SME's and the Internationalization of Food Products
SME's and the Internationalization of Food Products: Process and Procedure

By

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1.1 INTRODUCTION

The purpose of this document is to “To explore the motives for and processes used by food exporting SMEs to internationalize and to develop a framework specific to this category of industry?” This will be achieved by analysing the motives and processes contained in internationalization theory and applying these to the SME context. Primary information will be gathered, which will then be combined with a conceptual framework to produce a descriptive framework for this category of industry.

International activity is a key element of entrepreneurship. As part of the entrepreneurship process, most entrepreneurs perceive international opportunities from the first day they start their business (Zacharakis, 1997; Oviatt and McDougall 1994).

Such is the importance of international activity that there has been a renewed interest in the topic of internationalization based on the behavioural paradigm in recent years, as indicated by papers focusing on further refinements of existing models (Johanson and Vahle, 1990), critical evaluation of the theories of internationalization (Andersen, 1993) and studies testing parts or the whole of previously proposed models (Gray, 1994; Benito and Gripsrud, 1993; Eramilli, 1991; Millington and Bayliss, 1990; Sullivan and Bauerschmidt, 1990; Juul and Walters, 1987; Turnbull, 1987).

Where attempts have been made to bridge the conceptualization gap, the dominant aim has been to draw on the relevant international marketing literature, which focuses on the reasons for export initiation and stages and network approaches to the internationalization process, to underpin findings (Vida and Fairhurst 1998; Quinn 1997). Much of these attempts have been to examine the reasons for initiation and the internationalization process of large firms and have excluded the internationally active SME in their studies.

The contribution of SME’s to economies is a widely acknowledged phenomenon. A definition of the SME is “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not
exceeding 43 million euro (European Commission, 2003). Currently small and medium-sized enterprises (SMEs) account for over 95% of firms and 60%-70% of employment and generate a large share of new jobs in OECD economies (OECD, 2000). There are 20.5 million enterprises in the European Economic Area (EEA) and Switzerland, providing employment for 122 million people. Some 93% of these enterprises are micro (0-9 employees), 6% are small (10-49), less than 1% are medium sized (50-249) and only 0.2% are large enterprises (250+) (OECD, 2000). In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises (OECD, 2000). The SMEs contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth (Vosloo, 1994: Rupert, 1994).

An increasing number of SMEs are seeking to capitalise on opportunities that exist in international markets. About one-fifth of manufacturing SMEs draw between 10%-40% of their turnover from cross-border activities (OECD, 2000). At present, SMEs contribute between 25%-35% of world exports of manufactured products and account for a small share of foreign direct investment (OECD, 2000). These internationally active SMEs are generally growing faster than their domestic equivalents. Yet there exists a dearth of information and studies on the area of SMEs and international activity.

It is for this reason that this document is concerned with the motives and the process used by an internationally active SME’s. More specifically this document looks at internationally active SME’s in the food and drinks industry in Ireland with regard to the exportation of foodstuffs to retail in international markets.
1.2 RESEARCH ISSUE

The reasoning for such a topic is the significance of this sector to the Irish economy. The Irish food and drinks sector accounts for 9% of Ireland's GDP, 8% of Ireland's exports and 9% of total employment (Bord Bia, 2006). Agriculture and food remains Ireland's largest indigenous exporter providing total employment in the order of 160,000 (Bord Bia, 2006). It accounts for close to one tenth of the Irish economy with annual sales of €18.5 billion and relatively low import content.

Irish food and drink is exported to over 170 countries. In excess of 50% of exports from indigenous Irish companies are food and drink (Bord Bia, 2006); the majority of these industries are SME’s. Irish food and drink exports recorded a robust performance in 2005. The value of exports is estimated to have increased by 0.7% to €7.1bn (Bord Bia, 2006).

The inherent differences and greater difficulties associated with exporting foodstuffs into retail outlets rather than exporting manufactured goods meant that a lot of the purely internationalization theory was not significant for this document as it lacked consideration of the extra problems, such as transportability, perish ability, consumer cultures and tastes that are associated with the exportation of foodstuffs to retail. It was primarily for this reason that it was felt that the area of retailer internationalization and its associated theoretical base provided a better framework for analysing the internationalization of foodstuffs to retail.

International retailing as a subject area is concerned with explaining the directional and motivational issues associated with the process. The literature on international retail development is concerned with the flow of activity and innovation and the response of manager to the limitations of domestic markets and to the opportunities that exist in international markets.

Alexander (1997:37) defines the internationalization of retailing as ‘the transfer of retail management technology or the establishment of international trading relationships which bring to a retail organisation a level of international integration which establishes the retailer within the international environment in such away as to transcend regulatory, economic, social, cultural, and retail structural boundaries’. This area is specific to the retail industry and consequently it was felt that the
associated factors, characteristics and processes of retailer internationalization would better fit with the internationalization of foodstuffs. Also, as a large part of retailer internationalization is associated with the transfer of own brand produce across national borders, it was felt that this would better explain the motives and processes for an Irish food producing SME to internationalize than any other standard internationalization model.

In summation, most of the current literature on internationalization is based on the internationalization process of large companies. Given the growing importance of the SME to economic development and growth, the lack of information and studies on the area of SME internationalization has given rise to research in this area. Also the importance of the food and drinks industry in Ireland and the information and frameworks available on retailer internationalization and its process made this area an attractive area to examine. It was for these reasons and the availability of resources that it was significant to bridge the gaps between internationalization and the SME and retailer internationalization and the food exporting SME. The significance in bridging these areas was to provide a framework for the SME internationalization to retail process, with the hope that this framework would describe the reasons (motives) for an SME to internationalize it operations, the process used and to set up a mechanism for continued evaluation.
1.3 Research Aim and Objective

The aim of this piece of research is to understand the internationalization process as it would apply to an Irish food exporting SME. To examine companies in relation to when, how, and why they moved into international markets and the strategy they are using to continue with this policy. There has been a shift in retail internationalization due to the changing nature of international opportunities, the internet, and possibly because of stronger cross border relations, thus more and more companies are seeing the opportunities that exist in other countries, some capitalise on these, some don’t, this document aims to explain why?

To explore the motives for and processes used by food exporting SMEs to internationalize and to develop a framework specific to this category of industry?

Within this problem statement three research objectives are contained:

Research Objective 1: To examine the motives for an SME to Internationalize.

This document discusses the internationalization process theories of Coviello and McAuley (1999), Aharoni’s (1966) ‘global horizon’ approach, the process stage theories of internationalization of Ibrahim (1993) and Johanson, (1972). Further to this it will look at the network approach advocated by Lindstrand, (2003), Coviello and McAuley (1999) and Jones (1999). The resource based theories of internationalization by Ibrahim and McGuire (2001), Almeida et al., (2000), Burgel and Murrey (1999) and Westhead et al., (1998) will also be discussed. Also the foreign direct investment theories of Zacharakis (1997), Roboch and Simmonds (1989), Dunning (1988) and Caves, (1971) will be examined. The population ecology approach Westhead et al (1998) is also introduced. From these different theories a set of motives will be extracted to explain SME internationalization.
In order to be specific to retail the Alexander (1997), Vida and Fairhurst (1998), Akehurst and Alexander (1995), Brown and Burt (1992) and Whitehead (1992) will be examined. Two specific Retailer Internationalization Process models Alexander and Myers (2000) and Vida and Fairhurst (1998) were looked at and these will help in the completion of a conceptual framework.

**Research Objective 2:**
To suggest the processes that could be used by the Internationalising SME.

The information was assessed as to its importance specific to SME’s. The internationalization processes models of Johanson and Vahle, (1990), the Export Stages Model of Bilkey and Tesar (1977), Cavusgil (1984), Czikota (1982), Reid (1981) and the Upsalla Model by Carlson (1962) are outlined.

**Research Objective 3:**
To suggest a framework, which could be used by an SME considering internationalization.

The descriptive framework will be a theoretical and practical response to SME internationalization.
1.4 RESEARCH APPROACH

This research is exploratory in nature, as it seeks to assess the area of SME retail internationalization (which is currently an underdeveloped area) and to build theory upon it. The subject matter under investigation requires a detail analysis of individuals’ meanings and perspectives and seeks to build theory, thus the phenomenological paradigm was chosen for this study. Given that the approach was phenomenological in nature, qualitative research techniques were chosen to conduct this research. Qualitative research studies the way in which people think and why they think it about a particular area under discussion, and it does not rely on a number of people saying the same thing (Ruyter and Scholl, 1998). The aim of qualitative methodology is to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied and to collect and analyse data, which is ‘uncountable’ (Cassell and Symon 2004). This was thus the most appropriate of research methods.

In order to achieve this qualitative research methodology, two case studies which involved in-depth interviews with two companies’ representative of the food and drink industry in Ireland were chosen. Personal interviews, one of the most important sources of case study information was selected as the main data collection method and was an essential source of information. An open/focused interview was selected in order to provide a fuller picture of the events and processes that led to international activity within the company’s but many of the questions were designed to reinforce the literature that was already available. Available documentation on the industry and personal observations when conducting the research was also considered.
1.5 Outline of Document

This section contains an outline of the chapters covered in this document.

**Chapter One:** This chapter contains an introduction to the research topic and issues covered in the document. It outlines the research methodology used and gives an outline of the document.

**Chapter Two:** The literature review is contained in chapter two. Its outlines the current literature of the areas of concerned in the document. The European definition for the SME is outlined and the contribution of the SME to both the European and Irish economies is discussed. Also the role of the SME in Europe is outlined. Secondly this chapter outlines the food exporting industry in Ireland, its significance to the economy, its level of exports and the destination of its exports. Thirdly this chapter looks at Internationalization theory with regard to the motives and processes and the process stage theories of internationalization. Finally this chapter examines Retailer Internationalization as a subject area; identifying the motives for and the existing models used to explain the process. From these then a conceptual model for SME Internationalization to retail is formed. This conceptual framework then forms the basis for the case study analysis.

**Chapter Three:** Chapter three outlines the research methodology for the document. This chapter gives an explanation of the purpose of the inquiry and the paradigm used. An explanation of qualitative and quantitative research methods is given and due to its suitability and adequateness to answering the research problem reasons why the qualitative method of researching was chosen is given. The approach’s taken in carrying out the empirical research of this project namely case studies; in-depth interviews and observations are also discussed. Finally the analytical method used in interpreting the data is outlined.

**Chapter Four:** This chapter offers a cross-case analysis of the case studies covered in the primary research. This cross-case analysis is achieved by comparing Company A to Company B. This chapter firstly examines the motives for internationalization, subsequently it analyses the
factors important to successful internationalization and finally it states the stage of involvement of each company and their future plans.

**Chapter Five:** This chapter is the conclusion and discussion chapter. This chapter examines the conceptual framework from chapter two, which was the theoretical compilation of internationalization process theories and the Alexander & Myers and Vida and Fairhurst retailer internationalization models to incorporate the data gathered from the case studies outlined in chapter five. This chapter analysis and reports on the data contained in chapter 5 and compiles a descriptive framework as per the information received. This framework is a step by step process of the SME’s internationalization to Retail process.

**Conclusion:** The conclusion looks at the implications for managers and the implications for theory of the document. It discusses the results and sets out the possible outcome of further research on the area.
1.6 CONCLUSION

To conclude this chapter has introduced the subject areas contained in this document. The significance of this document has been discussed as has the research aims, objectives and the approach taken. Also a general outline of the subsequent chapters of this document has been provided. In the next chapter, chapter 2 a more detailed analysis of the relevant literature and frameworks is provided and a conceptual model is formed.
2.1 INTRODUCTION

This chapter provides an analysis of the literature available on SME definitions, SME activity, importance of SME and economic contribution. It also examines the food and drink exporting industry in Ireland in relation to position, activity and exports. Subsequently the chapter looks at the area of internationalization and the motives for internationalization. International process models are examined and finally the information is made specific to the research problem by looking at retailer internationalization and its associated models.
2.2 Definition of Small to Medium-sized Enterprise

On 6 May 2003, the European Commission adopted a recommendation concerning the definition of micro, small and medium-sized enterprises to replace the existing definition, which has been in place since 1996. The 2003 definition maintains the original staff thresholds for micro, small and medium-sized enterprises at 1-10, 11-50 and 51-250 employees respectively (European Commission, 2003). Where the 2003 definition differs from previous is in relation to financial ceilings (turnover or balance-sheet total). The 2003 definition has increased the financial ceilings to 2 million for micro enterprises, 10 million for small-sized enterprises and 50 million euros for medium-sized enterprises (European Commission, 2003). The reason cited for was as a result of inflation and productivity increases since 1996 (the year of the European Community SME definition).

“The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro”. (European Commission, 2003).

Also included in various provisions within the new definition are benefits of access to national SME support mechanisms and European programmes supporting SMEs which is reserved exclusively for those enterprises which have the characteristics of real SMEs without the economic strength of larger groupings (European Commission, 2003). The hope is that this new definition will have an increased impact on promoting growth, entrepreneurship, investments and innovation in SMEs (European Commission, 2003).

A summary table of the European Commission findings is provided below:
Table 2.1: Definitions of Medium, Small and Micro Enterprises

<table>
<thead>
<tr>
<th>Medium-sized enterprises</th>
<th>Medium-sized enterprises consist of firms that have between 50 and 249 people in employment. The turnover threshold of the firm is 50 million euro and the threshold for the balance-sheet total is 43 million euro.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small enterprises</td>
<td>Small enterprises consist of firms that have between 10 and 49 occupied persons. The turnover threshold and the balance-sheet total is 10 million euro.</td>
</tr>
<tr>
<td>Micro-enterprises</td>
<td>Micro-enterprises have fewer than 10 occupied persons. The turnover threshold and the balance-sheet total is 2 million euro.</td>
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2.2.1 Types of Enterprise

Within the definition of an SME is also contained a section which outlines and distinguishes between the different types of enterprise, there are three in total. This is done in accordance to their relationship with other enterprises, in terms of holdings of capital or voting rights or the right to exercise a dominant influence. These are outlined below:

These three types of enterprises are outlined below

- Autonomous enterprises: This is by far the most common type of enterprise. It applies to all enterprises which are not one of the two other types of enterprise (partner or linked).

- Partner enterprises: This type represents the situation of enterprises which establish major financial partnerships with other enterprises, without the one exercising effective direct or indirect control over the other. Partners are enterprises which are not independent but which are not linked to one another.

- Linked enterprises: This type corresponds to the economic situation of enterprises which form a group through the direct or indirect control of the majority of the capital or voting rights (including through agreements or, in certain cases, through
individual shareholders), or through the ability to exercise a dominant influence on an enterprise.


In summation SMEs can be defined as non-subsidiary, independent firms which employ less than a given number of employees. The most frequent upper limit for the number of employees is 250 people, which is the case in the European Union.

### 2.2.2 SME activity in global markets

Smaller firms have traditionally focused on domestic markets and many will continue to do so. But others are becoming increasingly globalised, often on the basis of inter-firm linkages and clusters. About 25% of manufacturing SMEs are now internationally competitive and this share should increase.

About one-fifth of manufacturing SMEs draw between 10%-40% of their turnover from cross-border activities. At present, SMEs contribute between 25%-35% of world exports of manufactures and account for a small share of foreign direct investment. These internationally active SMEs are generally growing faster than their domestic equivalents. Relative to larger firms, SMEs can better respond to changing market conditions, evolving consumer preferences and shorter product life cycles by customising and differentiating products. SMEs are becoming more involved in international strategic alliances and joint ventures, both alone and in groups.

### 2.2.3 SMEs Activity and Contribution in a European Context

Small and medium-sized enterprises (SMEs) account for over 95% of firms and 60%-70% of employment and generate a large share of new jobs in OECD economies (OECD Observer, 2000).

According to the OECD Observer: Small and Medium-sized Enterprises: Local Strength, Global Reach, 2000, 93% of all European enterprises has less than 10 employees. There are 20.5 million enterprises in the European Economic Area (EEA) and Switzerland, providing employment for 122
SME's and the Internationalization and Food Products

million people (OECD, 2000). Some 93% of these enterprises are micro (0-9 employees), 6% are small (10-49), less than 1% are medium sized (50-249) and only 0.2% are large enterprises (250+) (OECD 2000). Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises.

SMEs are very important for the growth of the economy, as not only do they contribute to the growth and development of countries, but they also influence the competitiveness of larger organisations in the marketplace (Husband and Mandel 1999).

“Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the E.U. and are thus crucial for fostering competitiveness and employment” (Verheugen, 2003).

SMEs play a major role in economic growth in the OECD area, providing the source for most new jobs. Over 95% of OECD enterprises are SMEs, which account for 60%-70% of employment in most countries (Observatory of European SMEs, 2002). Most SME jobs are in the service sector, which now accounts for two-thirds of economic activity and employment in OECD countries. Two thirds of all jobs are in SMEs, so one third of all jobs are provided by large enterprises (Observatory of European SMEs, 2002). Since 1975, 75% of all jobs created in Ireland have been in SME sector.

Much of this reliance on SMEs can be attributed to new outsourcing methods being employed by larger firms. As these larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing. In addition, productivity growth – and consequently economic growth – is strongly influenced by the competition inherent in the birth and death, entry and exit of smaller firms. As SMEs also supply goods and services to large (exporting) enterprises, the indirect exports of SMEs are significant.
2.2.4 SMEs are important contributors to European competitiveness and innovativeness.

SMEs are also important contributors to competitiveness. High-tech SMEs are creating and implementing technological innovations and are therefore contributing to increasing living standards, employment, productivity and competitiveness.

Due to European integration, competition has grown, not only on the international market but also on national markets. Over the period 1995-2000 half of the SMEs faced an increase in competition from domestic enterprises and around 22% faced more competition from foreign enterprises. Customer service and quality are the major competitive factors within SMEs. Due to the size of their operations the majority of SMEs compete on service provided to the customer and on the quality of their products and services.

Competitiveness policy embraces SMEs because they can contribute to the flexibility and resilience of the economy, and because they can be a good source of technological innovation.

SME activity increases competitive pressure, forcing other firms to react by improving efficiency or introducing innovation. Increased efficiency and innovation within firms, whether in organisation, processes, products, services or markets, enhances the competitive strength of an economy as a whole. This process offers consumers benefits through greater choice and lower prices.

Based on survey data, some 30%-60% of SMEs in the OECD area are characterised as innovative in the broad sense (OECD 2000). Although on average, they are less likely to conduct research and development (R&D) than larger firms. But they may be more likely to innovate in other ways – through creating or re-engineering products or services to meet new market demands, introducing new organisational approaches to enhance productivity, or developing new techniques to expand sales.

There is a subset of high-growth small firms which are exceptional innovators. These SMEs are located in the top 5%-10% of all growing firms (OECD 2000). In most countries, their job creation rates exceed those of larger companies.
2.2.5 The Role of SMEs

The value of the small business sector is recognised in economies worldwide, irrespective of the economic developmental stage. The SMEs contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth (Vosloo, 1994; Rupert, 1994). Kirchoff (1994) makes a convincing argument that governments should focus on building a strong base of small firms’ and that from this strong base, growth will emerge.

Small enterprises are the custodians of job creation and growth (Sunny and Lewanika 1970). It is increasingly new and small firms, rather than large ones, that are the major providers of new jobs (Audretsch, 2002). Countries exhibiting a greater increase in entrepreneurship rates tended to exhibit greater subsequent decreases in unemployment rates (Audretsch, 2002). SMEs can also contribute to fostering social and economic cohesion for regions whose development is lagging behind, to stimulating economic activity and job creation or to integrating unemployed or disadvantaged people into work (Council of the European Union, 2001).

The development of SMEs is important for the social and economic development of the country, since they increase competitiveness and mobilise idle funds to productive aims (Soontiens, W. 2002). The development of small industries is the sine qua non of industrialisation and hence sustainable development in modern society (Soontiens, W. 2002). SMEs are the drivers of the market economy and their achievements provide societies with wealth, jobs and diversity of choice for consumers. SMEs demonstrate ‘responsible entrepreneurship’ in a more informal way but they provide the fabric and focal point for many communities (European Commission, 2002)

SME development contributes to a more equal distribution of economic powers and hence the stimulation of SMEs in an economy can reduce the level of unemployment.

“Both export and SMEs are considered to be the core building block for achieving economic development and growth. The interaction of these core activities in an economy facilitates different dimensions of growth where the positive consequences of both can be achieved simultaneously”.
(Soontiens, 2002: 710)
Section 2

2.2.6 SME’s Activity in Ireland

Ireland’s growth and exporting performance over the 1990s is primarily attributable to the foreign owned sector of the economy (Ruane and Gorg, 1999). While the performance of the indigenous sector of the economy has improved, this is against the backdrop of buoyant growth in domestic demand in the economy and a relatively benign external environment. The pivotal role of the indigenous enterprise sector of the economy, in particular SMEs, in enhancing national competitiveness is well known. In the new European Monetary Union (EMU) environment a vibrant, dynamic and flexible SME sector is crucial to competitive success.

Small and medium enterprises constitute the majority of enterprises in Ireland and from many points of view are the most important parts of the economy. SMEs make up almost all the total of enterprises in all European countries, constituting on average 99.8% of all enterprises in the EU (OECD 2000). Ireland is only slightly below the average, with 99.4% of enterprises being SMEs. Ireland has the highest employment share in Europe for large enterprises, with 51% of the total this is well above the EU average of 34%. For Ireland, SMEs labour productivity is 68% of the average for all enterprises in Ireland (C.S.O, 2006).

In summation, small enterprises are the backbone of the European economy. They are a key source of jobs and a breeding ground for business ideas. Europe’s efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda. Small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe. The dynamic capacities of small enterprises in answering to new market needs and in providing jobs must also be acknowledged. Also the importance of small enterprises in fostering social and regional development, while behaving as examples of initiative and commitment must not be overlooked. In short SMEs are crucial facilitators of economic growth.

The importance and the contribution of SME’s has been stated, the next section of this chapter will examine the Irish food and drink industry. SME activity and their contribution to the industry in relation to exports will also be discussed.
2.3 The Food exporting SME in Ireland

The Irish food and drinks industry, agri-food and drink sector accounts for 9% of Ireland's GDP, 8% of Ireland's exports and 9% of total employment (Bord Bia, 2006). Total sales of Irish food and drink are estimated at €18.5bn for 2005 (Bord Bia, 2006). In relation to exports Irish food and drink is exported to over 170 countries. In excess of 50% of exports from indigenous Irish companies are food and drink (Bord Bia, 2006).

Irish food and drink exports recorded a robust performance in 2005. The value of exports is estimated to have increased by 0.7% to €7.1bn (see table 2.2).

Table 2.2: Irish Food and Drink export performance

<table>
<thead>
<tr>
<th>Category</th>
<th>2004 €m</th>
<th>2005 €m</th>
<th>2005/2006 % +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy Products &amp; Ingredients</td>
<td>1,860</td>
<td>1,820</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Prepared Foods</td>
<td>1,521</td>
<td>1,521</td>
<td>0.0%</td>
</tr>
<tr>
<td>Beef</td>
<td>1,330</td>
<td>1,340</td>
<td>0.8%</td>
</tr>
<tr>
<td>Beverages</td>
<td>1,016</td>
<td>1,075</td>
<td>5.8%</td>
</tr>
<tr>
<td>Seafood</td>
<td>370</td>
<td>360</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Poultry</td>
<td>247</td>
<td>250</td>
<td>1.2%</td>
</tr>
<tr>
<td>Pigmeat</td>
<td>208</td>
<td>230</td>
<td>10.6%</td>
</tr>
<tr>
<td>Sheepmeat</td>
<td>175</td>
<td>172</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Edible Horticulture &amp; Cereals</td>
<td>179</td>
<td>172</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Live Animals</td>
<td>120</td>
<td>138</td>
<td>15.3%</td>
</tr>
<tr>
<td>Total Food &amp; Drink</td>
<td>7,027</td>
<td>7,078</td>
<td>0.7%</td>
</tr>
<tr>
<td>Amenity Horticulture</td>
<td>16.2</td>
<td>16.8</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

In relation to this research study the areas of concern are that of; pigmeat and beverages which account for €230 and €1075million respectively. This is because the companies used as case studies in this document operate in these areas specifically.
2.3.1 Exports

Agriculture and food remains Ireland’s largest indigenous exporter providing total employment in the order of 160,000. It accounts for close to one tenth of the Irish economy with annual sales of €18.5 billion and relatively low import content.

"Irish food and drink exports held up remarkably well in what was an extremely tough and competitive environment. The challenge facing Irish food and drink exporters in 2006 will be to continue to invest in the development of new products and routes to market which will allow them to compete successfully in what are likely to remain difficult trading conditions. Bord Bia is committed to working with Irish food and drink companies to differentiate themselves in the marketplace and thereby enable them to exploit the opportunities that are part of a dynamic and fast-changing market." (Cotter, 2005)

Beverage exports recovered strongly and were the best performing export category in 2005 (Bord Bia, 2006). Total exports from the sector are estimated to have grown by 5.8% to over €1 billion (Bord Bia, 2006). Cider, beer, spirits and water exports were all up in 2005 (Bord Bia, 2006). Investment in leveraging distribution, innovation and branding will remain key to driving growth in 2006 (Bord Bia, 2006).

Meat and livestock exports grew by 2% to €2.1 billion in 2005, representing 30% of the total value of Irish food and drink exports (Bord Bia, 2006). Beef exports, which account for two thirds of total meat and livestock exports, experienced a small increase (Bord Bia, 2006). However, beef exports to Continental EU markets were up 11% reflecting a successful shift to supplying this market with premium produce rather than supplying commodity international markets (Bord Bia, 2006). Exports of pork and bacon, and of live animals increased while the value of lamb exports declined (Bord Bia, 2006).

Prepared food exports stabilised in 2005 at €1.5 billion, following a strong performance in the previous year (Bord Bia, 2006). The sector, which has the highest long-term growth potential for the Irish food industry, had to cope with strong downward price pressures, increased price promotional activity, and growing competition from mainland European suppliers in its largest market, the UK (Bord Bia, 2006). Further retail consolidation during the year has accentuated competition in the UK retail sector while
growth in grocery sales has also moderated from previous years (Bord Bia, 2006).

Dairy exports fell by 2% to €1.82 billion in 2005 (Bord Bia, 2006). However, strong world dairy markets helped contain the decline in the value of dairy product exports, which was due primarily to lower rates of casein aid and refunds (Bord Bia, 2006). The prospects for exporters appear more challenging in 2006 due to an expected weakening in world markets as supplies from Australia and New Zealand are set to increase (Bord Bia, 2006).

According to the CSO's Census of Industrial Production, 671 companies are engaged in the food and drinks sector giving direct employment to 47,000 people (Bord Bia, 2006). A further 110,000 people are employed in agriculture (Bord Bia, 2006). Therefore in excess of 150,000 people are employed in the Irish agri-food and drink sector, the majority of whom are SMEs (Bord Bia, 2006).

The Agri-food industry which is Ireland’s largest indigenous sector accounted for 9% of Ireland’s Gross Domestic Product in 2005 and 8% of industrial employment.

### 2.3.2 Export Destinations for Irish Food and Drink

In relation to food and drink 31% of exports in 2005 were into Continental EU, 43% were into the Sterling area, with the rest of the world accounting for 26% (Bord Bia, 2006). At 43% the UK is the primary market for Irish food and drink exports. The UK economy weakened in 2005, with growth dipping below 2 per cent (Bord Bia, 2006). UK import growth fell in 2005 as a result of weak domestic demand.

Economic conditions in Continental Europe improved markedly in 2004, and although 2005 saw slower growth of just 1.6 per cent, it is widely expected that growth will accelerate moderately through 2006 and 2007 (Bord Bia, 2006). Export growth is expected to provide the impetus for much of the recovery in Continental Europe, while domestic demand is projected to make a more moderate contribution to growth (Bord Bia, 2006). Continental European inflation was not pronounced in 2005 despite the significant increases in energy costs. Continental European import demand is forecast to grow well as a result of economic recovery in 2006 and 2007 however the prospects for food imports may not be so strong
The conclusions regarding Continental European export growth are similar to those of the UK, while GDP growth is projected for 2006, it may be 2007 before private consumption growth will result in improved export conditions, in particular for the food market (Bord Bia, 2006).

### 2.3.3 Future role of the Irish Food Industry

The Irish food industry’s role as an industry based on innovative and competitively priced products, produced using quality agricultural inputs through the application of the latest production, logistics and marketing technologies, means that even in the context of a likely decline in the volume of Irish primary agricultural production, the Irish food industry can be expected to continue to be an important contributor to Irish national income (Bord Bia, 2006). The future capacity of the Irish food industry to thrive as a knowledge based industry will be affected by issues involving public policy and market developments which we now outline (Agri-Vision Committee).

Agricultural and food output prices will be lower and will probably become more volatile in the future (Agri-Vision Committee). This is likely to be a more significant factor for basic commodities than for more highly processed products. In addition, the dynamics of distribution, trade and consumer demand seem set to lead to a continuation of the decline in the real per unit profitability of primary agricultural producers and of the processing industry (Agri-Vision Committee).

### 2.3.4 Competitiveness

Food industry firms must increase their levels of competitiveness to become more profitable. There are three broad approaches to this, SMEs must:

- cut costs and increase efficiency;
- add value to their product;
- diversify into new markets.

In the more competitive environment in which the Irish food industry will find itself, its economic health will increasingly depend on its ability to maintain or expand market share, both at home and in overseas markets.

In summation the Irish food and drinks industry is performing well, 2005 estimates have shown that it has grown by 0.7% on 2004 to where it is