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Entrepreneurship, globalization, and public policy☆

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Abstract

This paper examines the impact of governmental policies in influencing the path of internationalization of small- and medium-sized enterprises (SMEs). It focuses on the role of institutions mandated to assist internationalization, as exemplified by Canada's Export Development Corporation (EDC). We illustrate and examine critically the role that governments typically play in assisting and influencing the international expansion of domestic firms. We argue that the activities of agencies such as EDC — mainly in financing and in insuring against the risks inherent in export activities — may actually be counterproductive to the long-term interests of many SMEs by skewing managers' decisions toward direct exporting, rather than toward indirect exporting by entering the value chain of already-established multinational enterprises (MNEs). A consequence may be to divert the constrained resources of entrepreneurial firms away from their greatest comparative advantage — innovation — toward managing direct entry into international markets in which they are at a comparative disadvantage relative to larger established MNEs. Highly innovative SMEs might be better off by leaving the internationalization of their innovations to MNEs and sharing some of the international direct exporting profits with them instead. The implications are relevant for governmental

☆ This paper extends and develops arguments from a position paper presented to the US Small Business Administration in June 1997 called *Small Firms and Globalization* by Acs, Morck, and Yeung, and a paper presented at the first Global Workshop on International Entrepreneurship in 1998 by Acs and Yeung called *Entrepreneurial Discovery and the Global Economy.* We would like to thank Hamid Etemad, two anonymous referees, and participants at the second annual conference on International Entrepreneurship at McGill University, September 2000, for valuable comments on an earlier draft. This research was funded by the Center for International Business at the University of Alberta's Business Faculty. The usual caveat applies.

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policies toward internationalizing SMEs not just in Canada but in open, market-oriented economies everywhere.

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1. Introduction

This paper is about the importance of small entrepreneurial firms in the global economy and about whether current government policies towards assisting exports by small firms are appropriate.[1] Much confusion exists about the proper definition of entrepreneurship. Some observers use the term to refer to all small businesses; others, to all new business. In practice, however, many well-established businesses engage in highly successful entrepreneurship. The term, then, refers not to an enterprise's size or age but to a certain kind of activity. At the heart of that activity is innovation: what Peter Drucker defines as "the effort to create purposeful, focused change in an enterprise's economic or social potential." In this paper, we are interested in the subset of small firms that innovate and are, therefore, entrepreneurial.

On the threshold of the 21st century, in a single global economy, knowledge about events and opportunities in other countries has never before been as deep or immediately available. This knowledge has favored a rapid and dynamic growth in international trade and international financial flows. Consequently, nations are becoming increasingly dependent on each other's rational behavior.

As economies become more interconnected with global trade and investment patterns, small- and medium-sized enterprises (SMEs) are becoming increasingly important pillars of the economies of the major trading partners. Smaller firms in the 1990s increased their share in exports and in-and-outward foreign direct investment in the OECD countries and in many Asian countries (OECD, 1996).

This is not by chance. SMEs are likely to become more important as economies become more globally integrated because globalization is itself a process of entrepreneurial discovery. Firms that succeed in the global market must be innovative and able to hold on to the profit opportunities their innovations present. These are the same attributes a successful SME needs anywhere.

Large established multinational firms are often poor places in which to launch radical innovations. Most large multinational firms are bureaucratic and hierarchical. They have grown large and successful using the techniques and routines they developed over decades and they are often profoundly conservative. Employees or managers with ideas about radical innovations are unlikely to gain much support within such a firm. Consequently, people with radical innovations typically establish their own companies, allowing them to control the innovation as it develops, and giving the innovators clear property rights over the innovations they create. However, this brings another set of problems. Small firms often have difficulty

[1] See Acs and Yeung (1999a,b) for an overview of this subject.