



[SUMMARY]

**THE WEST MIDLANDS REGION STATE OF
AFFAIR:**

**Small and Medium Enterprises – SMEs –
Internationalisation support**

(United Kingdom)



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I. West Midlands region, UK – Portrait of the region.

The West Midlands region (NUTS II) is one of the 9 regions in England. The region is considered a central Hub being centrally situated in England, it is very well connected by rail, road and air transportation. Most places in England are less than a couple of hours away and make the region very accessible.

The West Midlands region covers a total area of 13000 km² and has a population of 5.8Mio inhabitants (ONS 2016 estimation).

The region is quite geographically diverse including a combination of rural and urban areas. It is comprised of the United Kingdom second largest city, Birmingham. Its municipality includes the metropolitan districts of Wolverhampton, Dudley, Solihull, Sandwell and Walsall. This area is surrounded by the more rural counties of Warwickshire, Staffordshire, Herefordshire, and Shropshire, plus the metropolitan district of Coventry.



According to Office of National statistics in the UK (ONS), the West Midlands accounts for almost 10% of the UK population, making it a fairly large region. The region contributes for 3.6% of the UK Gross Value Added (GVA) with 14.8% produced by manufacturing which makes the West Midlands region the highest contributor in manufacturing out of all the UK regions.

Total SMEs	177 076
Micro	88 %
Small	10%
Medium	2%

Table 1 Structure of SMEs in the region by size (source ONS 2016)

The West Midlands was the birth place of the Industry. The British are historically since the 18th century worldwide renowned for their creativity and invention. The area around Birmingham, which was called the Black Country due to the mining activities, has always played a significant role in the manufacturing industry.

This heritage is still significant in today's West Midland's economy. It is worth mentioning that the manufacturing sector has shifted towards high tech manufacturing, also called the **advanced manufacturing & engineering sector**. It includes the manufacture of computer, electronic and optical products, the manufacture of electrical equipment, the manufacture of machinery and equipment, the manufacture of motor vehicles, trailers and semi-trailers, and the manufacture of other transport equipment. This sector clearly plays an important role being a specialist sector in the region and accounts for 50% of the manufacturing jobs

The unemployment rate (age 16+) of 7% is very high compared to the rest of the UK which is at 4.9% (ONS 2016). It is worth mentioning that, the West Midlands region has a higher proportion of residents from an ethnic minority group with a very low employment rate. This would contribute to the higher unemployment rate of the region.



Another particularity of the West Midlands region is a larger difference between the workplace and the resident average weekly earnings. The workplace average weekly earnings refer to the average pay for full time employees in an area. The resident average weekly earnings refer to the earnings of people who live in an area. Therefore the larger difference, with the resident average earnings being higher than the workplace average earnings, means that people who works in the West Midlands tends to live outside of the region.

The West Midlands has a fairly strong and extensive research base in its universities, private institutions, commercial R&D and engineering facilities. However, this research base is smaller than in some other regions. The region has a relatively low investment in R&D compared to the UK average: the Gross Expenditure on Research and Development (GERD) as a share of GVA in 2014 was 1.68%, which was significantly below the UK average of 2.04%. The region had a higher Business Expenditure on Research and Development (BERD) than the UK average - 77% of GERD in the West Midlands compared to 64% in the UK as a whole (UK Office of National Statistics, 2013).

Most business in the region is not R&D driven; investment in R&D is low and has been falling in the recent past. Evidence suggests that the West Midlands also has one of the lowest proportions of 'innovation active' firms in England, although it performs much better on measured innovation outputs such as introduction of new products and processes.

The region is home to 10 universities including two research intensive institutions with strengths in science and technology fields: the Universities of Warwick, Coventry and Birmingham, which were ranked 11, 15 and 17 respectively in the UK in the 2016 Times Higher Education World University.

The key sectors in the local area are:

- Healthcare & Assistive Technology
- Advanced Manufacturing and Engineering
- Digital and Creative Industries/IT Services
- Logistics
- Culture and Tourism
- Business & Professional Services

According to the latest Regional Innovation Scoreboard results (2017), **West Midlands is ranked as an innovation leader**. The majority of the regions in the UK are ranked as innovation leaders. The West Midlands in the past years was ranked as an innovation follower in 2004, 2006, 2008 and 2011. It is worth to mention a strong performance increase of 17% between 2011 and 2017 to rank into the innovation leaders.

II. Internationalisation environment

The UK government has been very active in the promotion of SME Internationalisation, including both exporting and internationalisation. In addition there are a huge range of stakeholders that help provide vital information to SMEs considering internationalisation. These stakeholders play an important role in influencing attitudes and providing incentives to internationalise.

Moving on from the Brexit vote in 2016 there have been significant changes to many UK government departments in order to promote UK existing international trade whilst also growing new imports and exports. The department is responsible for driving the UK's place in the world and creating new opportunities for businesses.

The new Department for International Trade (DIT) has been tasked with developing trade and investment policy and promoting exports and investment around the world. Its main activities involve negotiation of trade deals and free trade agreements as well as providing the international support previously provided by UK trade and investment (UKTI).

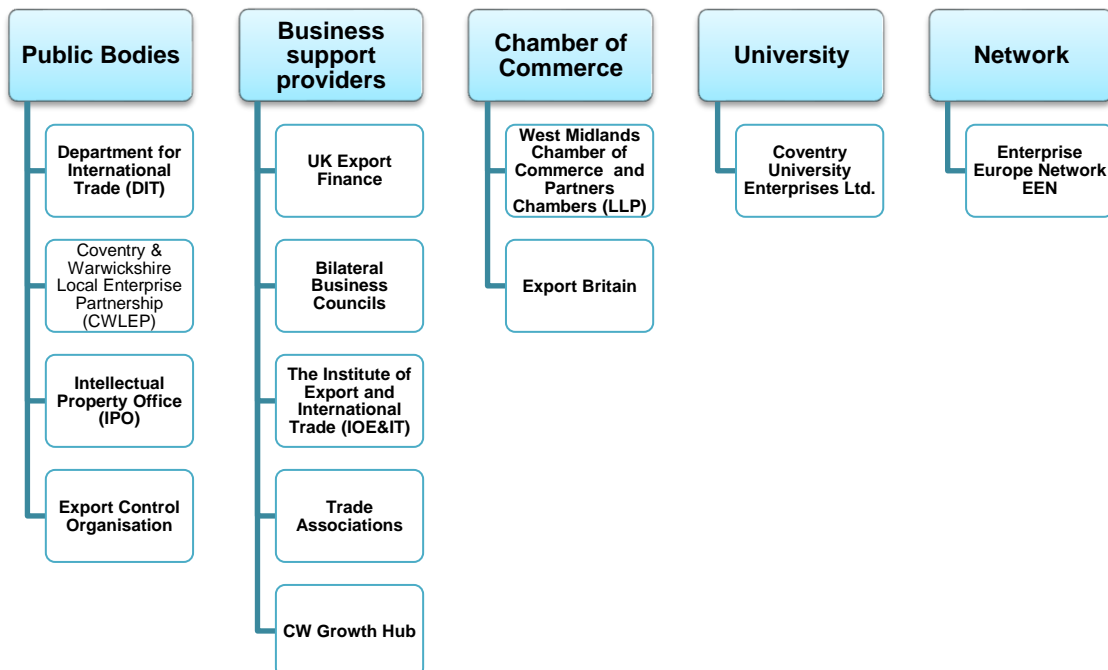


According to the Her Majesty Revenues and Customs (HMRC), which is the department in charge of collecting taxes in the UK, the total exports for the West Midlands region has been increasing for the last 3 years from the region of £26,500 to almost £30,000 in 2017. The highest country group of export was 43% that were directed to the EU. About the same percentage was equally exported to two country groups together: 22% towards North America and 22% towards Asia & Oceania.

The following initiatives to support SMEs internationalisation under the CWLEP ESIF instrument were identified in the region (more details will be included in the good practice guide about each initiative):

- CWLEP
- CW Growth Hub
- CW Warwickshire Business Support
- International Trade Midlands
- E-commerce advisors
- SME international Grants & New to Expo and innovation centre
- Venture House Business Centre
- The intellectual Property Asset Management programme
- The West Midlands supply chain
- International Trade Midlands
- Global Growth
- Trade Missions
- SME international Growth Programme - inward Missions
- INTATRADE
- DIT Working with universities
- Communication and Culture adviser
- International trade adviser triage
- Regional partnerships
- Masterclasses and workshops.

III. Main national and regional stakeholders



The main Government department in charge of Internationalisation is the **Department for International Trade (DIT)**. They are the official vehicle for Internationalisation support and operate at



national, regional and local level. They also work in collaboration with other agencies such as the chambers of commerce or the Local Enterprises Partnerships (LEPs) at regional and local level. Below is a non-exhaustive list of National and regional Stakeholders who play a part in supporting businesses and in particular SMEs to internationalise.

The **Coventry & Warwickshire Local Enterprise Partnership** is an alliance of private and public sector organisations (including Coventry City Council, Warwickshire County Council and Stratford on Avon District Council) working towards a common, shared purpose: to grow the local economy, attract new jobs and investment, and increase prosperity.

UK Export Finance is the UK's export credit agency. It helps UK exporters by providing insurance to exporters and guarantees to banks to share the risks of providing export finance.

The Institute of Export and International Trade is the professional membership body representing and supporting the interests of everyone involved in importing, exporting and international trade.

Growth Hub have been established to be the go to place for 'Anything Business Support'; their role being to signpost businesses to all of the available support on offer and to help businesses navigate the sometimes complex business and financial support programmes available. It is one-stop-shop for business support in the Coventry and Warwickshire area, the Growth Hub provides a range of services to support the growth of any businesses in the region. Their role is also to sign-post to other agencies when they are not able to support directly. Through partnerships, they can support companies by giving advices on an export strategy or getting the information they need on markets or partners.

West Midlands Chambers of Commerce and its Partner Chambers of Commerce work closely with each of the regions LEPs providing connectivity and business intelligence through chambers members and the broader chamber businesses networks. They help advice on policy, strategy setting and also provide practical support though the organisation of collaborative activities and LEP events.

As a subsidiary of Coventry University, **Coventry University Enterprises Limited (CUE)** is a gateway to support for SMEs, offering independent advice, consultancy and access to finance for all types of business from start-ups to those looking to work internationally.

Operating regionally, nationally and internationally, CUE focuses on assisting SMEs with technology start-up, innovation, technology transfer and internationalisation. CUE also leads on the delivery of the **Enterprise Europe Network (EEN)** in the East and West Midlands forming part of an international business support network with centres in over 54 countries.

IV. Barriers and drivers to SMEs internationalisation

The survey is based on the questionnaires that CUE has collected through the online questionnaires. The typology distribution dominates the micro businesses which are 50%, followed by small



companies – 35% and 15% medium-sized companies: this was expected because that figure reflects the characteristic composition of West Midlands companies.

Most of the companies surveyed (70%) believe that the most important **competitive factors** are “accessing new foreign markets”. Half of the respondent thought that improving the quality of their products or services, optimising the cost of their production and improving or increasing their marketing was also quite significant to ensure their competitiveness. It could be that the responses demonstrated that their focus has already been on developing their products to the best price/quality/specification and therefore to be more competitive they needed to focus next on new foreign markets.



Figure 1 Most important factors, ensuring high competitiveness of SMEs (INTRA Survey 2017)

The biggest **barriers encountered internally** are linked to the shortage of working capital to finance export. The two other difficulties mentioned by the respondents were the lack of managerial time and the shortage of staff to specifically support internationalisation activities. It appears looking at these responses that being micro or very small companies, human resources and finances tend to be scarce and make internationalisation plans more difficult.

In terms of **external obstacles** met by the companies developing their international activities, it seems that obtaining reliable representation in a foreign market and the ability to overcome strong local competitors are the biggest barriers. It seems that they both relate to the knowledge of the new market they are intending to enter. A better knowledge of these markets including the industrial context and a trustful representative contact list should be able to decrease these uncertainties. On the contrary they think that the easiest tasks to deal with are the exports documentations requirements and the management with local suppliers or distributors.

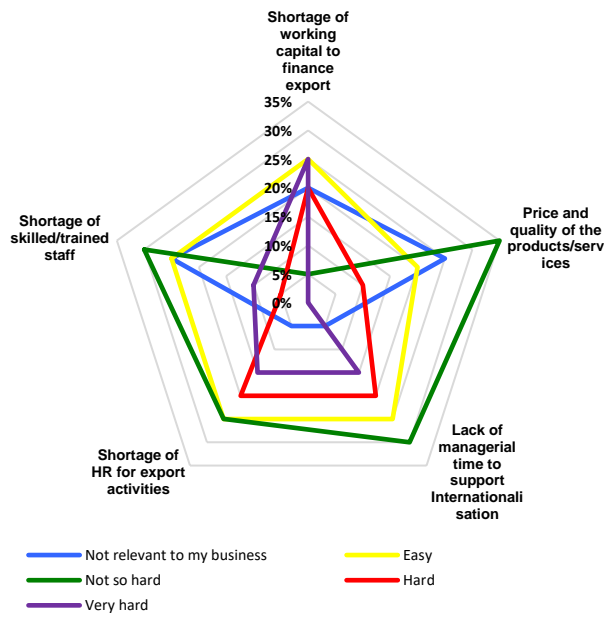


Figure 2 Internal barriers for internationalisation (INTRA Survey 2017)

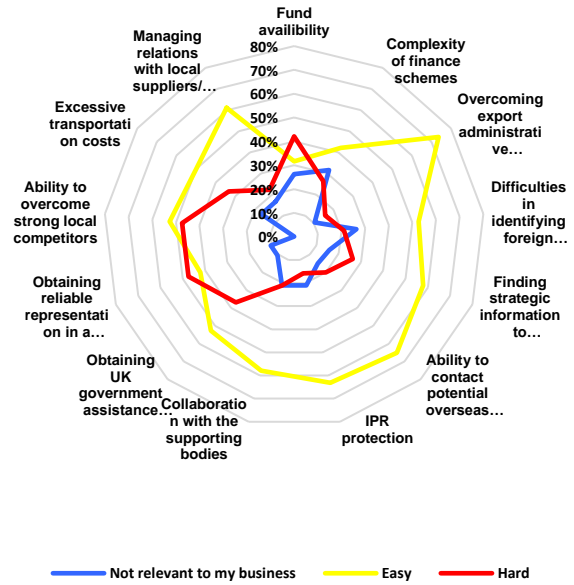


Figure 3 External barriers for internationalisation (INTRA Survey 2017)

The opportunities for networking and business to business activities in overseas market were **the main support services SMEs have received or utilised for their first steps into international market**. The second service was directly connected to this with the opportunity to use partner search tool in overseas market. SMEs are placing a real importance in meeting the right partner in the new market. This would make sense and allow SMEs to gain quickly a local knowledge that a partner or networking would provide.

Funding is an important factor to support companies with their initial market research and in particular to fund their trade missions, attendance to exhibitions or fairs for example. This has been described as a first step in their internationalisation journey.

Even though most companies declared having an international strategy in place, it seems the conversion into real implementation is only due to their own knowledge and efforts. They have identified that in order to make their company competitive they need to access new markets but they seem to have difficulties finding the right person to talk to who can either inform them or act as a trusted representative in the market they are interested to penetrate.

They are motivated by the potential growth, the gain in market size and profit that internationalisation would mean. They can voice their desire and attempts to internationalise though they lack the confidence and the knowledge of how to do so. The insufficiency of information, their shortage of skills and experience in internationalisation, often means they don't address the right support agency.

V. Measured offered for SMEs internationalisation support

The stakeholders interviewed covered a large support portfolio for SMEs who want to internationalise. They tend to be complementary and support enterprises at different stages of their internationalisation

journey. They also provide other types of assistance. It is clear that the main SMEs internationalisation support providers were very much agreeing to the results. Despite having interviewed stakeholders from different types of organisation, it was obvious that their aim is one: boosting regional growth by supporting SMEs become more competitive and internationalisation ready.

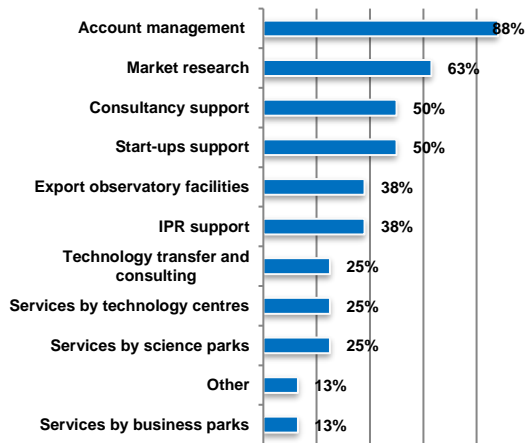


Figure 4 Infrastructure and support services for internationalisation (INTRA Survey 2017)



Figure 5 Information services for internationalisation support (INTRA Survey 2017)

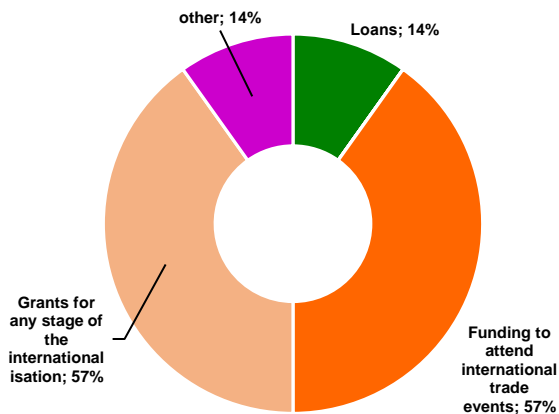


Figure 6 Financial support services for internationalisation (INTRA Survey 2017)

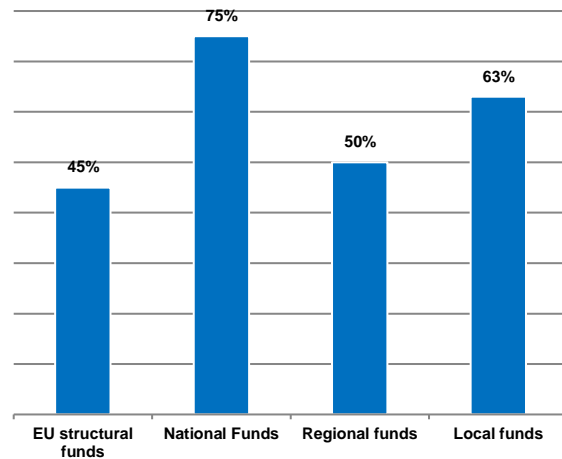


Figure 7 Importance of public funds for internationalisation (INTRA Survey 2017)

The regions have sufficient support mechanisms, and provide adequate financial support to initiate companies' internationalisation first steps. The regional stakeholders are well aware that they need to work closely together to make sure that SMEs receive the most adequate support.

SMEs lack the time and staff to dedicate to learn the internationalisation process and rely on support providers to give them bespoke advices. It becomes difficult for support providers to satisfy the need to every SME despite the wish to do so.

Regional stakeholders have the expertise, capacity and knowledge to support SMEs, but it is not always easy for providers to reach every one of them.



More work needs to be done to simplify the information presented to SMEs but also to make internationalisation mainstream, the message in the region needs to be consistent as well as out there.

SMEs need to be supported along their customer journey, without feeling the administration burden, or feeling like they are sent from one agency to another. By working together, support providers will be able to give strategic advices with an appropriate initial diagnostic, customise the support according to the SMEs internationalisation experience and meet the expectations of companies.

VI. SWOT analysis

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> - Exports form part of the governments drive to boost the national economy, aspiring to double the value of exports to £1 trillion a year by 2020 and getting 100,000 more companies to export. - DIT has been supporting enterprises and with a national strategy applied regionally the same support is available for all SMEs. - SMEs have access to several initiatives to support their readiness to export. 	<ul style="list-style-type: none"> - SMEs are restricted by the lack of capacity, time and resources to invest in exporting. - Potential loss of access to European countries. - SMEs do not feel rightly equiped and do not always dedicate the right resources to succesfully export. - SMEs are not understanding the support available and how agencies are linked.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Huge opportunities in emerging markets such as Asia and the middle East in addition to opportunities following Brexit. - Government have opportunity to secure access to the Single Market – the government must ensure that SMEs have simple access to the single market. -Regional authorities are working together to deliver a consistant message across the region and improve the SMEs growth journey. 	<ul style="list-style-type: none"> - Potential vast changes to the UK export landscape due to the EU referendum, which calls for the UK to leave the EU. - Legislation will pay an important role and could hinder future exports/imports for SMEs. - Regional SMEs are not always aware of the available opportunities.

The identification of top barriers to SME internationalisation challenges policy makers, managing authorities and stakeholders to intensify ongoing efforts at removing these resistant barriers, specifically limitations in finance and related resources, international contacts, and relevant managerial knowledge.



The lack of visibility for the SMEs of public sector support programs call for the improvement of the delivery framework. This typically requires different levels of ideas from stakeholders from the quadruple helix and centrally involves the target user and other key stakeholders.

Internationalisation support providers, in order to raise awareness and be more accessible by all, should have a good web presence. Easy and active links to accessible and relevant support programs such as UK government website should be included and cross referenced.

VII. Conclusion and recommendations

Overall, policy makers need to address the following questions, among others:

- Do we have the appropriate support measures to address the specific set of top barriers identified? If so, are the target SMEs sufficiently aware of them?
- How well does our support provision compare with European good practice?
- How responsive is this support provision to any observed local or sectoral aspects of the perceived barriers?
- Are they appropriately visible online?
- What do we know regarding target users' perceptions and expectations of our support provision?
- What about non-users' perceptions?
- What actions are needed to improve awareness and perceived usefulness of our support programs for SME internationalisation?

Based on the INTRA methodology, a questionnaire survey and case study approach is best placed to provide deeper insights into the challenges facing the international SME. The main focus of such future investigation should be on establishing how existing government provision is viewed by the intended beneficiaries and identifying key perceived gaps and required changes from the perspective of user SMEs. These insights could then allow for an analysis of the appropriateness and effectiveness of the relevant government internationalisation support programs on the long run.

Policy makers are able to learn from other regions and by having answered the questions above; they can develop a systematic improvement plan. The interregional learning from the INTRA project constitute the perfect platform for the exchange of knowledge and experiences but especially the part transfer of existing proven successful good practice to be implemented.