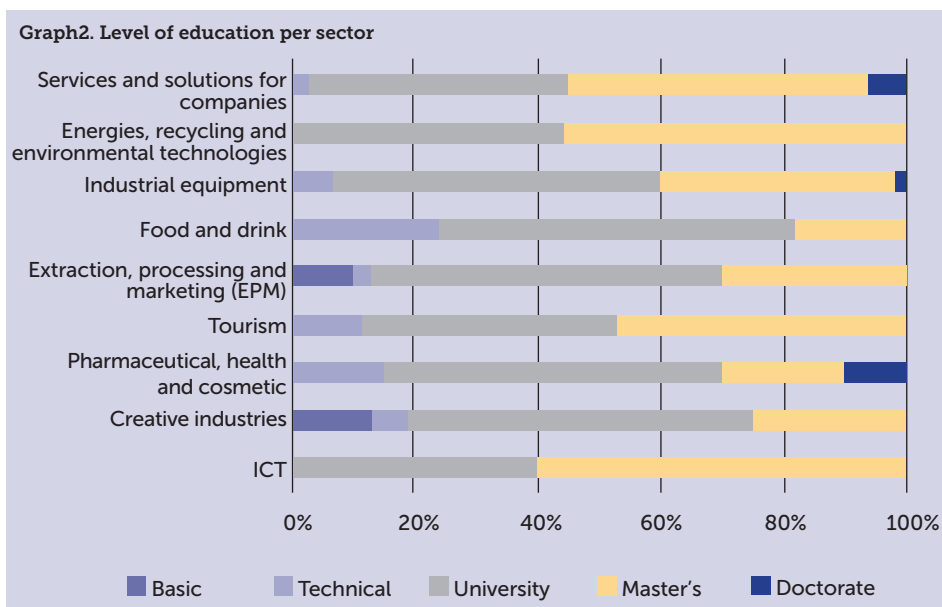


Table 5a. Interviewed CEOs - Linguistic abilities per country and sector

	Only native language	English	3 or more languages
Argentina	17%	83%	26%
Brazil	16%	72%	44%
Chile	8%	92%	44%
Colombia	31%	69%	19%
Costa Rica	36%	64%	20%
Ecuador	16%	84%	20%
Mexico	0%	100%	27%
Peru	17%	83%	8%
Uruguay	5%	95%	45%

Table 5b. Interviewed CEOs - Linguistic abilities per country and sector

	Only native language	English	3 or more languages
ICT	0%	100%	33%
Creative industries	12%	88%	44%
Pharmaceutical, health and cosmetic	25%	75%	20%
Tourism	24%	76%	35%
Extraction, processing and marketing (EPM)	19%	81%	13%
Food and drink	21%	79%	26%
Industrial equipment	10%	82%	32%
Energies, recycling and environmental technologie	22%	78%	22%
Services and solutions for companies	15%	85%	30%

All the Mexican entrepreneurs interviewed speak English, which is not surprising considering the geographic proximity and strong linkage between the Mexican and US economies. Surprisingly, a third of the Costa Rican and Colombian entrepreneurs only speak Spanish. Brazil (along with Uruguay and Chile) boasts a high number of polyglot entrepreneurs speaking Romance languages (Spanish, French and Italian).

The ICT and creative industries sectors have significant command of English and also of a third language. One out of every three entrepreneurs in the tourism sector is a polyglot, with foreign languages being considered an essential skill in the industry.

“The language, contacts and investment necessary to become established make Europe a difficult market, with the exception of Spain where the language helps us out a lot.” (Argentine SME, health sector, whose manager only speaks Spanish and has no experience working abroad)

“I think that the language barriers are the most important, being able to communicate what you want to do is fundamental but it is something that is valid not only for the European market but also worldwide.” (Chilean SME, environmental solution provider, manager with experience working and studying in Portugal and Italy)

“The European market offers a variety of languages (German, French, English, etc.) but negotiations may be carried out in English.” (Colombian SME, coffee sector, manager with basic level of English acquired in Canada)

“Factors of success include: having market knowledge, having wide domain over the legislations and tariffs, as well as knowing several of the languages spoken in Europe.”
 (Costa Rican company, tourism sector, general manager who speaks three languages and with experience in the US, Panama and Italy)

Table 6a. Interviewed CEOs - Experience abroad per country and sector

	Experience abroad	Studies	Work	Both
Argentina	75%	18%	48%	9%
Brazil	92%	4%	72%	16%
Chile	72%	28%	20%	24%
Colombia	69%	19%	31%	19%
Costa Rica	48%	8%	36%	4%
Ecuador	44%	32%	4%	8%
Mexico	77%	39%	19%	19%
Peru	58%	37%	17%	4%
Uruguay	75%	10%	55%	10%

Table 6b. Interviewed CEOs - Experience abroad per country and sector

	Experience abroad	Studies	Work	Both
ICT	93%	33%	40%	20%
Creative industries	69%	31%	13%	25%
Pharmaceutical, health and cosmetic	60%	25%	20%	15%
Tourism	59%	18%	35%	6%
Extraction, processing and marketing (EPM)	58%	10%	26%	22%
Food and drink	63%	18%	42%	3%
Industrial equipment	72%	20%	37%	15%
Energies, recycling and environmental technologie	44%	22%	11%	11%
Services and solutions for companies	82%	30%	43%	9%

The ICT and services and solutions for companies' sectors –sectors that heavily rely on intangible assets and are therefore more suited to mobility– are those that show the highest rates of experience abroad, both academic and/or professional. The sample shows various cases of entrepreneurs whose international activity is very closely linked to their previous experience abroad. This is the case of one of the Argentine entrepreneurs, a digital solution provider, who after training in the US for a period of time, set up his company in Chile and consolidated it with members in Spain and the US.

3 LATIN AMERICAN SMES AND THE CHALLENGES OF COMPETITIVENESS

The SME CEOs interviewed are conscious of the fact that they face constant and growing competition, both in their local markets and the foreign market. They are therefore aware of the importance of not neglecting the quality of the products and services that they offer, as well as ensuring that their staff's skills and competencies are up-to-date with the times.

3.1. Certification and innovation

The Latin American entrepreneurs are committed to certification processes, claiming different reasons that lead them all to not only maintain but also increase their market share and ensure their place in the global value chain.

Table 7. SMEs interviewed and certification

	With Certification
ICT	40%
Creative industries	25%
Pharmaceutical, health and cosmetic	35%
Tourism	47%
Extraction, processing and marketing (EPM)	58%
Food and drink	50%
Industrial equipment	70%
Energies, recycling and environmental technologie	56%
Services and solutions for companies	61%

“As a response to the demand of some of our customers, we decided to achieve certification.” (Argentine SME, ICT)

“Certifications are important in order to comply with the standards that are maintained on an international level, and when you have them you stand out in the local market.” (Peruvian SME, industrial goods sector, has ISO 9001 and ISO 14001 certification)

“Having ISO 9001 certification was a requirement for working with the US oil industry. At our company, there was a before and after in terms of the implementation of the ISO 9000 standard, as we were the first wholly Costa Rican-owned precision mechanics workshop to gain certification.” (Costa Rican SME, industrial equipment)

In some cases, certification is valued by the fact that it enables the internal processes to be reviewed and also favours a restructuring of the company.

“We obtained ISO certification after a period of bankruptcy that led to a process of restructuring. In this context, the certification for sustainable tourism was key.” (Costa Rican SME, tourism)

“We achieved NTC 6001:2008 certification because we felt the need to organise the company and to have clear procedures.” (Colombian SME, coffee sector)

“The company has ISO certifications (9001, 14001 and 18001) as they are vital for the range of services that we offer; in this way, we can guarantee quality services that are in line with international norms and standards. The need to have standards arose when the organisation started to work with companies from the hydrocarbon sector. I believe that, more than a cost, certifications are an attribute that bring benefits to the company.” (Colombian SME, services and engineering solutions for companies)

“The market that we cater for is a new niche in which there are no other companies. Therefore, there are no certifications that apply to our activity. In fact, our objective is to become the colour control certification body in the industry.” (Mexican SME, services and solutions for companies)

The SMEs that have customers in the aeronautic, defence and space sectors (as is the case for some Mexican companies) all have the AS9100 version C certifications required for operating in the sectors.

Table 8. SMEs interviewed and innovation

	Innovation	Importance given to innovation*
ICT	93%	8.6
Creative industries	75%	8.3
Pharmaceutical, health and cosmetic	90%	9.2
Tourism	59%	9.1
Extraction, processing and marketing (EPM)	61%	8.0
Food and drink	76%	7.0
Industrial equipment	87%	8.1
Energies, recycling and environmental technologie	90%	9.7
Services and solutions for companies	82%	8.6

* = Degree of importance from 1 (not important) to 10 (very important).

The first column indicates the percentage of SMEs that claim to innovate. It is no surprise that companies from the ICT sector innovate to a greater degree, as it is a sector subject to constant pressure for innovation. This pressure is also present in other sectors but is usually spread out over longer periods of time, such as the case of the pharmaceutical and health sector.

A group of Mexican SMEs that operate in the extraction, processing and marketing of agricultural products stresses the importance of innovation in their agricultural production and distribution activities, especially in terms of process controlling and logistics; fields in which it is essential to apply information technology to optimise tasks.

Despite the lower percentage of SMEs that practise innovation, the tourism sector offers an interesting perspective on this point:

“We actively seek to innovate. On a daily basis, the marketing and technology department looks for ways to attract more customers through our website. We also offer customer services online” (Costa Rican SME, tourism sector – air service).

“In fact, innovation occurs when the service is tailored for each customer and their specific requirements are considered. In this sense, it is permanent.” (Ecuadorian SME, tourism services)

3.2. Training

The entrepreneurs interviewed consider training for their partners and staff to be vitally important. According to the figures obtained, the companies operating within the creative industries train their employees less than in other sectors, perhaps due to them working on activities more rooted in innate skills. On the other hand, companies more involved with technology tend to place increased importance on training.

Table 9. SMEs interviewed and training

	Employee training	Importance given to training*
ICT	80%	7.8
Creative industries	56%	8.2
Pharmaceutical, health and cosmetic	85%	8.8
Tourism	82%	8.5
Extraction, processing and marketing (EPM)	77%	8.4
Food and drink	87%	8.0
Industrial equipment	92%	8.9
Energies, recycling and environmental technologies	89%	9.2
Services and solutions for companies	88%	8.9

* = Degree of importance from 1 (not important) to 10 (very important).

“Our employees receive specific training 3 or 4 times per year. The training is focused around SCRUM certification: design thinking, game design & video gaming production. It is given in person at an institution or online. Training and updating competencies is important for us and Conacyt, the Ministry of the Economy and Pro-México support us in training activities” (Mexican SME, videogame producer).

Some of the entrepreneurs do not place great importance on training. They do however regularly implement training activities. This is the case of one of the Costa Rican SMEs that provides aircraft repair and maintenance services.

“We train the technicians on an annual basis so that they can renew their corresponding DGAC and FAA licenses in the US.”

4 LATIN AMERICAN SMES AND INTERNATIONALISATION

4.1. International market debut

Below, we address the process of internationalisation by measuring the years spanning between the establishment of the companies and their market début.

Table 10. Rate of internationalisation

	Age of company	Time of debut
ICT	13 (3 - 26)	4.0
Creative industries	16 (3 - 37)	4.6
Pharmaceutical, health and cosmetic	19 (6 - 34)	6.3
Tourism	14 (4 - 38)	1.3
Extraction, processing and marketing (EPM)	21 (4 - 49)	6.1
Food and drink	24 (2 - 81)	8.6
Industrial equipment	24 (1 - 75)	12.0
Energies, recycling and environmental technologie	13 (3 - 30)	3.8
Services and solutions for companies	16 (3 - 68)	7.0

The sectors related to the “new economy” and sustainable activities and those sectors that are subject to a renewed interest in Latin America such as tourism have the youngest companies and a faster-paced internationalisation. At the other extreme, the SMEs from the traditional sectors (such as industries) are older and take longer to venture out to conquer foreign markets.

“In order for our first operation to go through, the resources that we had as a company were vital and, at that time there was a lot of demand for our product in other countries.” (Chilean SME, fishing sector)

“Our first export involved uploading the applications onto iTunes, as at the time that we were doing it the Peruvian smartphone market was small and we decided to turn to the foreign market. After this operation, we managed to enter into various negotiations with foreign companies. The first was an application for tablets for Spain.” (Peruvian SME, ICT sector)

4.2. Organisation of the company’s international activity

The following table does not show a correlation between having a structure focused on international activity and the importance of the export activity in total sales.

Table 11. Internationalisation and organisation in the company

	Has internationalisation dept.	Exports/Sales volume
ICT	60%	22.11% (5% - 80%)
Creative industries	44%	50.42% (5% - 100%)
Pharmaceutical, health and cosmetic	40%	24.66% (2% - 80%)
Tourism	59%	62.55% (10% - 80%)
Extraction, processing and marketing (EPM)	45%	63.41% (2% - 100%)
Food and drink	41%	72.00% (1% - 100%)
Industrial equipment	53%	36.00% (2% - 100%)
Energies, recycling and environmental technologie	11%	22.50% (20% - 25%)
Services and solutions for companies	33%	28.00% (1% - 98%)

Considering the sample as a whole, it is the ICT sector that shows the greatest proportion of companies with a team dedicated to internationalisation. Comparing this with those SMEs that provide equipment to specific sectors (automotive, naval, aeronautics) or that sell commodities to major customers, ICT companies require a constant search for new customers as they represent the longest purchase renewal process and have the product with the greatest tendency for personalisation in terms of purchaser needs.

With regards to tourism, a sector that is benefiting from increasing attention from the public sector, among other reasons, due to its ability to attract currency and to contribute towards national wealth, the significance represented in the sample by foreign sales must be noted. The internationalisation of activity requires constant and focused promotion and, therefore, a structure for these purposes.

In terms of the SMEs that extract, process and market agricultural products (coffee, cacao), fish (seafood), forest and mining products and those that produce food and drinks (wines), their production volumes are benefiting from a growing global demand for sophisticated, quality products. This is precisely why they have a high percentage of foreign sales.

4.3. Types of internationalisation

In the following table, all the possible types of internationalisation in the sample have been registered without considering the possible combinations between one form and another.

It is not surprising that for most the SMEs in the sample the main types correspond to imports and exports.

The ICT sector has less import activity, as it is a sector based on knowledge. On the other hand, the pharmaceutical and health sector is the sector that registers the least exports. This sector includes SMES that provide health services and that give preference to the domestic market and/or are providers for the public health system. The SMEs from the EPM sector satisfy a global demand (forest, mining, fishing products, etc.). This is reflected in the high percentage of exporting SMEs present in the sector. Those that produce industrial equipment are particularly active both in terms of imports and exports: they require purchasing supplies, pieces and machinery that are available abroad and many of them are integrated into a global value chain (GVC) as suppliers for multinational companies. This is the case for various Mexican SMEs, affiliates of foreign companies (French, Spanish), that produce for the international market (mainly the automotive

and aeronautics sectors). The energies and recycling sector's activity is predominantly produced in situ. It registers lower exporting activity, except in the case of those SMEs that have the specific know-how appreciated in the international market.

Table 12. Types of internationalisation

	Imports	Exports	Strategic Alliance	Technological coop. with companies from other countries	Subcontractor of a main foreign contractor	Has foreign subcontractor	Direct foreign investment
ITC	33%	73%	33%	20%	33%	0%	0%
Creative industries	50%	75%	31%	6%	19%	6%	6%
Pharmaceutical, health and cosmetic	60%	20%	25%	15%	5%	15%	15%
Tourism	53%	53%	23%	12%	6%	6%	6%
Extraction, processing and marketing (EPM)	52%	84%	42%	16%	19%	0%	10%
Food and drink	45%	74%	24%	10%	0%	5%	5%
Industrial equipment	85%	77%	32%	25%	32%	17%	5%
Energies, recycling and environmental technologie	89%	33%	22%	44%	0%	0%	0%
Services and solutions for companies	61%	51%	33%	18%	24%	9%	27%
Sample average	59%	64%	31%	17%	17%	8%	10%

“I don’t think that the differences among the customers are relevant although there are differences when it comes to culture, administrative arrangements, etc. But, at the end of the day, we all want the same thing: the best quality of service at the lowest possible cost.” (Chilean SME that provides recycling solutions for mining waste)

Technological cooperation is a type of internationalisation that is rarely adopted, with the energies and recycling sector recurring to it the most, according to our sample. It is mainly present in companies that have structured links with foreign companies. This is the case for two Peruvian SMEs that combine technological reception with imports and local commercial representation as well as one of the Colombian SMEs, which is an office of a foreign company from the services and solutions for companies’ sector:

“A North American company supply us with solar panels. They assess our installation system and provide us with training in the area.”

“For three years, our Italian provider has been offering us support and technological updates in exchange for us being their local representatives”.

“We have strategic alliances with consulting companies, which provide us with human teams that guide us on our activity and allow us to update our knowledge with the times. The consultants that support us are experts in engineering, architecture and design. They come mainly from the US, the UK and Spain.”

A very small portion of the sample practises direct foreign investment; Latin American SMEs being capitalised to a lesser extent than their European counterparts. An additional obstacle is the exchange risk. It must be noted that the cases identified in the sample consist mainly of SMEs with offices abroad and they do not include companies that have made large investments in production activities abroad. Latin American entrepreneurs’ perception of direct foreign investment differs from that which has been observed from the European entrepreneurs (cf. previous CERALE reports). The Europeans tend to be more precise with this point and distinguish a commercial office abroad from a production plant.

“We have offices in Mexico and Colombia, we contacted local friends who knew the market; the ownership is two thirds ours and one third theirs. The main reason for this was because the Chilean market is small and we already work with almost all the mines in Chile, except two. In less than a year we conquered them all. If we want to keep growing, we have to look at options in Latin America.” (Chilean SME, services and solutions provider)

“Chile became the easiest market due to its necessity to produce software, which was not being met by local providers. On the other hand, Europe, and in particular the UK, has

a more aggressive mentality and has a more mature market in this area. We have an office in Chile that sells and invoices almost 1 million dollars. When we see that the market is thriving, we set up a local subsidiary and then we discontinue, except in the case of Chile.” (Argentine SME, ICT)

4.4. Determining causes of the internationalisation process

Table 13. Determining causes of the internationalisation process per sector

	Broaden market	Reduce production costs	Support the internationalisation of their existing customers	Access to raw materials and/or other supplies	Access to new technologies	Access to other sources of financing
ITC	4,5	2,4	2,6	1,7	2,8	2,5
Creative industries	4,7	2,4	2,7	2,6	3,1	2,7
Pharmaceutical, health and cosmetic	4,3	3,2	2,7	2,8	3,2	3,6
Tourism	4,2	2,2	2,3	1,7	2,1	2,9
Extraction, processing and marketing (EPM)	4,1	3,1	3,1	2,5	3,1	2,9
Food and drink	4,5	2,7	3,0	2,4	2,7	2,8
Industrial equipment	4,6	3,1	3,3	3,3	3,8	2,5
Energies, recycling and environmental technologie	4,5	2,4	2,4	3,4	4,4	2,4
Services and solutions for companies	4,3	2,6	3,7	2,8	3,3	3,1
Sample average	4,4	2,8	3,0	2,6	3,1	2,9

Values: .../5 : 1. Not important; 2. A little important; 3. Fairly important; 4. Important; 5. Very important;

A common incentive for all sectors is the necessity to look for a market and customers in order to boost sales volumes. This tendency has also been observed in the previous studies carried out by the CERALE on European SMEs. It is worth noting, as stressed by the Colombian researchers that are members of the team, that many Colombian SMEs have focused on the domestic market to satisfy growing national demand. This diverts their attention away from the foreign market and in turn does not contribute to an increase in a diversified exportable offer, creating a predominance for the extractive industry.

“There is a greater demand for wine outside of Chile, no wine survives when it is exclusively sold in Chile, in order to grow you need to export.” (Chilean SME, wine sector)

“We’re a small company and relatively new. That’s why our efforts over these years have been focused around positioning ourselves in the Chilean market. However, two years ago, we started exporting our services to Peru, because we wanted to grow. The opportunity arose due to them, they were the ones who came to us requesting our expertise.” (Chilean consulting company, engineering services provider)

“Our company has been operating in the international market since 1990. Our first experience was carried out through exports to Central America, specifically to Nicaragua and Panama. One of the main reasons that led us to complete the operation was the company’s vision concerning the need to expand operations through exports to other countries.” (Costa Rican SME, food sector)

Our first export was to France in 2006 and we were grateful to a French customer who opened the door for us. Now 100% of our production is exported: to France (50%), the US (30%), Italy (10%), the UK (5%), Austria (5%). The market that has been the easiest for us has been the French one, due to what I have just mentioned... Expanding our markets is one of our main goals.” (Ecuadorian SME, creative industries/crafts sector)

“The Uruguayan market is very small and were therefore felt the obligation to ‘globalise ourselves when faced with globalisation’. Besides, at that time the Argentine market was very appealing in terms of the exchange rate. Our first operation with the country was in 1998.” (Uruguayan SME, creative industries/advertising and audio-visual production sector)

Reducing production costs is not a necessary factor for internationalisation, according to the Latin American SMEs. Indeed, manpower in the region is not among the most expensive compared with the rest of the world and, in the sample, Latin American companies with production activity abroad are not very common.

The international backing of existing customers is a concept interpreted differently by the Latin American and European entrepreneurs. Latin American SMEs, according to the CEOs interviewed, include the mere installation of the team in this action or the provision of a punctual service abroad for an existing customer. European entrepreneurs, on the other hand, understand the international backing of their existing customers as a more complex, consistent process, more often than not, when making an investment in a foreign country, generally industrial, to satisfy their customer's demand in situ.

Access to raw materials is not a determining factor for Latin American SMEs, according to the sample, as Latin America is a region with a wealth of natural resources. However, many of them import supplies to foreign countries. This is true in the case of the pharmaceutical/health/healthcare sector where the SMEs import supplies and medical devices.

“Today our company imports, exports, it has tried to establish strategic alliances but they haven't been finalised, and it relies on technological cooperation with companies from other countries. Over the past three years we have received imports, mainly from the UK, the USA and Canada. The most important reason for receiving imports is the opportunity to access supplies and raw materials that do not exist in the local market. The most important thing is to achieve better prices, better quality and variety. Our company receives imports every year.” (Mexican SME, ICT)

“Over the past three years the company has imported software and licensing supplies, mainly collaborating with the US, Holland and Germany. The most important determining factors for importing for the company involve achieving better quality and access to supplies and raw materials that do not exist in the local market.” (Mexican SME, creative industries)

It must be noted that Latin American SMEs access raw or technological materials essentially through imports. By way of comparison, the European SMEs interviewed in previous studies usually meet this need by investing in an industrial or trade structure abroad. They access new technologies in the ICT sector through the United States or generate renewable energy by setting up factories in Brazil.

4.5. Enabling factors for internationalisation

The enabling factors measured in the interviews are all considered important by the entrepreneurs and do not show substantial differences, both generally speaking and per sector.

Table 14. Enabling factors for internationalisation per sector

	ITC	Creative Industries	Pharmaceutical, health and cosmetic	Tourism	Extraction, processing and marketing (EPM)	Food and drink	Industrial equipment	Energies, recycling and environmental technologie	Services and solutions for companies	Sample average
Access to internet and ICT technologies	4,6	4,9	4,1	4,8	4,5	4,3	4,3	4,6	4,5	4,5
Access to information on foreign markets	4,4	4,3	4,4	4,6	4,6	4,4	4,5	4,7	4,3	4,5
Access to spaces/forums for sharing experiences with peers and networking	3,8	3,8	3,6	4,0	3,7	3,6	3,6	4,6	3,9	3,8
Access to training programmes	3,2	3,6	3,3	3,9	3,8	3,4	3,4	3,4	3,4	3,5
Access to funding channels	3,1	3,4	4,0	3,6	3,5	3,6	3,0	2,6	3,4	3,4
Having appropriate staff	3,3	3,9	3,6	3,7	3,8	4,0	3,5	3,2	3,9	3,7
Participation in fairs and congresses	3,7	4,1	3,2	3,5	4,0	4,1	3,7	3,9	3,9	3,8
Participation in official trips	3,1	3,5	2,6	2,6	3,6	3,6	3,0	3,0	3,1	3,2
Existence of public support programmes	3,2	3,2	3,1	3,2	3,7	3,5	3,2	2,7	3,4	3,3
Existence of free trade agreements	3,4	4,3	3,8	3,6	4,1	4,1	4,4	4,1	3,4	4,0
Interaction with universities/research centres	4,0	3,4	3,1	3,0	3,8	3,5	3,4	3,6	3,5	3,5

Values .../5 : 1. Not important; 2. A little important; 3. Fairly important; 4. Important; 5. Very important

Table 15. Enabling factors for internationalisation per country

	Argentina	Brazil	Chile	Colombia	Cos- ta Rica	Ecu- dor	Mexico	Peru	Uruguay	Sample average
Access to internet and ICT technologies	3,9	4,3	4,4	4,8	4,3	5,0	4,5	4,7	4,2	4,5
Access to information on foreign markets	4,3	4,6	4,3	4,3	4,5	4,7	4,4	4,5	4,6	4,5
Access to spaces/forums for sharing experiences with peers and networking	3,6	4,0	3,3	4,3	3,8	3,8	3,8	3,8	3,4	3,8
Access to training programmes	2,9	3,7	2,9	4,3	4,2	3,6	3,7	3,1	2,6	3,5
Access to funding channels	3,4	2,9	3,3	4,0	4,0	3,6	3,7	2,5	2,9	3,4
Having appropriate staff	3,6	3,3	3,8	4,2	3,9	3,8	4,1	2,9	3,7	3,7
Participation in fairs and congresses	3,6	4,0	3,5	4,4	3,5	4,0	3,8	3,8	3,7	3,8
Participation in official trips	3,0	3,6	3,0	3,8	3,3	2,7	3,1	3,0	3,0	3,2
Existence of public support programmes	3,0	3,5	3,2	4,1	3,5	3,4	3,4	2,5	2,9	3,3
Existence of free trade agreements	3,4	4,0	3,8	4,3	3,8	4,4	4,1	4,6	3,0	4,0
Interaction with universities/research centres	3,0	3,7	3,3	4,4	3,1	3,7	3,6	3,7	2,2	3,5

Values .../5 : 1. Not important; 2. A little important; 3. Fairly important; 4. Important; 5. Very important

The relevance attributed to accessing information on foreign markets, the Internet and ICT must be stressed, along with the importance given to interpersonal contact networks (networking) and participation in fairs. All of these factors are more related with identifying opportunities abroad than with strengthening internal abilities. That said, having appropriate staff is still an important factor for companies.

Participating in fairs raises awareness in the international market and acts as a trigger, as has been observed in various cases: Ecuadorian SME that exports 100% of its production (frozen shrimp), Colombian SMEs from the coffee sector, SMEs that are solution providers for companies.

In terms of free trade agreements, the Mexican SMEs insist on the importance of the North American Free Trade Agreement to explain their exporting preferences to the United States and Canada. Curiously, the Mexican SMEs do not mention the free trade agreement with Europe, which has been in force for more than a decade and is currently in a process of revision.⁴

The entrepreneurs made little reference to the Association Agreement signed between the countries of Central America and the European Union and those agreed with Peru and Colombia, all of which have been implemented recently (Peru-EU, 1 March 2013; Central America-EU and Colombia-UE, 1 August 2013). It must be noted that in Uruguay and Argentina, Mercosur member countries, the entrepreneurs place less importance on this factor than the other countries, while Brazil, which has the same lack of agreements than its partners, takes a different stand. Some bilateral agreements are regularly mentioned by the entrepreneurs. This is the case of one of the Argentine SMEs that produces industrial equipment. According to them, a bilateral agreement between the governments of Argentina and Venezuela was a determining factor for their first international export, precisely to Venezuela.

The sample shows some examples of interactions with universities and scientific and technological public organisms. E.g.: the case of a Mexican SME from the creative industry and that of an Argentine SME from the pharmaceutical sector. Both refer to cooperation agreements with CONACyT and CONICET, respectively, and with three universities in the case of the Argentine company.

⁴ The study was carried out before the elections in the United States in November 2016. Attitudes may change depending on changes in international circumstances.

The following accounts illustrate the various ways of starting the internationalisation process:

“Our first operation involved exporting machines. That’s how we established contact with our first customer who later became our representative.” (Argentine SME, industrial equipment producer)

“The first job that we did was a smartphone application for a US company. The opportunity arose through contact with the CEOs of the corresponding office in Peru. We presented the offer and were selected.” (Peruvian SME, software developer)

“Through customer recommendations, we made contacts that have affiliates abroad. That’s how we started in these countries.” Argentine SME, IT solutions provider with industrial and mature company customers. Works in the maintenance sectors and it has software agreements for use in different Latin American universities.

“100% of our exports currently go to Canada, which has been the easiest foreign market for us due to our close relationship and the proximity. We have more things in common, their way of doing business is more like the Mexican way. We know them, we’re friends and dealing with them is easy.” (Mexican SME that develops software as its main activity)

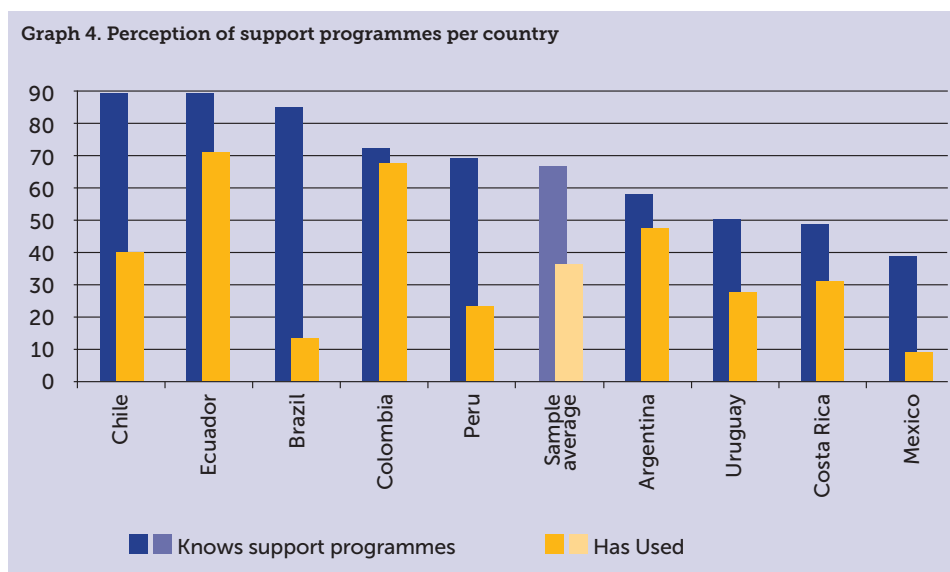
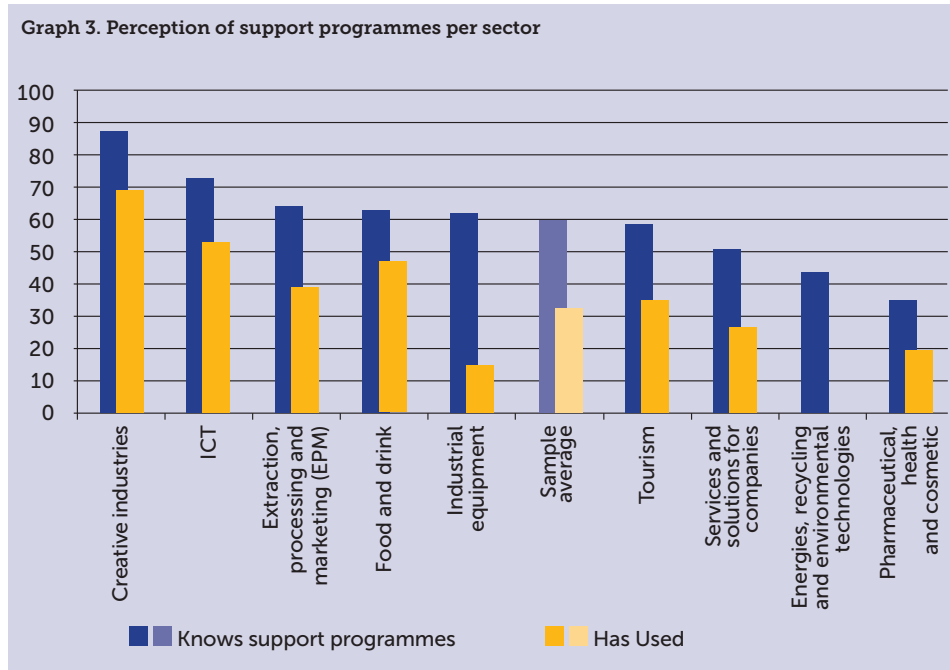
“With the aim of expanding outside the local market, we entered into a tender process in Peru and won. It was our first operation in a foreign market. Of all the markets with which we have had commercial relations, there hasn’t been one that has been easier than the others - they’re all equally as complex, just like the business sector itself. The different criteria for product approval processes, the time invested and the cost of all the procedures are the main difficulties that we have to face. Quality in our customer service channel is our factor of success.” (Argentine SME, pharmaceutical products)

“Our company has a network of distributors in other countries such as Chile, Portugal, the United Kingdom and the United States. We have been forming our distribution network since 2008. International fairs have proved fundamental for its growth.” (Colombian SME, produces software for the oil industry)

4.5.1. Support programmes

Particular attention must be placed on the specific policies for promoting exports for SMEs, as they are designed to facilitate their integration into international trade flows.

The following graphs show, on average, a satisfactory level of familiarity with these programmes (60% of the entrepreneurs interviewed were familiar with them). There is, however, scope for improvement. In some cases, the SMEs are familiar with the programmes but do not use them. This is true for the SMEs that produce industrial goods, and especially those from the energies and recycling sector.



According to the table above, Brazil and Mexico -the two largest economies in the region- are the two countries where the SME CEOs tend not to use support programmes, even though they are familiar with them. The more robust nature of these SMEs compared with those from the other Latin American countries and their lesser need for support explain the phenomenon, considering that they are companies with international presence. On the other hand, 60% of the SMEs interviewed from Colombia and Ecuador rely on these programmes.

As pointed out by the researchers responsible for drafting the Colombian chapter, the companies' knowledge of support programmes is proportional with their intentions to internationalise. As they make more progress towards venturing out onto the markets, they tend to rely more on the programmes, they appreciate them more and their expectations grow, as is the case for the SMEs that operate in the coffee sector. Once they have entered the markets, they may consider the programmes insufficient and stop using them.

Stark contrasts may be drawn within the Latin American entrepreneurs' perception of the support programmes and backing: they mainly value support for participation in fairs abroad and the contacts they are able to make, as well as the impetus that they add; on the other hand, they tend to criticise them on their bureaucracy, slowness and their identification of potential contacts abroad, which are not always relevant. It must be pointed out that, according to the perception of the European SME CEOs, the European support programmes have the same advantages and disadvantages.

“We are familiar with the ProColombia programmes. We take part in the Business Roundtables in France and receive support for the Special Coffee Fair. We appreciate the backing and the chance to network through the fair, the way these types of events work and the market. We would like it if they were more specialised and product-specific and if they reflected demand.” (Colombian SME, coffee sector)

“We take part in support programmes through the Government of Nuevo León and the aerospace cluster support programme. They allow us to have access to detailed information on technical issues, they motivate us to carry out actions and support us in costs. It would be good if support programmes could be devised for looking for and obtaining customers.” (Mexican SME, industrial goods)

“The support programmes have allowed us to familiarise ourselves with the sales conditions for coffee, and to meet and interact with people from the same trade. We have taken advantage of them to the maximum and we were even the winner last year, with ProColombia and Mincomercio recognising us as an innovative company in Special

Coffees. We welcome the fact that ProColombia has fostered special coffee exports.” (Colombian SME, coffee sector)

“We are familiar with the ProColombia and the Chamber of Commerce of Armenia programmes. We highly value the information on the market, the guidance on target markets and great advice offered for processing export licenses.” (Colombian SME, coffee sector)

“After taking part in international fairs and in the macro business roundtables, we consider the ProColombia resources to be limited and believe that they don’t manage to cover the needs of the entrepreneurs. We appreciate the opportunity to meet potential customers but we would recommend more selective invitations for the Colombian guests and potential foreign customers.” (Colombian SME, coffee sector)

“In the ProMéxico programmes in which we have taken part, we have appreciated the opportunity to create commercial material and draft a business plan for internationalisation. The thing we appreciated the most was having a space to devise and form a strategy, learning other ways of doing business. They could be improved: the response and welcoming times in particular, as they tend to be quite slow.” (Mexican SME, ICT)

“What we appreciate the most is the networking and the coaching; they could improve on the follow-up and support in order to give some sort of continuity.” (Mexican SME, creative industry)

“We took part in a state programme in 2012, which was financed by the IDB. It was aimed at helping young companies internationalise. During the year, we received the salary and support of a mentor, which enabled us to “take the leap” and fully commit to the project. As a consequence of everything that I have mentioned, we launched three lines of products and managed to obtain customers. It was perfect for the moment that we were given, what we appreciated the most was the resources. We were able to make three commercial offers. At the moment, the company is at a level that doesn’t qualify for the programmes because they are for smaller or larger companies.” (Uruguayan SME, creative industries, furniture design)

“There are a lot of programmes available but it is difficult to find out information about these support policies. It helps if you are part of a chamber.” (Uruguayan SME, industrial equipment)

It must be noted that some of the entrepreneurs claim not to rely on support programmes as they do not believe in the benefits that they may offer.

“We are familiar with public programmes but they are difficult to access because of the bureaucracy or because they have turned into a business for the advisors, with their complex structure. We have also made efforts to cooperate with academic institutions (both public and private) in Mexico, but we realised that their main concern is gaining economic benefits, rather than collaborating or sharing information or experiences.” (Mexican SME, industrial equipment)

As pointed out by the Mexican researcher, the SMEs that operate producing and marketing grains, seeds and similar products are not familiar with and/or are not interested in support programmes. The lack of difficulty to export their agricultural products to the United States, paired with the bureaucracy that they offer the public facilities would explain this attitude.

5 LATIN AMERICAN SMES AND THE EUROPEAN MARKET

5.1. Difficulties in access

Difficulties in accessing the European market vary according to the sector, with 58% of the entrepreneurs interviewed considering it a difficult market. The ICT, creative industries and tourism sectors, however, do not perceive the access to be so difficult. They are less standardised and regulated sectors than the others (except for those that are examined for regulations). Furthermore, the entrepreneurs from the ICT and creative industries sectors are usually younger, with a high level of studies and they all speak English, making them more prone to have foreign relations (see chapter 2. The Latin American Entrepreneur Profile).

It must also be noted that the majority (65%) of entrepreneurs from the pharmaceutical and health sector find it very difficult to operate in Europe.

Table 16. Perception of European market per sector

	Not difficult	A little difficult	Rather difficult	difficult	Very difficult	Average Grade
ITC	13,3%	6,7%	40,0%	6,7%	33,3%	3.4
Creative industries	12,5%	12,5%	37,5%	18,8%	18,8%	3.2
Pharmaceutical, health and cosmetic	5,0%	0,0%	20,0%	10,0%	65,0%	4.3
Tourism	23,5%	5,9%	29,4%	17,6%	23,5%	3.1
Extraction, processing and marketing (EPM)	3,2%	16,1%	22,6%	19,4%	38,7%	3.7
Food and drink	2,8%	16,7%	25,0%	25,0%	30,6%	3.6
Industrial equipment	5,4%	2,7%	21,6%	29,7%	40,5%	3.9
Energies, recycling and environmental technologie	11,1%	11,1%	0,0%	33,3%	44,4%	3.8
Services and solutions for companies	12,5%	3,1%	21,9%	28,1%	34,4%	3.7
Sample average	8,9%	8,4%	24,3%	22,0%	36,4%	3.7

Values .../5 : 1. Not difficult; 2. A little difficult; 3. Fairly difficult; 4. Rather difficult; 5. Very difficult

Some entrepreneurs share the idea that it is difficult to operate within Europe and they immediately discard the possibility of exploring this market. This is the firm opinion of one of the Argentine SMEs that produces machinery for the agricultural sector who, having never attempted to export to Europe, states that:

“It is difficult for products from Argentina to receive certification from the European Community. This makes it impossible for the majority of the products to enter European countries.”

Others presuppose the existence of preconceptions on both sides of the Atlantic, which are not always justified:

“The European market has preconceptions about Latin American suppliers and we may have preconceptions about them as well.” (Argentine SME, services and solutions provider for the oil, mining and chemical industry)

“We still feel the weight of the issues of drug trafficking. As Colombians, our products have suffered.” (Colombian SME, coffee sector)

“The European market is more difficult. We have had direct contact with the Spanish, French, Swiss, Italians and British, sending samples, rates, etc. The Europeans have come to Colombia but they have never agreed any business. We think it has to do with their proximity to Africa, where a very different coffee is produced at a lower price.” (Colombian SME, coffee sector)

Many of the CEOs compare the European market with the domestic one when weighing up the difficulty. The local market does not always come off benefiting from this comparison, as shown in the following declarations:

“The factors that have caused us the most damage when working abroad have been the ‘Brazil cost’. The country is expensive, we have problems with languages, there are few people able to communicate fluently in English or Spanish.” (Brazilian SME, industrial equipment)

“The problem is that European customers request contracts with fixed prices over terms of two or three years, and this forces us to cover ourselves against any potential changes to costs. Without a doubt, the success of our products is due to the quality, seriousness and responsibility that we show.” (Ecuadorian SME, crafts and jewellery)

“Foreigners know what they want, and the local customers are very organised. Payment abroad is made on time. Being serious and organised helps us to focus on making the

product into the best possible and to not get distracted by changes in administrative issues.” (Peruvian SME, ICT)

“The levels of seriousness and organisation are different, here people take their time when making payments and they try to lower prices, saying that if they don’t buy it from you they will buy it off someone else.” (Peruvian SME, asparagus and avocado producer)

“Difficulties while working with foreign markets may be explained through economic imbalances, exchange rate inflation in dollars, the lack of information on business susceptible to double taxation, etc.” (Argentine SME, IT solution producer)

“The product that we export is different from that which we market domestically, as they are different niches; we offer a product that adds value. Our customers abroad stand out from our Mexican customers as they are more demanding, they ask for better quality, compliance with delivery times and they are more formal.” (Mexican SME, ICT)

Comparing it with the American markets, which they perceive as being closer, almost all of the entrepreneurs do not consider Europe as a natural market; and this makes it more difficult for them all. Many of them consider that the neighbouring markets are easier. Many Brazilian companies claim that they started their internationalisation process by exporting to Argentina and Uruguay; the Argentines to Chile; the Uruguayans to Argentina and Brazil. Mexicans, on the other hand, naturally turn to the US market. Among the CEOs interviewed, a systematic comparison of the European market with the North American market shows a perception of greater ease with the latter, especially for the Mexican and Costa Rican SMEs.

“Europe is a very difficult market, due to the costs: getting there and advertising is expensive. The US has a different culture and it is more accessible for us. Americans come here to spend time on the beach. There is a need for greater coordination with European companies.” “Working with the European market poses a lot of difficulties for us. In Costa Rica, we’re mainly used to marketing with the US market, and for this reason exporting to Europe would be more difficult. In this case the main barriers are the requirements of the European market and the different norms and standards. We’re worried about the country’s image not selling correctly and because there is only one direct airline between Costa Rica and Europe.” (Costa Rican SME, tourism)

“It’s very difficult to access the European market, mainly because we are unfamiliar with the culture and the demand, we’re more familiar with the US. On the other hand, there are differences in the norms, the geographical distance, linguistic difficulties... and ultimately the requirements of the European market.” (Costa Rican SME, pharmaceutical, health and cosmetic, plastic surgery)

“At the moment, we only export to the US as it is a destination market that is very relevant for us and we want to position ourselves well in the country. Currently only 2% of our sales are carried out abroad, as we only started operations four months ago. In the US, there is a lot of demand for alternative medicine and there is also a very large Latino population.” (Mexican SME, pharmaceutical/health and healthcare, alternative medicine)

“The European market is more formal and serious but it’s not very big and it has a lot of actors compared with the US market, which is more stable, predictable and orderly.” (Peruvian SME, EPM/agroindustry, avocado producer)

“We have been operating in the international market since 1990. Our first experience was carried out through exports to Central America. From our experience, Central America is a more accessible market due to its proximity, and similarities in tastes and culture.” (Costa Rican SME, food and drinks)

“5% of our sales are registered outside the domestic market, mainly in Central America, Trinidad and Tobago and the Dominican Republic. Central America is more accessible for us due to its proximity and cultural identity.” (Costa Rican SME, coffee, peanut and pistachio producer)

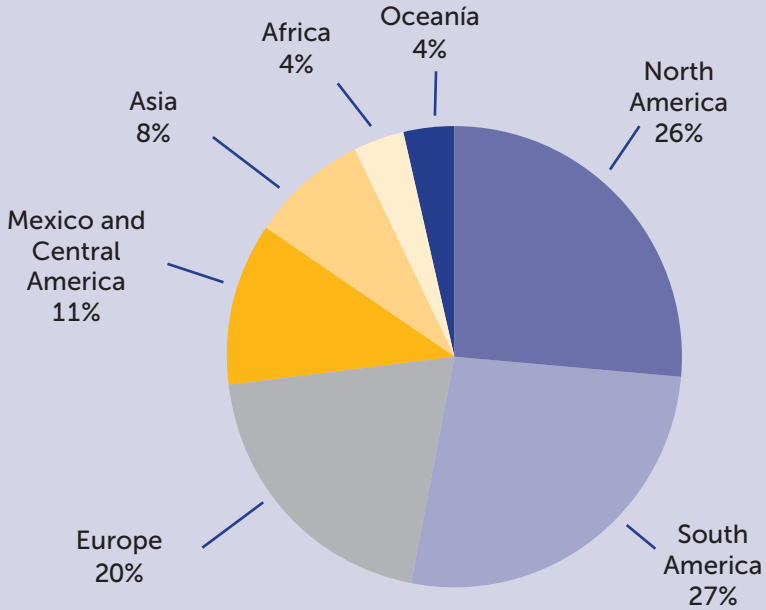
“We have been able to enter into the Brazilian market through the contacts we made at fairs, obtaining awards and recognitions. Brazil has been the easiest market to export to due to its level of development and professionalisation in the industry.” (Uruguayan SME, creative industries, furniture design)

5.2. The European Union and Latin American SME exports

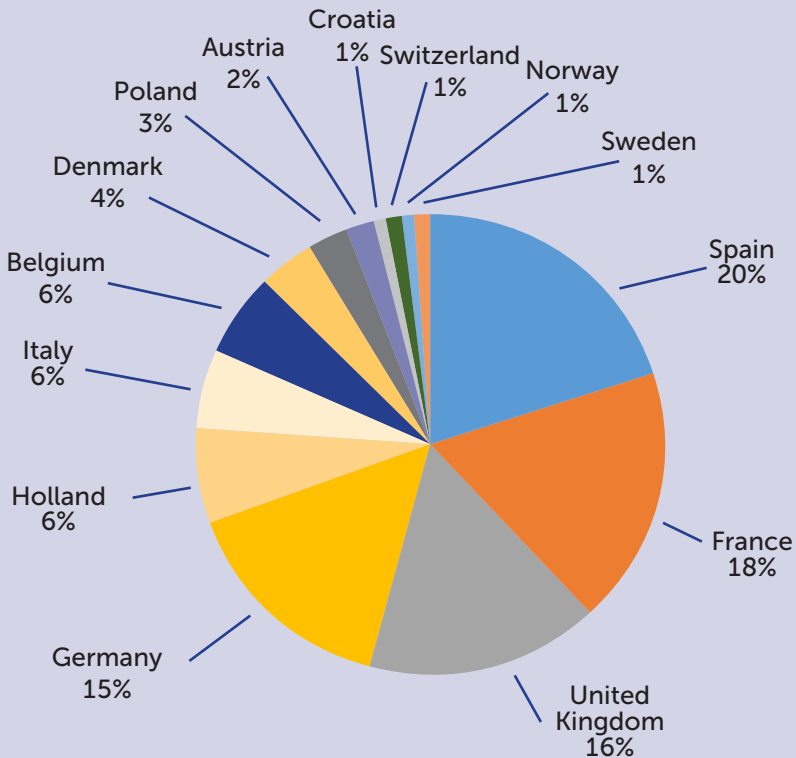
As expected, Latin American SME exports are mainly destined within the region: 64% are carried out within the same continent, with 38% of which being destined for Latin countries. It must be noted that the US has free trade agreements with various countries from the region (Mexico, Peru, Colombia, Chile, Central America and the Dominican Republic), consolidating the natural tendency to feed the largest market in the continent and the largest economy in the world.

It must also be stressed, however, that Europe represents a fifth of the export market of these Latin American SMEs, according to the entrepreneurs interviewed.

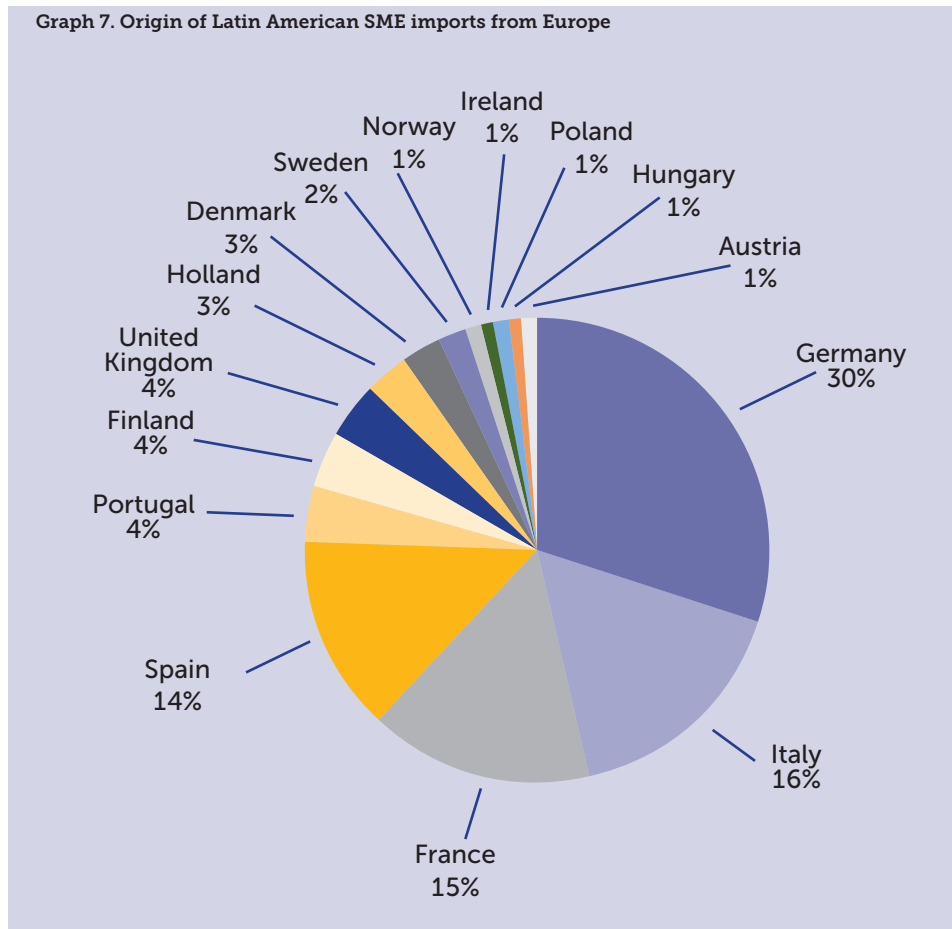
Graph 5. Destination of Latin American SME exports per region



Graph 6. Destination of Latin American SME exports in Europe



Examining the European market, 68% of the Latin American SME exports are destined for the Spanish, French, British and German markets. There are closer economic relations with these countries, which also have a higher level of investment in Latin America, showing a higher level of interrelationship.



The same countries stand out as suppliers of imports, with the exception of the United Kingdom. Germany's role as a main supplier for the SMEs interviewed must also be stressed: 75% of European imports received by Latin American SMEs come from 4 countries: Germany (30%), Italy (16%), France (15%) and Spain (14%).

5.3. Barriers to internationalisation in Europe

After considering the European market to be overall difficult (3.7/5), the CEOs interviewed rated the different barriers on a difficulty scale ranging from 2.7 to 3.8/5. These figures are coherent with each other and show that the European market, although difficult, is not impossible. No substantial differences were observed among the barriers.

The macroeconomic aspects (economic situation and exchange rate) represent the highest rates (3.8/5): low growth in Europe and the dip in the euro explain this perception. The local environment of the SMEs is also perceived by the entrepreneurs as a factor likely to affect their performance abroad. Fluctuations in exchange and interest rates have a direct impact on their performance.

The regulatory framework is considered a source of difficulty when exploring the European market (3.6/5) and is consistent with the importance given to quality and innovation (3.5/5). The perception of geographical distance (3.3/5) is in line with the importance given to transport and logistics costs (3.5/5). In terms of stances on administrative processes, the value attributed reflects a medium difficulty (3/5) and is lower than that perceived by European SMEs present in Brazil.

Linguistic (2.7/5) and cultural difficulties (3.1/5) are manageable and there are no significant differences observed between the different sectors.

As observed in previous studies, SMEs with little or no experience abroad tend to find barriers more hindering.

“The international medical tourism market has increased 15% since 2010 and in Costa Rica we offer lower-priced operations than other countries. Our difficulties have been due to us not being used to operating out of the country.” (Costa Rican SME specialised in dental care).

“I perceive it as a very difficult market as we are unfamiliar with it. However, I think it could be like that of China, with whom we are currently working.” (Colombian SME, services and solutions for companies)

“The geographical distance poses a difficulty for us, as personal contact in our sector is fundamental. Indeed, our success abroad is due to our contact with customers and understanding what problems need to be tackled.” (Argentine SME, industrial equipment, specialised in parts for agricultural machines)

Table 17. Perception of the main barriers in the European market per sector

	ITC	Creative industries	Pharmaceutical, health and cosmetic	Tourism	Extraction, processing and marketing (EPM)	Food and drink	Industrial equipment	Energies, recycling and environmental technologie	Services and solutions for companies	Sample average
Geographical distance	3,4	2,9	4,0	3,2	3,0	2,8	3,4	4,5	3,3	3,3
Different norms/rules/standards	3,7	3,3	4,2	2,8	3,5	3,8	3,8	3,9	3,3	3,6
Cultural distance	3,4	2,8	3,0	3,2	3,2	2,8	3,1	3,3	3,2	3,1
Linguistic difficulties	2,7	2,8	2,9	2,2	2,5	2,9	2,5	2,9	2,8	2,7
European market requirements (quality, innovation)	3,1	3,5	3,4	3,6	3,9	3,5	3,6	3,3	3,1	3,5
Limited or no knowledge of European market	3,5	3,6	3,4	2,8	3,4	3,5	3,3	3,4	3,6	3,4
Type of change	3,3	3,9	3,8	4,0	4,2	3,5	3,7	4,4	3,6	3,8
Costs of transport and logistics	2,4	3,1	3,7	3,2	3,9	3,5	3,8	4,5	3,4	3,5
Administrative procedures	3,1	3,1	3,3	2,6	2,9	2,9	3,1	3,8	3,1	3,0
Domestic macroeconomic environment	3,3	4,0	3,7	3,7	3,8	3,5	3,6	3,1	3,4	3,6
Macroeconomic environment in destination country	4,2	4,2	3,5	4,0	3,9	3,8	3,7	3,8	3,7	3,8

Values .../5 : 1. Not difficult; 2. A little difficult; 3. Fairly difficult; 4. Rather difficult; 5. Very difficult

“It is a difficult market to access. The economy in recession, the distance and the difficulties in being continuously present are some of the reasons for this perception. We would need to travel at least three times to the same fair and this is very costly for the company.” (Uruguayan SME, creative industries, furniture design)

“It’s a very difficult market to meet because it is very distinctive, with customers from all countries, while in other places (USA, Australia) you can work with the whole market through one customer.” (Ecuadorian SME, creative industries)

“The European market is difficult to access. It has different standards of quality and the services that our company offers are more Americanised. Entering the US market would be easier for us due to the proximity, culture and the Latino population living there.” (Colombian SME, services for companies, nautical sector)

“It is difficult to compete in the European market due to the requirements necessary in terms of the level of quality, at least in our sector. Europeans have a lot of programmes that protect the local industry, and this acts as a barrier against foreign industries entering. The main barriers are the differences in norms, rules and standards and the requirements of the European market (quality, innovation). The factors that most affect negotiations in the European market include the exchange rate, a lack of capital (access to financing), a lack of qualified staff, transport and logistics costs, the quality of the company’s products, a lack of public support and the macroeconomic environment of the destination country.” (Mexican SME, creative industry/video production)

“The European market for us is quite difficult because, compared with the other markets that we work with, the Europeans are much stricter in terms of environmental and technical norms.” (Argentine SME, EPM, wood sector)

“The European market is rather difficult, as it is a mature market, it has high operation costs, and a different working model, it requires better quality, it has a different business strategy.” (Mexican SME, creative industry/digital media production)

“They’re very demanding when it comes to the quality and health control of the product. Unlike in the US, in Spain they analyse the product in more detail and they are more rigorous with the parameters requested.” (Peruvian SME, food)

“When it comes to environmental issues, the Europeans are ahead of us as they have first-class technology at hand and better environmental care policies, enabling them to focus on innovating and advancing further.” (Peruvian SME, energy/recycling, environmental solutions)

“We should adapt to the culture and way of doing business in Europe; they pay more attention to detail than us in terms of the legal side and reviewing the final product. Competition is hard because there are companies within Europe that also manufacture the same products as we do.” (Peruvian SME, industrial equipment, specialised in the mining sector)

“We have taken part in negotiations with the European market. For us, the Europeans seem clear and simple. You need to have everything in order to work with them and comply with the deadlines. It reaches a point when it’s even difficult to work in the Colombia, where the rules change frequently, there is a lack of clarity and the taxes are complex. I think that doing business in Brazil is even more difficult...” (Colombian SME, services and solutions for companies)

“Cultural issues are the most important aspect because if you don’t understand each other you could lose the business. Mexican culture is laxer and in Europe they’re more ‘yes or no’, ‘you can or you can’t’, they’re more concerned with deadlines, prices, etc. Emphasis must be placed on the relationship.” (Mexican SME, industrial equipment for the automotive sector)

“The language, contacts and investment necessary to become established make Europe a difficult market, with the exception of Spain where the language helps us out a lot.” (Argentine SME, pharmaceutical/health/healthcare)

“If I had to talk about the differences between the European and US markets, I wouldn’t really know what to say. However, I think the language barriers are highly important, because being able to communicate what you want is fundamental; but it’s something transversal, it not only applies to the European market, it applies to the whole world.” (Chilean SME, energy/recycling, environmental solutions)

“The European market offers a variety of languages (German, French, English, etc.) but negotiations may be carried out in English. But of course, it makes things more difficult when you need to modify the product and packaging for every language and country.” (Colombian SME, food and drinks, specialised in coffee)

“The European market is a little difficult. Europe is comprised of various countries with different cultures, different languages, different and dispersed markets. The United States is more homogeneous. For me, the greatest difficulties for operating are the cultural differences and the requirements of the European market. As well as the lack of public support for reaching these markets.” (Costa Rican SME, tourism)

5.4. FACTORS OF SUCCESS OR FAILURE IN THE EUROPEAN MARKET

Factors of success	Factors of failure
<ul style="list-style-type: none"> • Having an advisory and facilitating team • Having the appropriate staff • Having sufficient financial capacity • Offering an innovative, high quality product/service at competitive prices • Paying constant attention to the internationalisation process • Constantly aiming for excellence • Knowing the advantages and limits of the trade agreements with the country of destination • Knowing the target market well: how it works, the distribution market, etc. • Knowing the regulations and norms that exist in the market • Knowing the legal and fiscal framework • Considering the social, environmental and ethical aspects • Having appropriate trade representatives • Having contacts you trust • Portraying and showing a good image • Having a good communication strategy for the product/service • Complying with the agreed: contracts, deadlines, standards, etc. • Listening to the customer's opinion and identifying market demands • Maintaining open and frequent communication with the customer • Adapting to changes in the agreements and trade relations. 	<ul style="list-style-type: none"> • Not having the required technology • Lack of preparation and planning • Lack of flexibility and ability to adapt • Not having a solid and well structured strategy • Not having a realistic and reliable offer • Not having the necessary qualifications and certifications • Underestimating the costs imposed by the distance • Ignoring consumer trends and behaviour in the target market • Not seeking advice on legal, tax and transport matters • Not knowing the business culture of the destination country • Trying to sell the same as what is sold in the US • Not having a representative who looks out for their own interests • Not seeking advice on legal, tax and transport matters • Not paying attention to the details of the contract or the penalties • Poorly managing the long-term deployment strategy in Europe • Focusing on various European countries at the same time • Not complying with the customer's expectations in terms of volume, price, quality and delivery • Not having a reliable distribution and logistics network • Not offering a consistent and high-quality after-sales service

6 CONCLUSIONS

This study was aimed at offering an overview of the current situation faced by Latin American SMEs and their internationalisation processes through the perceptions of their CEOs. As it is based on perceptions, it should be considered to be of a subjective nature, closely linked to the experience and personal and professional scope of the entrepreneurs. It must be noted that the development strategy and international projection of a SME are designed and centred on these perceptions which, by nature, are dynamic.⁵

In accordance with various studies on internationalisation processes, it has been observed that the perception of the CEOs changes depending on their experience and learning about new markets reduces the severity of the barriers perceived. Like an athlete trained to jump hurdles, a globetrotting entrepreneur is not intimidated by the obstacles that arise along the way; novices, on the other hand, have more preconceptions and tend to see the situation as more complex than what it really is. It is thus important to increase their exposure to different environments other than their place of origin and to encourage open minds and greater flexibility.

“The main cause of failure is not knowing the other company, not understanding their situation, ultimately not putting yourself in their shoes.” (Uruguayan SME, services and solutions for companies)

The messages conveyed by the more than two hundred Latin American entrepreneurs may be summarised in the following manner:

Be bold and persevere

“I don’t consider the European market to be difficult, for me it’s just a matter of devising a good plan and daring to enter into business. You may run into difficulties with the people involved, when you don’t have a strategy and you don’t know how to do it.” (Mexican SME, ICT)

5 New circumstances generated by the 2016 elections in the United States, for example, pose challenges and opportunities for bi-regional economic and commercial relations.

“Perseverance and insistence are essential for entering into a new market. Never despair!”
(Mexican SME, industrial equipment producer)

“Foreign markets are difficult to win over and easy to lose.” (Argentine SME, solutions provider for companies from the oil, mining and chemical sector)

Learn from experience

Like in previous studies, it has been observed that the difficulties encountered encourage resilience among the entrepreneurs and make them more tenacious.

“Our experience in Europe has demanded more from ourselves and it earned us more recognition, even on a national level” (Colombian SME, creative industry/fashion)

“We had an experience that wasn’t very successful but that helped us realise what we exactly needed to do to directly sell abroad.” (Uruguayan SME, creative industries/graphic design)

“The European market is demanding, it challenges you and encourages you to constantly improve.” (Peruvian SME, industrial equipment)

Trust in yourself

“When you have will, you achieve many things and that is why being optimistic is fundamental; you need to believe in your own ability. You need to be able to overcome the entry barriers associated with the preconceptions that people may have when a company considered from the third world goes to do business with a company from the first world. It is difficult for us to be taken into consideration even though we have a great local reputation. This is also related to cultural issues and with the fame that Chile has in the foreign market.” (Chilean SME, services and solutions for companies)

“We need to promote Mexico’s potential in Europe, because European companies are not familiar with our abilities”. (Mexican SME, industrial equipment for the aerospace industry)

Gain the trust of partners and customers

“Our most difficult job is getting the customer to trust us and our products, trying to make the business relationship as personal as possible. One time when we sent 500 boxes there were problems with 12 of them and we travelled personally to the destination to resolve the issue. We were able to show that the problem did not lie with the product but that it was due to misuse. They were quick to tell us that we did the right thing in ‘showing our faces’ and resolving the problem. When we returned, we had a new purchase order.”
(Argentine SME, industrial equipment/parts for agricultural machines)

Without claiming to exhaust the complex reality of the SMEs from the subcontinent, the observation that has been undertaken, enhanced through the interviews, allows to draw a picture of the internationalisation of SMEs from key sectors in nine countries of the region and highlight some dominant characteristics.

Latin American SMEs are in an early phase of internationalisation: they have command over basic factors such as exporting and importing, but have few strategic alliances and direct foreign investment is practically non-existent. This lack of diversification in their interaction with foreign markets hinders their integration into and upgrading within global value chains. By way of comparison, the European SMEs show samples of a more sophisticated internationalisation strategy. They rely on a wide range of approaches for their operations abroad and often implement more than one approach for the same target market.⁶

It must be noted that the large majority of SMEs operate producing goods and few operate within the services sector, when it is well known that services are the main connectors between global value chains.

In terms of the perspective of doing business in Europe and with Europeans, the testimonies from the CEOs showed that this constitutes a challenge that is within reach for Latin Americans, as long as they meet a series of conditions that range from the personal strengths of the entrepreneurs (courage, perseverance, professional rigour) to a business performance that is in line with the market expectations and requirements.

Despite the shared cultural heritage, a large number of the Latin American SME CEOs are unfamiliar with business aspects in Europe and claim to be much more familiar with the other great western market: the United States. This unfamiliarity ought to be overcome, as it causes baseless fears, inhibits initiative and hinders specific business opportunities and valuable occasions for learning. The European market is complex, heterogeneous,

⁶ Cf. *La Unión Europea y América Latina y el Caribe ante la nueva coyuntura económica y social*, CEPAL, 2015

sophisticated, mature and demanding (according to the CEOs interviewed); gaining experience in it can only lead to SMEs reinforcing their skills and competencies.

“The European market is a very complicated market. Our type of products already has a lot of competition in Europe. There is a wide cultural gap and it’s a very different market that we are unfamiliar with. Costs rise when the exchange rate rises. There are a lot of regulations in the food-processing industry. The economy of the country and of Europe have a strong impact.” (Costa Rican SME, EPM, produces and markets pistachios, almonds, peanuts)

“The key is to enter the markets through the right door” (Brazilian SME, food and drinks sector)

SMEs are small-sized economic entities in which the role of the CEO has a major impact on the performance of the company. In many of them, the CEO/entrepreneur covers gaps (in training, linguistic abilities) using their own initiative. Nevertheless, in order to accelerate the internationalisation process for Latin American companies and to promote their interaction with European companies, the design and implementation of ad hoc public policies serves as an area of opportunity for all those actors –governments, international organisations, aid agencies, development banks and even university institutions– aiming to foster and strengthen SME capacities and capabilities. Various reports and studies edited in the region reflect this awareness raising.

In terms of public policies, two fields of action may be identified: training and information. Both fields may be conceived and implemented on both a regional and bi-regional level.

In terms of training, the following aspects are recommended:

- a) to promote technical training aimed at strengthening the staff’s capacities;
- b) to foster international connections that favour student exchanges and stays in foreign countries (a Latin American ‘Erasmus’), as well as business internships;
- c) and to encourage training that allows the SME CEOs to improve their managerial capacities and strategic vision as well as their cross-cultural and negotiation skills.

In terms of information the following aspects are recommended:

- d) to provide spaces for sharing internationalisation experiences, which would allow SMEs to learn from one another and to overcome the fear of ‘venturing out’;
- e) to make every effort to inform about foreign markets –for example, through digital platforms– and, more specifically, about Europe and its specific characteristics;
- f) to improve and increase communication about free trade agreements, defining elements of the global trade flows that are somewhat unknown by macro-level actors such as the SMEs;

- g) to make the support devices user-friendly for the SMEs so that they can recur naturally to them and to promote them.

In short, it is necessary to reinforce all the initiatives that enable the actions of SME CEOs and future CEOs to be fine-tuned and to maximise the power of initiative across borders. There are an infinite number of prospects for interconnection and collaboration between Latin American SMEs and European SMEs and they offer wide opportunities for improving the companies' competitive profiles, helping them to successfully enter the international market. The quality of bi-regional dialogue can only emerge stronger from these collaborations.



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