Policy Briefing

The Relationship between Middle Market Firms' Access to Finance and Internationalisation Intentions

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International expansion is critical for firm survival and growth. British Chambers of Commerce's 2014 annual International Trade survey reports that 60% of prospective exporters viewed access to finance as a key factor in deciding whether to trade overseas.

But do firms with an aspiration to expand into international markets find finance more difficult to access? And if so, are younger or older firms more reliant on access to finance to expand their international activities?

In this paper, we analyze responses of senior executives of 4,066 middle market firms from the UK, Germany, France and Italy to shed light on these issues.

Key findings

This article examines the relationship between middle market firms' access to finance and their exporting intentions. Our analysis is based on a novel dataset of middle market firms in the UK, France, Germany and Italy. Taking into account firms' background characteristics we find that access to finance has a very different relationship to export intentions in younger and more established middle market firms. For established firms, easy access to finance is associated with more expansive export intentions. For younger mid-market firms, however, more expansive export intentions are associated with more issues in accessing finance. Our survey data is cross-sectional, however, and cannot therefore establish the direction of causality between these variables.

Access to finance and further internationalisation for young and old firms

Our analysis focuses on the relationship between access to finance and the intention to enter new export markets for mid-market firms (i.e. those with turnover €20m to €1bn). Our data is derived from a survey conducted in early 2015.

We find that the relationship between access to finance and the intention to enter into new geographical markets is different for younger and older firms. Younger firms are generally less prone to inflexible managerial routines and organizational rigidities. They enjoy the 'learning advantages of newness' by being less encumbered by existing knowledge structures and fixed learning routines. In addition, their international footprint might not be as extensive as that of older firms. Consequently, they are more likely than older firms to want to enter new destinations.

Authors

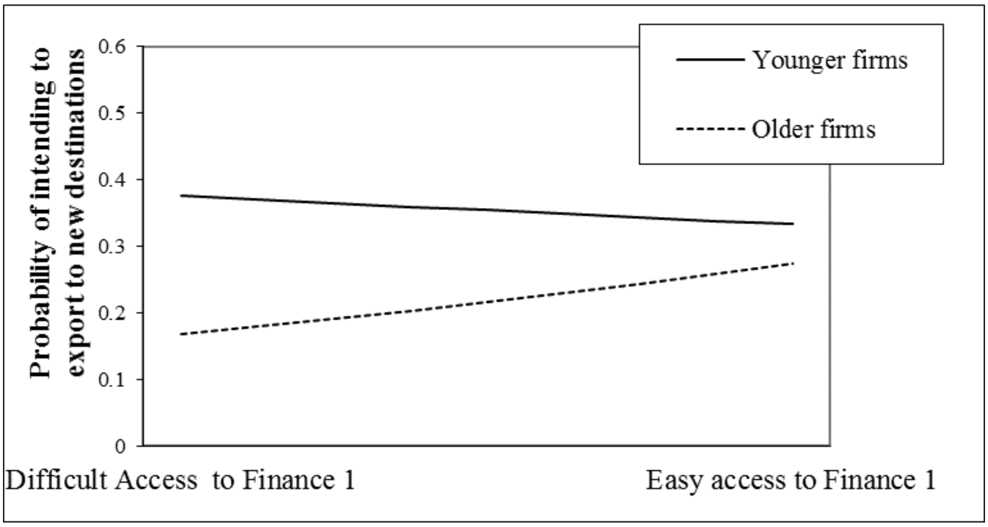
Oksana Koryak
Enterprise Research Centre and Warwick University
Oksana.Koryak@wbs.ac.uk

Nicos Nicolaou
Enterprise Research Centre and Warwick University
Nicos.Nicolaou@wbs.ac.uk

Stephen Roper
Enterprise Research Centre and Warwick University
stephen.roper@wbs.ac.uk

However, younger firms face greater difficulties in accessing finance given their less extensive credit history and less established relationships with lenders. Therefore, the higher their intentions of entering new geographical destinations, the greater their difficulties in accessing finance.

Older firms, in contrast, whilst less likely to enter new markets, might be attracted to further internationalization if they find it easy to secure attractive financing solutions. In fact, for older firms, the relationship between access to finance and the intention to enter new geographical markets becomes positive. These relationships are depicted below:



Policy implications

In the UK, unlike in Italy or France, access to finance is perceived to be an important factor in determining whether or not a firm enters new geographical markets.

Our research suggests that policy responses to encouraging internationalisation need to take into account the age of the firm, and by extension, its internationalisation experience and the stage of its organisational development.

Full paper link:
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