

# THE “ISCI” PROJECT AND THE INTERNATIONALISATION PATTERNS OF SMES IN THE LOCAL AGRO FOOD INDUSTRY: THE CASE OF APULIA REGION

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**Abstract:** The I.S.C.I. project “Innovative Services to Strengthen Cooperation and Internationalisation between SMEs in the field of agro-food industry (Greece-Italy)” targets the Axis 1 of the European territorial cooperation INTERREG program Greece-Italy 2007-2013: “Strengthening competitiveness and innovation”. The project was born with the aim of strengthening the presence of the local agro-food SMEs (in Apulia Region, Italy, and in Corfù, Greece) on the foreign markets, enhancing innovation processes and coordinated cooperation in order to foster the internationalisation processes of the agro food industry. The ISCI project objective and purpose is the definition of a model aiming at the constitution of technological incubators that will network to deliver innovative services for the internationalisation of the agro-food SMEs system. In progress within the ISCI project, the paper aims to determine different patterns of internationalisation that characterise the local field of agro-food industry, in particular those that seem to be predominant within the most strategic sectors of the local agro-food industry.

**Keywords:** Internationalisation; innovation; marketing intelligence; agro-food sector.

**JEL classification:** Q17; Q18; O13.

## Introduction

The aim of cross-border cooperation is to integrate areas separated by national borders enhancing a joint approach to common problems. National boundaries still represent a substantial obstacle for a large share of small and medium-sized enterprises (‘SMEs’) to enlarge their activities, confining SMEs within their respective national markets. In fact, only a fifth of the EU SMEs actually export and only 3% own an agency, a branch or an affiliated enterprise abroad (European Commission Enterprise and Industry, 2010). Even more alarming is the fact that a significant percentage of the EU SMEs is not planning to extend their business abroad at all, even if they are suffering in-

ternational competitive pressure within their domestic market (European Commission Enterprise and Industry, 2010). Several studies show that in case of small and medium enterprises, the internationalisation is directly related to larger profits: internationalisation strengthens the firm's growth, increases the firm's competitiveness and augments the chances of success in the long run (Bell *et al.*, 2004; Lu *et al.*, 2001; Lu *et al.*, 2006). However, internationalisation is not merely export-oriented. Cross-border cooperation, participation in efficient economic trade networks, and the research of competitive suppliers or of new technologies are, for example, some of the main incentives for SMEs to go international. Furthermore, internationalised SMEs combine several market approaches that reciprocally result in a coordinated internationally-oriented strategy. In an increasingly globalised world, for SMEs operating in Apulia region (Italy) and Ionian region (Greece), the internationalisation process is thus shifting from being a basic requirement to being a basic resource. This is particularly true considering the weaknesses of the two areas: a poorly developed secondary sector (industry); low investments in products with protected designation of origin, few regional collaborations; absence of alternative forms of tourism, low level of public investments; low level of cooperatives; low skill level of human capital. Furthermore, the SMEs of the two areas involved, due to several changes in both political, economic, normative and legislative contexts are actually fully exposed to international competitive pressure. For these reasons, the project is finalised to the constitution of two scientific and technological incubators (in both regions) that will be linked to deliver innovative services for the internationalisation of the agro-food SMEs in the area "Greece-Italy". Functional in the latter are the ISCI partners: the Chamber of Commerce of Bari (Lead Partner), the University of Foggia - Department of Economics, the University of Salento, the Ionian Islands Development Agency Dsa<sup>1</sup>, the Ionian University. The services to be implemented:

- Innovative services of marketing intelligence (MI) to spread knowledge and information about international markets and to support the internationalisation of the agro-food SMEs.
- Development of managerial software for the detection of weaknesses and strengths of SMEs, under a supply chain perspective, with a specific focus on the internationalisation processes.
- Development of databases for the search and classification of informative sources, information gathering and processing, and the collection of SMEs and stakeholders' profiles to ease the constitution of trade partnership and relationships.

The present paper aims to offer the results of a micro-level survey investigating the latent needs of local food industry in terms of internationalisation, focusing particu-

<sup>1</sup> The ANION Agency was founded in 1999. The board of the agency is comprised of twelve municipalities of the Corfu Prefecture, the Communities of Othonoi, Ereikousa and Mathraki, Prefect Municipalities and Communities Union, Corfu Prefecture, Corfu Agricultural Union, Technical Secretariat of Corfu, the Cultural, Artist and Athletes Organisation of Corfu 'Laodamas', the Environmental Protection Agency of Corfu, Corfu Electricians Union and the Petritis Fishery Organisation. Anion has well-grounded experience in Leader II, Leader +, Agricultural and rural development. It works on: Agricultural Tourism; SMEs; Environmental protection and promotion of urban habitats; Cultural Activities; Festivals; Networking; Clusters and Cooperation; Promotion of Investments; Consulting Leader+ Investors; IT and Innovation Tech Assistance; Local Action Team.

larly on small and medium-sized firms operating in the most strategic local food supply chains. In addition, the analysis will try to highlight the profiles of "international firms" and "non-international firms", comparing them in terms of needs, level of innovations, and competitive strategies. The structure of the present paper is as follows. First, it presents an overview of the main theoretical issues concerning the role of internationalisation processes with regard to the firms' competitiveness; then, we highlight the role of cooperation and innovation in the development model of the ISCI Project and develop a contextual analysis related to the Apulia region partner. Then it focuses on the survey on internationalisation of local enterprises, the main results and discussions. In the last part of the article, the conclusions and implications are drawn.

### Literature review

The main objective of the ISCI project matches the contents of the Lisbon and Gothenburg agendas and the general orientation of the Common Agricultural Policy. It is actually defined in the Community mainstream that the issues concerning ITC applied to the agro-food industry are fully integrated in the CAP (Reg. No 1698/05). Such integration may be pursued in different ways and at various levels. The added value of this project may thus be identified in the attempt to combine, in several activities, the pursuit of different Community policies especially by means of the European territorial cooperation. At both national and regional level, each Member State enforces some of the activities of the project within the rural development policy (Rural Development Programmes RDP, 2007-2013) as well as the structural funds programming (Operational Programme European Regional Development Fund). The "Interreg" projects take place within the framework of the European Territorial Cooperation projects governed by EU Regional Policy or Cohesion Policy, aimed at strengthening economic, social and territorial cohesion in order to reduce the development gap between regions and Member States. European Territorial Cooperation projects have as their purpose:

- strengthening cross-border, transnational and interregional cooperation, based on previous Interreg;
- promoting the search for joint solutions to common problems between neighbouring authorities, such as urban, rural and coastal areas and creating economic relations and networks of small and medium-sized enterprises.

Therefore, an important role is assigned to SMEs internationalisation as long as further mainstream concerns the strategic decision 'to go international' (Dichtl *et al.*, 1990; Quintens *et al.*, 2006a, 2006b) that is as such an 'international global tendency' (Brusco, 1989). The internationalisation process benefits from a widespread acceptance in the literature (Bradley, 1991; Welch *et al.*, 1988); the internationalisation of agriculture and technological change, biotechnologies provide the basis for a broad systemic explanation (Arce *et al.*, 1993) and the internationalisation of food processing pursues the range of political, economic, and cultural issues surrounding the analysis of food from within the tradition of agricultural political economy (*ibidem*). Hence the internationalisation processes still matter, perhaps increasingly so, as learning races increasingly become the basis for global competition (Barkema *et al.*, 2007; Berry *et al.*,

2004). The neoclassical theories on international trade, such as the Ricardo's comparative advantage of 1917 or the integrating theories of Heckscher and Ohlin of 1933, have been surpassed over the fifties with new theories focusing essentially on the firms' competitiveness. The most important theoretical contribution is due to Hymer during the sixties, and other post-Hymer authors, who emphasis on companies' competitive advantages. Through their activities abroad, businesses overcome the obstacle of 'Liability of Foreignness' (1960) by means of cost and differentiation advantages.

In recent decades and within a globalised economy, speaking about internationalisation of small enterprises assumes value if filtered through the local economic context. Besides, the new paradigms link to new criteria, such as the recent logic of global sourcing, virtual enterprises, research of local and localised advantages and distinctive competencies but with the open perspective of a global scale (Nanut *et al.*, 2003). According to Porter (1998) "... the sophistication with which companies compete in a particular location, however, is strongly influenced by the quality of the local business environment. In this perspective, sharing of knowledge and quality of relationship between firms at supply chain level and private and public local partnership, become fundamental" (Porter, 1998, p. 80). In fact, as observed by Lu *et al.* (2001), alliances with partners with local knowledge can be an effective strategy to overcome the deficiencies SMEs face in terms of resources and capabilities, when they expand to international markets.

Innovation and knowledge contribute to fostering internationalisation and they can be considered remarkably central for a firm strategy; despite the scarce financial, human, and tangible resources these early internationalising firms leverage innovativeness, knowledge, and capabilities to achieve considerable foreign market success early in their evolution (Knight *et al.*, 2004). The higher/lower level of socio-economic development could be a proxy for the higher/lower need to innovate. In particular, product innovation is influenced by the quality of human capital, the geographical context and, to a minor extent, the age of the firm. By contrast, innovations processes are more likely linked to the financial structure, to capital intensity and to the size of firms. This result confirms that technological changes in the food sector are mainly related to the possibility of firms to invest in new technologies developed by upstream industries and also that process innovation mainly occurs through equipment and capital goods investments (Capitanio *et al.*, 2009; 2010). Furthermore, policy makers in countries also need to actively consider ways of facilitating internationalisation (Musteen *et al.* 2010) such as network relationships (Coviello *et al.*, 1999; Zain *et al.*, 2006) and through social network (Zhou *et al.*, 2007) in order to share knowledge.

Nowadays, internationalisation can and has to be developed in a special way as a cognitive phenomenon along science and technological ways (Rullani, 2006); in fact, old and new models (Bilkey *et al.*, 1977; Johanson *et al.*, 1977, 2003) see internationalisation as an incremental learning process.

### **The role of cooperation and innovation in the development model of the ISCI Project**

The overall objective of the ISCI project is to strengthen interaction between research, innovation institutions, agro-food small and medium-sized enterprises ('SMEs')

and public authorities by providing the agro-food SMEs of the targeted areas with innovative marketing and management services that are able to promote the SMEs' internationalisation process, so as to increase the SMEs' competitiveness and propensity towards innovation. One of the most important features of the project consists of joint development, implementation, staffing and financing of the actions by the Greek and Italian universities, the representatives of the productive and of the public institutional world, and stakeholders of both areas involved in the project. The role of cooperation between the company and its stakeholders is revealed in many cases, indispensable to the development of the smaller, especially in the context of the wider market, where small size is particularly vulnerable (Rullani, 1997). The diffusion of information and knowledge about technology innovation among food businesses represent a key concept. The access to information lies in the ability of a system to share the experiences of local businesses, whether small or large, joining them in the denominator of the product quality as competitive advantage on international markets. The internationalisation process of firms that are embedded in a context of cooperation and innovation in laboratories is often favoured because the company is facilitated in obtaining resources (especially information) and the opportunities of contact with foreign operators. SMEs will then be involved in cooperation and innovation laboratories with a twofold objective: (1) to increase SMEs competitiveness by direct knowledge transfer and by easing the approach of the SMEs with ICTs; (2) to enhance the presence of SMEs on the international markets by creating new trade relationships and opportunities. The laboratories will provide enterprises a natural information circuit that not only monitor product innovations or process innovation, carried out from inside or from outside, but that allows information on potential customers, new markets and services circulate. Moreover, decreasing communication costs, transportation costs and gradual openness of international markets makes it possible to realise and construct organisational structures between geographically dispersed individuals with intense circulation of information, logistics and human resources flows. This reduces the "psychic distance" between markets, which represents a barrier to internationalisation processes even more than the "physical distance". Also, marketing services provided by incubators will be tested over a sample of SMEs. This on-site implementation of R&D actions and projects, and of systemic innovation actions, both involving local and cross-border agri-food SMEs will ensure the achievement of tangible and intangible results (growth of SMEs' turnover, increase in youngsters' and women access to the job market, SMEs internationalisation, new cooperative relationships with R&D institutions and stakeholders) that, by their same nature, will concretise longer-term effects. All the partners will jointly develop the programme by identifying and sharing knowledge and experience. Based on these premises, the partnership will enforce, strengthen and develop strategic innovative marketing and cooperation services among and between SMEs, the universities and public authorities concerned. The project will reach the following sub-objectives:

- development of innovative scientific and technological tools in order to enhance cooperation between cross-border SMEs and to strengthen their ability to access international markets

- development of two scientific and technological innovation incubators for SMEs' internationalisation in the area Greece-Italy
- development, sharing and diffusion of knowledge for the improvement of competitiveness of the agro-food SMEs
- strengthening of the services to enhance innovation of SMEs.

Based on this study, the development of services for SMEs' internationalisation will enable the realisation of real innovative and effective tools or marketing intelligence to support internationalisation and connect businesses and customers together (Andersen *et al.*, 1996). This second stage of the project consists of:

- study for the development of software for research, gathering unstructured and semi-structured information from web-based sources, informative sources and information, firms and stakeholders' profiles and databases;
- one software for the information processing and management;
- one database of SMEs suppliers' and customers' profiles (buyers, brokers etc);
- one software for trade partners' matching;
- design and implementation of an e-marketing service platform.

All together these facilities will provide information access to conduct SMEs' weaknesses and strengths analysis, benchmarking analysis, trade profile matching and e-marketing services. All the joint research and activities will be the basis for the implementation of two innovative scientific and technological incubators. The last stage of the project consist of actions concerning keeping the SMEs' cooperation and joint internationalisation actions realizing cooperation laboratories with a consistent sample of SMEs and marketing strategies on international markets. Results and feedbacks will be discussed together with SMEs and the stakeholders that all along the project will have the chance for networking and participation in R&D and cross-border cooperation activities. At the very end of the project, the partners will issue a sustainable future development strategy. The project's results, in fact, will form, by their very nature, the basis for future development due to the long-term targeting concerning a significant increase of the percentage of SMEs involved in internationalisation and innovation processes, an improvement of SMEs productivity and access to the international market leading to an expected significant growth in SMEs' turnover, and reduction of transactional costs. Moreover, the expected results are to create the conditions for firms to upgrade their human capital, to increase access of youth and women to the labour market with new mid-term occupation and to create new trade contacts and relationships.

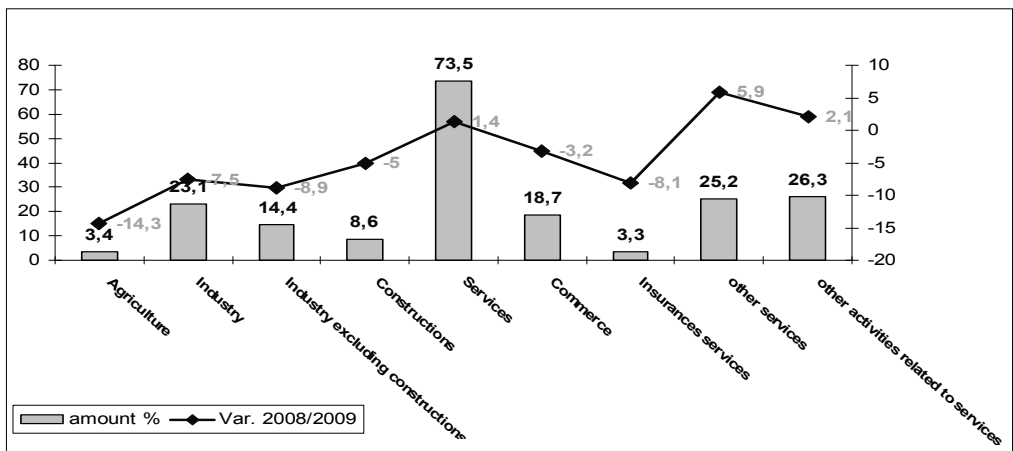
### **Contextual analysis: the Apulia region partner**

The ISCI activities took place in the Ionian region of Corfù (Greece) and in Apulia region (Italy). Both regions present a population of SMEs whose structural and economic dimensions are too small to invest in R&D, innovation and in internationalisation processes. The Italian and Greek Universities are jointly working to develop research projects the outputs of which will deliver direct effects on the SMEs of both regions.

The Apulia region covers an area of about 2 million hectares, accounting for about 6.4% of the national territory. The Apulian territory is mostly flat with few hills and

low mountains. The variety of local characteristics and climatic conditions influences the variety of productive situations of the agriculture in the region. The presence of disadvantaged areas to agricultural activity, mostly present in the inland and marginal areas, is in contrast with areas of intensive agricultural production as the plains of the north of the region and the coasts of the peninsula like the Jonian areas, producing irrigated crops of high added value. The rural Apulia (according to OECD criteria) is approximately 50% of the total area and is an important economic resource for the region if we consider that 17% of the population occupy those areas while 14% live in areas significantly rural and that all of these areas produces about a third of regional gross domestic product. As well as in the rest of Europe, these areas are characterised by their socio-economic long delays when compared to urban or suburban areas. The presence of these areas, many of which are marginalised, provides important production niches in the regional context, where local food production keeps important characters of typical, considerably appreciated on the domestic and international market. The gross domestic product of Apulia at current prices in 2010 amounted to 71.446 billion euro, 4.9% of the national GDP.

**Figure 1.** Composition of added value per sector in Apulia region

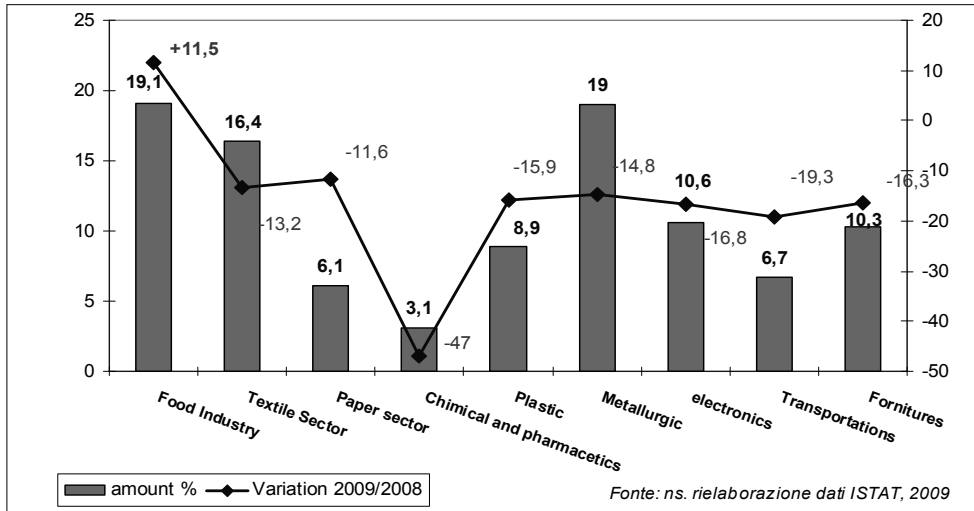


Source: authors' calculations based on ISTAT data, 2009

**Table 1.** Incidence of agriculture and food industry on GDP

	Importance of the agro-food sector	
	Apulia	Italy
Agriculture, fishing and forestry	5%	2,6%
Food industry	2%	1,5%

Source: authors' calculations based on ISTAT (Italian Bureau of Statistics, 2009)

**Figure 2.** Added value per branch of manufacturing industry and variation in 2009/2010

Source: authors' calculations based on ISTAT data, 2009

2009 was the year in which the effects of the financial crisis were reflected in a stronger real economy. GDP of Italy and other countries with advanced economies have suffered a major setback compared to other countries with emerging economies, partly as a result of often aggressive fiscal policies, aimed at the reduction of public debt, negatively impacting growth and investments. Apulia cannot be considered distant from this scenario since it sees its wealth going down by 4.1% in terms of year after year change in line with that of other regions of the South of Italy, and slightly low compared to the national rate data of 5.1%. The analysis based on macro aggregates returns a picture of the importance of different sectors for the composition of added value of the region and the effects they have suffered as a result of the economic crisis (Fig. 1). The economy of Apulia is characterised by the dominant presence of service industry in the composition of added value (73,5%), while the industrial sector participates in the formation of the AV with 23.1% (Fig. 2). Confirming an economy heavily devoted to agriculture and to agro-processing sector, the region contributes with 23.7% to the added value of the agro-food industry in the South of Italy and with 4.87% at national level (Italian Bureau of Statistics, 2009). Despite other areas of the country, the region is characterised by a considerable weight of the primary sector on the regional economy with about 5% of total added value, and a modest contribution to the food industry (2.06%) (Table 1). The amount of production of the agricultural sector in 2010, with a production value of EUR 3.7 billion at current prices, represented 14% of the gross marketable output of the country. The agricultural sector is presented as a sector with a strong production specialisation (grapes, olive oil, fresh vegetables and durum wheat), albeit compromised by a highly fragmented production system (average size of firms is about 4.6 hectares), widespread subcontracting and old age of farmers. The level of education of farmers is still very low. The latter factor considerably influences their



methods consisting in traditional technologies and aversion to adopt any innovation process or product, except for purely imitative processes. The reduction in the number of farms by about 20% over the last decade (data of the Italian Bureau of Statistics, *ISTAT 2011*) heralds a process of restructuring of the Apulian agriculture, which would allow larger firms cope more effectively with instability and strong competitiveness characterising domestic and international markets. The increase in the average size of companies since 2000, however, is objectively too small (about 1 hectare) to justify the assumption that there is a process of restructuring going on, although a tendency in this direction is to be observed. A process of reform of the structural characteristics of agriculture and the processing industry has already taken place considering the influence of Community policies to support investment in marketing and processing of agricultural products and innovation. The field of industrial processing of agricultural products maintains a leading position in the whole industry (19% of VA), and keeps a certain resistance to the crisis in terms of trading their production abroad. The specialisation of the sector, often aimed at production of quality food, the positive perception of the latter on foreign markets and the geographical proximity of the emerging markets are the key factors in maintaining the exporting role of the Apulian agro-food sector on the international markets. Nevertheless, many weaknesses are still afflicting the agro-food system. Note the reduced size of processing and trading companies, the prevalence of small businesses unbranded, local brand or *private label*, the presence of few international or multinationals companies and difficulties in accessing credit, high rate of borrowing during the last years (+ 256% in 2011, data AIDA).

### **Survey on internationalisation of local enterprises**

After brief presentation of the analysis of the macro environment in which agricultural and agro-food businesses operate, this paper aims to offer the results of a micro-level survey investigating the latent needs of companies in terms of internationalisation in different food supply chains, focusing particularly on the most strategic ones for local economies. In order to identify the needs of local SMEs in terms of internationalisation of production and commercial processes, it is essential to address the characteristics of the firms, highlighting the main patterns according to which SMEs face up to international markets, in addition to the main barriers to internationalisation processes. Subsequent studies will be conducted with the aim to address the drivers of the internationalisation process (European Commission Enterprise and Industry, 2010) and their effects on the performance of SMEs in the agro-food field. The aspect that is mainly worth investigating concerns the barriers and difficulties in terms of internationalisation highlighted by the agro-food industry. This aspect becomes crucial to conceive a model of economic development for the food industry according to the perspective of networks between the companies themselves and between firms and local institutions. As mentioned above, the survey on the internationalisation of agro-food SMEs of Apulia undertakes as its initial purpose to highlight the main problems and needs that SMEs face when they operate on foreign markets for the first time. In addition, the survey delineates the most relevant features of food companies in such a

way as to determine the patterns of internationalisation predominant on the territory (“international firms” and “non-international firms”), and the structure and level of internationalisation of the local agro-food industry. Further studies will try to address the drivers of internationalisation and their effects on business performances on foreign markets.

### **The Sample**

The target population refers to the entire number of firms operating in the Apulian agro-food industry. In particular, all the processing and commercial food firms registered in the national Business Register, within the branch “Agro-food Industry” have been considered in this research work. The population is composed of 5.331 enterprises operating in the food industry. The population has been stratified by different supply chains they operate in, by referring to ATECO code (Classification of Economic Activity 2007) indicating the particular branch of products or similarly the relative supply chain (i.e. oils, wine, cereals, fruit and vegetable etc.). The survey sample has been reached by keeping the suitable proportions on the basis of the population size in terms of number of firms operating in each of the supply chain identified at regional level, but excluding the firms producing bread and fresh bakery products. Although the latter have set up a very large group of firms within the Apulian agro-food industry, considering the features of the products (fresh and perishable), they export with extreme difficulties. Moreover, the attention of this paper is focused essentially on those productions which are considered strategic for the economic performance of the agro-food sector. Finally, at this stage of the work, the sample size is represented by those firms responding to the structured questionnaire (102 firms).

### **Data collection**

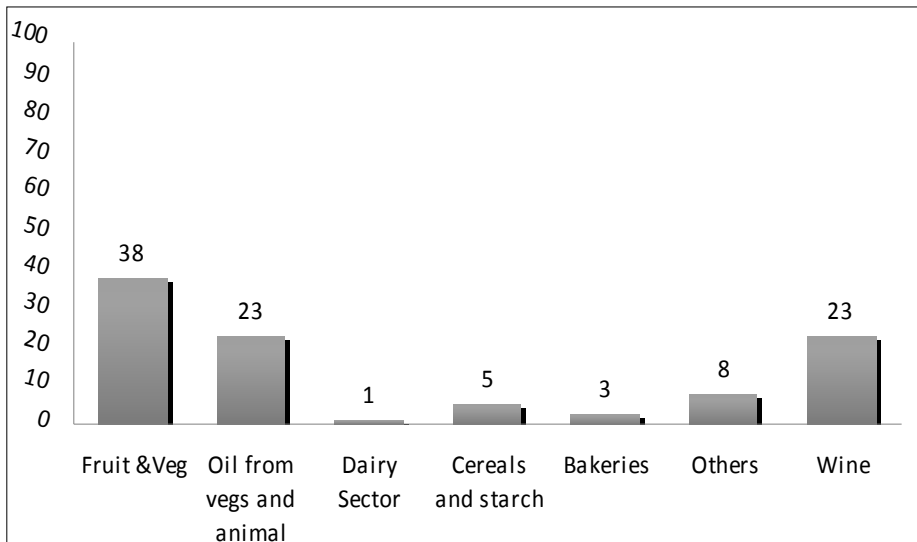
The fieldwork relied upon primary data collection by means of questionnaire surveys submitted to representatives of companies through face to face interviews. The structured questionnaire consists of five parts: general information about the firm, computer equipment and computerised management systems, internationalisation, innovation and certification. Many of the closed-ended questions use Likert scales (from 1 to 5) to determine the judgment of the respondents about the relevance of internationalisation and innovation aspects. Most of the questions have been structured in multiple choice format. The questionnaire was structured in such a way as to allow two paths of specific questions/answers depending on the type of respondent (“international” and “non-international” firms). The possibility to split the dataset into two groups of respondents allowed us interesting considerations to be revealed.

### **Results**

The survey allowed collecting important information with respect to firm size, sector of production, level of computer equipment, level of internationalisation, needs and

issues related to it and the degree of innovation. The methods of data collection have led to a high level of completeness of information, even if based on a limited sample of respondents. Of the 102 companies surveyed, only half have relations with foreign markets (import, export, subcontracting agreements, commercial agreements and cooperation). It was decided to consider part of the sample of respondents, both companies already operating in foreign markets (hence "international firms") and companies who have never operated overseas ("non-international firms"). Almost all the companies surveyed operate in three of the most strategic sectors in the local food industry: the fruit and vegetable sector, the wine sector and olive oil sector. In particular, according to statistical classification ATECO (Classification of Economic Activity 2007), 38% of companies surveyed operate in the production sector of processing and preserving of fruit and vegetables, 23% in the production of animal and vegetable oils and fats, and 23% in the production of wine (Fig. 3).

**Figure 3.** Respondents by sector (%)

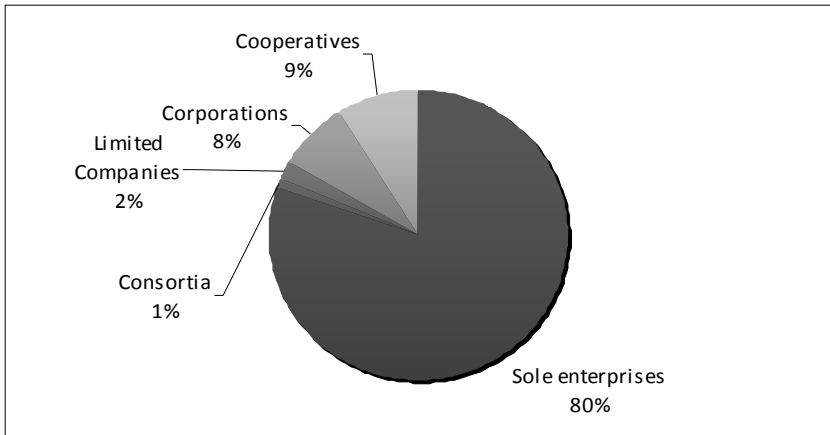


Source: authors' calculations

About 80% of the companies surveyed are individual enterprises, while the remaining part is mainly composed of cooperatives and corporations. This distribution is roughly maintained within each specific sector of production. The interviewed companies have been active on the market, on average, from about 20 years, 23 for "international" companies and 17 for "non-international". With regard to company size, companies mainly belong to the category of micro enterprises according to the OECD classification, with a number of occupied lower than 10 (68%), followed by small (25%) and medium-sized (7%) enterprises. This distribution of the sample firms by size is quite representative of the local production scenario, characterised by fragmentation of supply. When the size is identified by the turnover criteria, 48% of the firms surveyed

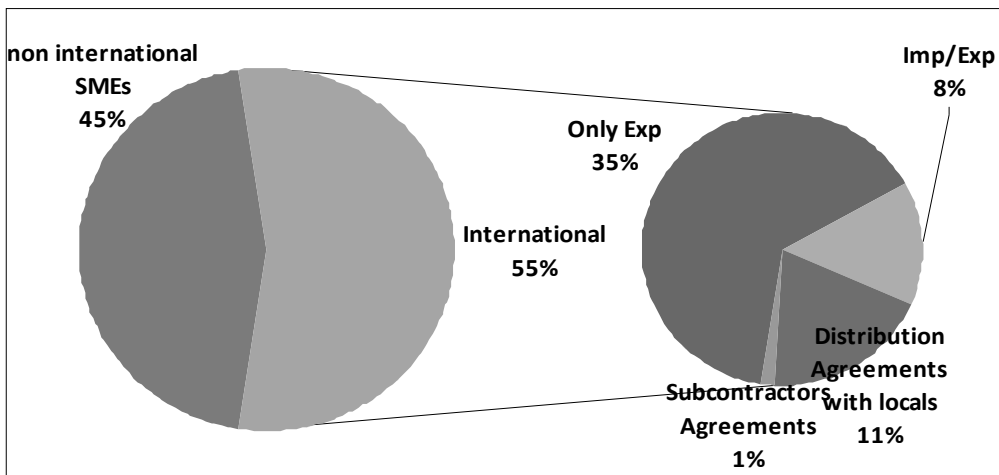
belong to the category of “micro-enterprises” (turnover lower than € 250,000), while 22% of them registered a turnover of at least EUR 3 Ml per year. This is the case of cooperatives or individual specialised enterprises operating in the sectors characterised by high investment intensity and high value-added production such as extra virgin olive oil or wine. International firms have been operating overseas for, on average, 9 years, mainly exporting (62% of responses). Export volumes amounted to an average of 44% in turnover. 15% of the leading companies engaged in import and export, while 9% of them undertake distribution agreements with commercial subjects present in foreign countries (Fig. 5).

**Figure 4.** Respondents by governance typology



Source: authors' calculations

**Figure 5.** Distribution of the firms' relationships with foreign markets

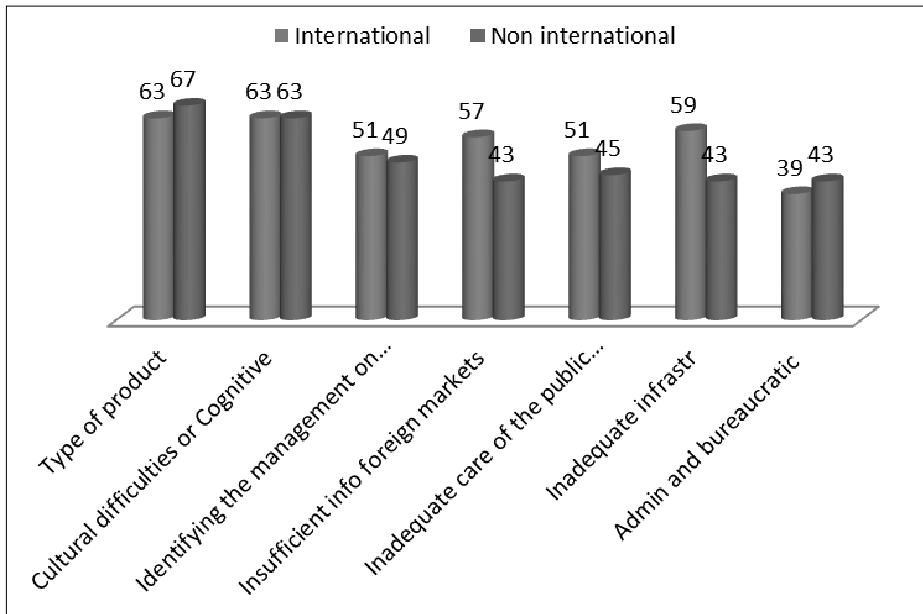


Source: authors' calculations

Importing companies focus exclusively on fruit and vegetables with an intensity of import amounting on average to 13% in turnover. The survey sample confirms macro level data concerning the benchmark foreign markets: local producers export mainly to European Union countries (30% of responses) and North America (17%). Then are the Eastern European countries (15%), Russia (10%) and Japan (7%). The profile named "international firms" consists of relatively young enterprises, even though many of them started working overseas immediately. This typology uses managing computer systems (almost all of them use at least systems for accounting, control management and sales), is active on the internet with its own website (72%) for promotion purposes, but still shows a modest trend towards innovation. Only 52% of them declare to have adopted at least one type of innovation in recent years. In particular, half of them have adopted innovative type of management and organisation (49%), while the implementation of product innovation for foreign markets is the second entry by number of responses (14%). This finding is also consistent with the fact that innovation has been implemented to address the need for expanding their business on foreign markets (the statement that received 33% of responses), while 20% of respondents agree with the fact that the adoption of innovation was a consequence of their activities overseas. Moreover, firms that do internationalise do not do that on their own. At least 65% of them have requested support activities (financial, bureaucratic, promotional and insurance) from local and national institutions in the field of foreign trade, and participated in national and regional funding programmes for promotion and marketing, considering these programmes effective in terms of performance achieved. Firms that do not internationalise are mostly younger than "international" ones, almost all located in the range of micro-enterprises with less than ten employees and a turnover lower than EUR 250,000. Only 21% of them have their own website, and only 3 out of 10 firms make use of computer support for management operations. Small enterprises not operating in foreign markets show slight propensity for innovation (72% of them did not implement any innovation in the recent past), mostly believing that innovations are not a cause nor a consequence of the internationalisation process or of competitiveness overseas. Instead, higher consensus concerned the statement that innovation could be important to cope with foreign competitors on domestic market. The firms were also asked about their plans to eventually go international, and in particular they were asked if they had plans to undertake a process of internationalisation in the near future. 20% of respondents stated that they had recently considered a concrete plan of internationalisation, while 41% believed to be interested in undertaking it. Respondents were able to choose from a number of factors to be considered crucial in their decision not to internationalise (Fig. 6). All factors were considered important or very important in their choice. In particular, some of them were considered with greater concern, such as barriers of cultural and cognitive nature (extremely important for 45% of respondents), barriers related to the nature of the product (extremely important for 41% of respondents). The same question was posed to companies operating abroad to eventually highlight any prejudice for companies that do not internationalise towards some statement. The types of barriers considered very important by the first category of respondents (not international) are considered important only by the internationals. The latter also

reckon that for a small company looking out for the first time on international markets, the difficulty to establish connections abroad (59% of respondents considering “important” and “extremely important”) and the difficulty of identifying appropriate management on-site (51%) may be an important barrier. With respect to the main aim of the survey, which is addressing the main issues related to international activities of the firm, the latter were asked to express a judgment of importance on a scale from 1 to 5 (1 = not important at all and 5 = extremely important) with regard to ten factors: language, market knowledge, customs issues, commercial contracts and bureaucracy, financial issues, marketing channels, credit insurance, marketing, recruitment and training of personnel (Fig. 7).

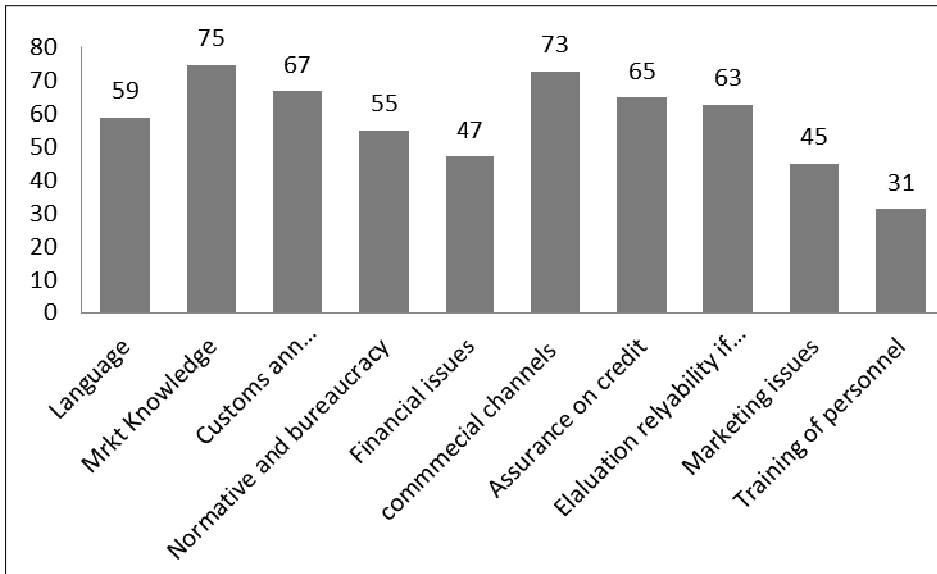
**Figure 6.** Main reasons not to go international (% of “useful” plus “extremely useful” responses). [Respondents: “international” and “non-international” firms]



Source: authors' calculations

Knowledge of the market and the problem of identifying the correct commercial channels received most of the answers by adding the category “important” to “extremely important” with 75% and 73% of respondents respectively. Other significant issues emerged in the survey, such as customs and transport issues and credit insurance issues (67% and 65%). The last aspect we want to highlight concerns the internationalisation opportunities for agricultural businesses. The availability of adequate financing and promotion programmes for the agro-food sector remains the main internationalisation opportunity for businesses (55% of answers on a multiple-choice question). The opportunity provided by territorial identity of the production that meets the preferences of foreign consumers (52%), increasing export trend (43%) and networking of companies (44%) is also important.

**Figure 7.** Main issues encountered by firms with regard to internationalising (% of “useful” plus “extremely useful” responses). [Respondents: “international” firms]



Source: authors' calculations

## Discussion

The survey shows the presence of two groups of enterprises already designated as “international firms” and “non-international firms” in order to capture the latent needs in terms of internationalisation and distinguish between experienced and non-experienced enterprises that intended or attempted to undertake commercial activities overseas. The discussion of results explicitly focuses on those aspects related to commercial internationalisation (export and import) since performance of Apulia in terms of Foreign Direct Investments (FDI) and other forms of production internationalisation is still very low (Data Bank Reprint Italian Foreign Commerce Institute, ICE, 2010). With regard to the exportations of recorded observation, it is observed that exporting firms can be considered large exporters when considering the average of exportations on the firm’s turnover (44%). Although considering the category of small and medium enterprises, the surveyed sample is composed of 68% micro enterprises if considering the number of employees. Indeed, almost all of these enterprises do not have any relationship with foreign markets, stressing the importance that size has on the performance of enterprises when operating overseas. Nevertheless, most of the international firms are small firms in terms of the number of employees but medium in terms of turnover. In effect, previous studies show that the probability that a firm exports increases with the size of the company, at least up to the point where other factors become more important (Wagner, 1995), and these results are in line with the fact that many small businesses can be considered hidden export champions (*ibid.*). The type of corporate governance also contributes to the construction of competitive advantage

(Compagno, 2003; Nieto *et al.*, 2006), confirming the existence of a significant relationship between type of ownership and the internationalisation strategy adopted by SMEs. All the corporations and cooperatives recorded in the survey are also international firms confirming the latter tendency referred above. According to Nieto and Fernandez (2006), the corporate blockholder contributes to building competitive advantages for SMEs. It helps SMEs acquire resources, in some cases even providing them access to distribution channels, technologies or financial resources. With regard to benchmark markets, despite the general trend of the last decade showing increasing trade towards less reachable markets in the past, the propensity of Apulian firms towards emerging markets seems to remain quite insufficient, and they continue to concentrate sales on markets within the EU. This result seems to confirm the importance that proximity has on firms' strategies to internationalise (Olper *et al.*, 2008), especially in some specific sector such as the food sector. The border effects (relations) are still relevant to the intensity of export, given regulations on international commerce (i.e. tariff barriers and non-tariff barriers). Another important aspect of internationalisation is the level of innovation embedded in the business strategy. Innovation of product or process is demonstrated to be an essential strategy for internationalisation. The results show scarce general propensity towards innovation of process and product, which results in one half of international firms and one third of non-international firms innovating. The following response on the reason for the choice to innovate reveals interesting aspects. Of all those innovating, the non-international firms reckon that innovation is required for coping with local rather than foreign markets. Whereas international firms think about the innovations as something unavoidable to enter international markets.

Results on attitudes of micro and small businesses with regard to internationalisation show a somewhat pessimistic situation, though almost one half of non-international firms seems to be interested in undertaking business overseas. Small businesses recognise many barriers to internationalisation and their reasons not always seem to find a plausible explanation. One for all is their belief that the inner nature of the food product (perishable, not easy to transport) is one of the most important barriers to export it, showing a serious lack of information on opportunities given by technology, innovations and knowledge transfer. According to this, international firms do not consider the latter to be such a constrictive restriction to internationalisation, but instead reckon that the main barriers are those related to connection of markets and to the identification of the most suitable commercial channels, focusing attention on the quality of relationships between intermediates.

## Conclusions

The paper finds its starting point in an ambitious project, such as the ISCI project, which is aimed at creating an ideal development model for small and medium-sized food enterprises who intend to pursue a path of internationalisation. As mentioned above, this model finds its optimal location in the logic of businesses networks (regulated by national laws in some European countries) to share the knowledge and technology necessary for the development of commercial activities overseas. The level of



complexity at which these networks are designed, range from the realisation of contractual agreements for production, up to the creation of relations aimed at generating contexts of shared underlying developmental pathways. The analysis carried out for the purposes of this work allowed highlighting some characteristics of firms operating on the international markets and those which produce exclusively for strictly local markets. The latter recognise that opening up to foreign markets can be important to expand, diversify their businesses and avoid the strong pressure from domestic markets. Nevertheless, many difficulties and barriers exist along the path of internationalisation. Firm size is definitely a limiting factor, although it is not the only barrier to internationalisation. Only the size itself would not explain the existence of small and very small businesses that obtain extraordinary performances in terms of exports. It is clear that other factors hindering entry to international markets become more important. The strategic approach to those factors, such as innovation, knowledge and technology transfer, cooperation and information sharing, would probably foster a more favourable environment for SMEs' competitive development. Further steps will allow investigating the crucial drivers in the choice to export and internationalise and how public agencies can influence those choices in pursuing the constitution and activation of a network of local development agencies; the latter will facilitate the integration processes between local SMEs in the agro-food industries of cross-border territories. The increased level of competences acquired by the public authorities and by universities may be applied for planning and management of territories and will be fundamental to define and address future development policies and a more efficient allocation of public resources in favour of the implementation processes of innovation in the context of internationalisation of local supply chains.

In conclusion, and linking to the broad target of the ISCI project, considering the emergence of economies that rely on cheap labour force and easily maintain their production in labour-intensive sectors, the strategies of product differentiation, more than others require the circulation of information in obtaining competitive advantage. In order to develop the processes of SMEs internationalisation aimed at innovation and competitiveness of the cross-border economic systems, a crucial step is represented by cooperation and definition of a sharing strategy aimed at implementing a development model. An important role can be assigned to public institutions operating on the local territories, closely related to the territorial economic activities, able to interpret latent needs and to offer real services.

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**PROJEKTAS „INOVATYVIOS BENDRADARBIAVIMO IR  
INTERNACIONALIZAVIMO TARP MAŽŲ IR VIDUTINIO DYDŽIO ĮMONIŲ  
ŽEMĖS ŪKIO IR MAISTO PRAMONĖS SRITYJE STIPRINIMO PASLAUGOS  
(GRAIKIJA – ITALIJA)“ IR INTERNACIONALIZAVIMO TENDENCIJOS MAŽOSE  
IR VIDUTINIO DYDŽIO ĮMONĖSE VIETINĖJE ŽEMĖS ŪKIO IR MAISTO  
PRAMONĖJE: APULIJOS REGIONO ATVEJIS**

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**Santrauka.** Projektas „Inovatyvios bendradarbiavimo ir internacionalizavimo tarp mažų ir vidutinio dydžio įmonių žemės ūkio ir maisto pramonės srityje stiprinimo paslaugos (Graikija – Italija)“ yra nukreiptas į Europos teritorinio bendradarbiavimo programą INTERREG (Tarpregioninio bendradarbiavimo programa) Graikija – Italija 2007–2013: „Stiprinti konkurencingumą ir inovacijas“. Projektas pradėtas siekiant stiprinti mažų ir vidutinio dydžio įmonių, užsiimančių vietine žemės ūkio ir maisto pramone (Apulijos regione Italijoje ir Korfu Graikijoje), įsivertinimą užsienio rinkose, didinti naujovių diegimo procesus ir koordinuotą bendradarbiavimą, siekiant palengvinti žemės ūkio ir maisto pramonės internacionalizacijos procesus. Projekto tikslas ir objektas yra apibrėžti technologinių inkubatorių modelį, kuriuo siekiama teikti novatoriškas paslaugas internacionalizacijos sistemai žemės ūkio ir maisto produktų mažose ir vidutinio dydžio įmonėse. Straipsnio tikslas kartu su ISCI projektu nustatyti skirtingas internacionalizacijos tendencijas vietinėje žemės ūkio ir maisto produktų gamybos srityje, ypatingai tas, kurias vyrauja strateginiuose žemės ūkio ir maisto pramonės sektoriuose.

**Reikšminiai žodžiai:** internacionalizacija, inovacijos, rinkodaros žvalgyba, žemės ūkio ir maisto produktų sektorius.