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Kent Post-Covid-19 SME Internationalisation Study

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Disclaimer: Although this research has been commissioned by the Kent County Council, the views expressed here do not necessarily reflect the Kent County Council policy. Any views expressed are those of the authors of this report.

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Executive summary

Background

The Kent post Covid-19 SME Internationalisation Study 2021 investigates the internationalisation status of SMEs located Kent, UK. In particular, the study assesses the impact on exporting activities of Kent SMEs since the start of the Covid-19 pandemic and compares those with the previous study from 2016/2017 (see <https://www.interregeurope.eu/sie/sie-research-work/>). Further, the study assesses the effectiveness and relevance of internationalisation business support policies and services against the evolving needs of SMEs in the context of the current economic climate, whilst identifying gaps and opportunities for policy making. Finally, the study makes recommendations about how to increase export activity and capacity among Kent firms in a post-Brexit, post-Covid-19 environment with a particular focus on the types of business support interventions which would boost exports levels among businesses in Kent and the identification of key markets on which to focus. This study has been part funded by the Interreg Europe programme and the European Regional Development Fund through the Kent County Council-led [SME Internationalisation Exchange \(SIE\) project](#).

Kent Business Population and Sample Characteristics

- The profile of Kent businesses shows similar business characteristics (distribution of firms by economic size (turnover), employment and industry classification) to the ones observed for the whole of the UK.
- Generalisation of this study's findings, especially regarding post-Brexit and post-Covid 19 external environment conditions, is possible.
- The study's sample, with 316 fully completed questionnaires, is representative of the population and shows no evidence of non-respondent bias.
- Firms in the sample show a normal credit score and low failure rates, and thus current likelihood of bankruptcy is small but subject to substantial changes in the external business environment due to Brexit or the Covid-19 pandemic.

Kent SMEs and Internationalisation post Covid-19

- According to our survey data, just over a third of the SMEs in Kent export. For most SMEs exports contribute to less than 30% of their turnover, with almost a third of respondents noting that the contribution of exports does not exceed 10%.

- EU countries dominate as key export market with over 84% of SMEs exporting here.
- Kent SMEs internationalise mainly to increase sales through distributors and to increase earnings and build resilience, particularly during periods of downturn.
- Only 50% of the respondents have a positive perception of the export activity of their firm compared to the 68% in 2017.
- Brexit has considerably affected the export level of SMEs. For almost 50% of Kent SMEs Brexit has decreased exports and only 6% have increased their export intensity since Brexit.
- The most important reasons for the fall in exports related to Brexit are the additional administrative and bureaucratic obstacles for exporting, additional costs with export tariffs, followed by the overall uncertainty in the business environment and disruptions in the supply chain.
- Covid-19 has had a lower level of decreased export activity at an individual firm level but has affected more companies, those whose export markets are in the EU but also further afield.
- 11% of Kent SMEs have utilised exports as a strategy to build resilience during Covid-19 and have leveraged Covid-19 as an opportunity for the firm to increase its export activity.
- The main reasons stated for the SMEs' fall in exports since Covid-19 were additional administrative and bureaucratic delays due to Covid-19, higher costs of shipping and lack of imported goods due to lockdowns in other countries, followed by delays in shipping and labour shortages due to lockdowns.
- 8% of Kent SMEs have stopped exporting altogether since Brexit and a smaller percentage (4%) have stopped exporting since Covid-19. These SMEs would need a tailored support to jumpstart their export activity.
- The most important barriers that SMEs face when deciding to export include bureaucratic and administrative delays, finding the right partners and distributors, finding access to local markets and reliable local information, and the cost of attending exhibitions and trade fairs abroad.
- The most important barriers leading to the decision to stop exporting since Brexit include additional administrative and bureaucratic obstacles for exporting as well as additional costs with export tariffs and the lack of availability of specialised workforce.
- Labour shortages because of lockdown and the pandemic, higher costs of shipping, increases in energy prices, delays in shipping as well as the manager having to prioritise the survival of the

business have been ranked as the most important reasons for SMEs to stop exporting since Covid-19.

Support Mechanisms

- The most known sources of support for exporting Kent SMEs are the Department for International Trade, followed closely by Kent Invicta Chamber of Commerce and professional services in Kent such as banks, accountants and law firms.
- In terms of support use, most SMEs (69%) appear to rely on professional services in Kent such as banks, accountants and law firms for the day- to- day running of the business and the support provided by the Department for International Trade (50%) and the Kent Invicta Chamber of Commerce (one third of respondents) is accessed by fewer respondents.
- Over a third of respondents considered the support by professional services in Kent as extremely or very effective given their bespoke accounting and legal advice services. In contrast, 80% of the respondents considered the advice of the Kent International Business (KIB) ineffective, with a similar perception regarding Europe Enterprise Network (EEN). It is worth noting that as an umbrella programme bringing together the main export support services in the county KIB does not offer its own services specifically to SMEs. Additionally, in the period running up to the survey, EEN services have primarily been promoted as a part of the wider Innovate UK Edge offer under UKRI branding rather than as a stand-alone service which might explain SME perceptions.
- The support for export intensive SMEs (i.e. SMEs with more than 50% of their turnover) should be tailored to their support needs and support agents should be approaching these SME companies directly. Similarly, to jumpstart the export activity of those SMEs who ceased exporting completely (8% since Brexit and 4% since Covid-19) a tailored early internationalisation stage support is needed.

Opportunities to Increase Internationalisation Activity & Capacity among Kent SMEs

- There appears to be room for improvement among the organisations specifically advising on international trade opportunities, in particular to drive more ambitious growth, offer solution driven services and introduce SMEs to partner networks which local professional services firms do not have the ability to do, but ultimately Kent SMEs seek to remain competitive with innovation ideas.
- Enterprise networks with other potential markets than the EU could be set up by the embassies in these countries in collaboration with local chambers of commerce.

- A tailored relationship-based support and advice that speaks to the specific SME needs given their internationalisation stage and export intensity it is what the support mechanisms should aim to focus on.
- The most important factors that would help SMEs enhance exports are a favourable tax system, suitable administrative and financial regulations, and availability of information on new market trends.
- Access to digital fairs and upskilling in the use of digital technologies may be necessary and even require a mindset change from the Kent SME managers' perspective, given they do not deem technological agility a key barrier to improving their export activity. Yet, successful SME support in other economies seems to suggest that exactly this skill and relevant support reignited change in the exporting confidence of their SMEs.
- The EU, USA, Canada, Australia, New Zealand, China, and India remain and are projected to continue to be the key exporting destinations for Kent SMEs.

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Introduction

Background

This report presents the research work commissioned by the Kent County Council (KCC) as part of its 'SME Internationalisation Exchange (SIE)' EU funded Interreg project to investigate the internationalisation status of small and medium enterprises (SMEs) located in the county of Kent, the UK. Similar in its aims to its 2016/2017 predecessor – the Kent Business Internationalisation study (2016/2017) this report also focuses on understanding the SME international activities, however within the backdrop of the Covid-19 pandemic. Both this and the previous study have been part funded by the Interreg Europe programme and the European Regional Development Fund.

In particular, the report assesses the impact on internationalisation (exporting) levels among Kent SMEs since the start of the Covid-19 pandemic and compares those with the previous study. Further, the report assesses the effectiveness and relevance of internationalisation business support policies and services against the (new) needs of SMEs in the context of the current economic climate, whilst identifying gaps and opportunities for policymaking. Finally, the report makes recommendations about how to increase internationalisation (export) activity and capacity among Kent firms in a post-Brexit, post-Covid-19 environment with a particular focus on the types of business support interventions which would boost exports levels among businesses in Kent and key markets on which SMEs should focus.

Defining SMEs and internationalisation

Sections 382 and 465 of the Companies Act 2006 (National Archives, 2021) define a small and medium enterprise- for the purpose of accounting requirements- based on turnover, balance sheet and number of employees. Accordingly, *small* firms are firms with a turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million and not more than 50 employees. Moreover, *medium* firms have a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees. The UK government definition (Small and Medium-sized Enterprise Action Plan 2020-2022 (2020) of SMEs also encompasses *micro* firms (less than 10 employees and an annual turnover under €2 million), with *small* being less than 50 employees and an annual turnover under €10 million, and *medium-sized* being less than 250 employees and an annual turnover under €50 million. This definition is based on the EU definition (European

Commission, 2005). This report does not consider micro, small or medium-sized firms as separate entities and the study employed the SME firm defining parameters within the minimum and maximum ranges of these two main definition sources.

This report applies a working definition of *internationalisation* and particularly focuses on *exporting*, activities, including both direct and indirect (set up for the purpose of offering intermediary services for a local market) exporting. For the purposes of this study other internationalisation activities i.e. *foreign direct investment (FDI)*, *collaborative partnerships* (set up for the purpose of developing products and offering new services as well as exchanging ideas and best practice) and *networks of business people outside the UK*, are not directly investigated.

This report focuses on exporting only as a mode of internationalisation, consistent with the brief from the Kent County Council. SMEs tend to internationalise through exporting (e.g. Tan, Brewer & Liesch, 2018) as this requires fewer resources than other modes of internationalisation such as FDI. Moreover, the risks associated with exporting are relatively lower compared to FDI and more manageable for SMEs that face significant resource constraints. This report uses the terms 'internationalisation', 'export' or 'exporting activity' interchangeably.

The aim and objectives of the study

The aim of this study is to contribute to a better understanding of the current internationalisation levels of Kent SMEs. In particular, the report assesses the impact on export levels among Kent businesses since the start of the covid-19 pandemic; it analyses the effectiveness and relevance of internationalisation business support policies and services against the (new) needs of SMEs in the context of the current economic climate; it identifies gaps and opportunities for policy making. The research also sets out to make recommendations about how to increase internationalisation (export) capacity and activity among Kent firms in a post-Brexit, post-Covid environment with a particular focus on the types of business support interventions which would boost exports levels among businesses in Kent and key markets on which to focus.

The scope of the Kent Post-Covid-19 SME Internationalisation Study (2021) was set out by the Kent County Council (KCC) and in agreement with Kent Business School (KBS), KCC's research partner. The key research objectives have been defined as follows:

RO1: What is current state of export activity within Kent SMEs?

To address this objective, the study firstly assesses the general picture of SME export activity in the UK and Kent in particular, given the impact of Covid-19 and Brexit. Secondly, it investigates the barriers and challenges to internationalisation and finally it ascertains the current value and benefits of international trade activity to the Kent economy.

RO2: How effective is current business support in Kent for SME internationalisation?

To address this second objective, the study examines the relevance of the main internationalisation support policies, identifies gaps in the internationalisation support and provides examples of good practice from internationalisation support services. Additionally, it proposes additional export-support services to boost international trade capacity among Kent SMEs.

RO3: What are the opportunities to increase internationalisation activity and capacity among Kent SMEs?

To address the third objective, the study proposes areas of opportunities to improve trade development policies post Covid-19 and Brexit and identifies key enablers of internationalisation capacity for Kent SMEs. Importantly, it also ascertains the role of digital technologies in facilitating export activity and suggests key international markets for Kent exporting companies in future.

Consistent with the objectives above, this study adopts a quantitative approach, using a survey instrument distributed to Kent SMEs. This survey instrument builds on and extends the one employed previously in the 2016/2017 study. This allows us to compare present SMEs exporting levels with those in 2016. Furthermore, the quantitative approach enables the provision of generalisable findings by gathering views from a wide group of SMEs managers. This report triangulates the survey data with secondary data obtained from academic journal articles, industry reports, as well as government and local policy documents. The information provided in the next section discusses in more detail the methodology of this study.

The survey: Sample characteristics, methodology and confidence levels

Kent business population and characteristics

Our starting point was to understand Kent's overall business population and the changes that have taken place since the 2016/2017 study. Our benchmark data comes from the Office of National Statistics (ONS) and more specifically the Interdepartmental Business Register (IDBR). The three tables below present Kent's business population and this study's sample by size in terms of employment

(Table 1), turnover (Table 2) and economic activity (Table 3). We have provided our sample characteristics for employment size and economic activity as the data for turnover is incomplete. In parallel, we present the same data for the overall UK business population to establish whether Kent's profile differs significantly from the rest of the UK.

Table 1 Business distribution by employment size

	Count of enterprises			Proportion of population		
	UK	Kent	Sample	UK	Kent	Sample
Employment size band: 0-4	2,173,880	51,425	85	78.62%	79.48%	26.81%
Employment size band: 5-9	306,260	7,015	41	11.08%	10.84%	12.93%
Employment size band: 10-19	151,365	3,365	42	5.47%	5.20%	13.25%
Employment size band: 20-49	81,450	1,790	70	2.95%	2.77%	22.08%
Employment size band: 50-99	26,755	575	36	0.97%	0.89%	11.36%
Employment size band: 100-249	14,895	335	22	0.54%	0.52%	6.94%
Employment size band: 250+	10,540	195	21	0.38%	0.30%	6.62%
Employment size band: Total	2,765,145	64,700	317	100.00%	100.00%	100.00%

Source: ONS – IDBR 2021 and authors' calculations.

Table 2 Business distribution by turnover (£ thousands)

	Count of enterprises		Proportion of population	
	UK	Kent	UK	Kent
Turnover size band: £0-49	434,755	9,290	15.72%	14.36%
Turnover size band: £50-99	614,955	14,385	22.24%	22.23%
Turnover size band: £100-249	895,385	21,440	32.38%	33.14%
Turnover size band: £250-499	354,600	8,685	12.82%	13.42%
Turnover size band: £500-999	203,295	4,910	7.35%	7.59%
Turnover size band: £1000-1999	115,100	2,685	4.16%	4.15%
Turnover size band: £2000-4999	79,745	1,885	2.88%	2.91%
Turnover size band: £5000-9999	30,555	710	1.11%	1.10%
Turnover size band: £10000-49999	27,680	550	1.00%	0.85%

Turnover size band: £50000+	9,085	160	0.33%	0.25%
Turnover size band: Total	2,765,150	64,700	100.00%	100.00%

Source: ONS – IDBR 2021.

Table 3 Business distribution by economic activity

	UK	Kent	Sample	UK	Kent	Sample
SIC07: 01-03: Agriculture, forestry & fishing	145,025	2,190	6	4.50%	2.93%	1.90%
SIC07: 05-39: Production	172,340	3,840	57	5.35%	5.13%	18.04%
SIC07: 41-43: Construction	370,105	11,485	37	11.49%	15.36%	11.71%
SIC07: 45: Motor trades	89,755	2,220	2	2.79%	2.97%	0.63%
SIC07: 46: Wholesale	126,120	2,815	18	3.91%	3.76%	5.70%
SIC07: 47: Retail	316,400	6,710	13	9.82%	8.97%	4.11%
SIC07: 49-53: Transport & storage (inc. postal)	154,950	3,555	9	4.81%	4.75%	2.85%
SIC07: 55-56: Accommodation & food services	215,430	4,940	3	6.69%	6.61%	0.95%
SIC07: 58-63: Information & communication	221,235	4,710	24	6.87%	6.30%	7.59%
SIC07: 64-66: Finance & insurance	75,435	1,715	5	2.34%	2.29%	1.58%
SIC07: 68: Property	118,760	2,490	6	3.69%	3.33%	1.90%
SIC07: 69-75: Professional, scientific & technical	474,190	11,170	55	14.72%	14.94%	17.41%
SIC07: 77-82: Business administration & support services	272,760	6,545	45	8.47%	8.75%	14.24%
SIC07: 84: Public administration & defence	24,530	585	0	0.76%	0.78%	0.00%
SIC07: 85: Education	75,955	1,730	4	2.36%	2.31%	1.27%
SIC07: 86-88: Health	162,700	3,835	18	5.05%	5.13%	5.70%
SIC07: 90-99: Arts, entertainment, recreation & other	206,425	4,255	14	6.41%	5.69%	4.43%
SIC07: Total	3,222,115	74,790	316	100.00%	100.00%	100.00%

Source: ONS – IDBR 2021 & authors' calculations.

The three tables above demonstrate that Kent's economic activity profile does not substantially differ from the overall profile of the United Kingdom. Kent is a region where most of the firms belong to the micro category (less than 10 employees). Construction together with professional, scientific, and

technical services account for more than a third of the companies. Our sample, as presented in Table 3 does not substantially differ, in terms of economic activity distribution from the overall regional statistics. Our sample differs in terms of size by employment (Table 1) as it shows a more equally spread distribution with higher representation of small and medium firms and a lower representation of micro firms when compared to the county’s distribution. This is not necessarily problematic as we focus on internationalisation and this is an activity predominantly undertaken by small and medium enterprises and to a lesser extent from micro companies.

Methodology: Database description and search

Similar to the 2016/2017 study we have used data provided by FAME. FAME is a database compiled by Bureau Van Dijk and covers over 9 million companies in the UK and Ireland. It includes companies that are not required to file accounts or have yet to file accounts and thus the population coverage is much wider than the data provided by the Office for National Statistics which exclude companies below the tax threshold. We have based our search based on the postcode of either the registered office address or the primary trading address. Our search resulted in 103,256 (compared to 111,737 in 2016/2017) enterprises in the region. We have changed the approach to these firms to maximise the response rate. While in the 2016/2017 study we identified the organisation’s generic e-mail address, in this study we were able to identify the e-mail address of the firm’s director(s). A total of 22,212 valid e-mail addresses were identified and a personalised e-mail was then sent to these e-mail addresses with a letter addressing the director with their title and surname. All companies were contacted over October and November 2021. The actual period of data collection was between the 27th of October (initial e-mail) and the 15th of November (reminder e-mail) to explore their views on internationalisation.

Distribution list and questionnaire distribution

Table 4 below shows the distribution of the questionnaires.

Table 4 Distribution of questionnaires

Category	Size	Proportion
Emails sent	22,212	100.00%
Emails bounced	1,110	5.02%
Emails duplicate	193	0.87%

Surveys started	789	3.56%
Surveys finished	316	1.42%

Source: Authors' calculations.

We had a total of 789 responses (3.56% response rate) and 316 completed questionnaires (1.42% completion rate). Although this sample is rather small in comparison to the wider population, as it will be shown further below, it is representative and large enough to allow for statistical inference regarding the behaviour of Kent's business population. This sample is also slightly higher from the sample obtained in the 2016/2017 study (316 in contrast to 268).

Sample and representation

An important testing in all surveys, especially those with relatively small sample sizes and low response rates, is the non-respondent bias. The non-respondent bias means that the participants that opted to respond to questionnaires might have different characteristics- and thus might provide different responses- to the ones that decided not to participate. In our case, for example, companies with limited resources that do not have enough time might have decided not to respond to the survey. To test for non-respondent bias, we tested the characteristics of the early respondents (first 10%) with those of late respondents (last 10%). The assumption is that the late respondents will have similar characteristics to those not responding at all. We tested participants' differences regarding size (turnover, total assets and employment) as well as their propensity to export. In all five cases, shown in Table 5 below, the characteristics of the early to late respondents did not indicate any statistically significant differences. We can therefore argue that the sample included in this study does not have any non-respondent bias.

Table 5 Non-respondent bias tests

Variable	F-Stat	Probability
Turnover	2.35	0.13
Total Assets	0.04	0.83
Employees	0.87	0.35
Export	0.09	0.76

Source: Authors' calculations.

Kent SMEs and internationalisation post-Covid-19

Extant research and numerous studies confirm that exporting, the main internationalisation activity for SMEs (e.g. Ruzzier & Konečnik, 2006; Tan, Brewer & Liesch, 2018), brings numerous benefits: higher turnover, higher profits, increased market share, innovation and increased brand awareness (Abel-Koch et al., 2018). However, exporting incurs additional risks and costs and requires time, resources and extra planning (Narayanan, 2015). These may constitute significant barriers to exporting, as SMEs face considerable resource constraints and need to focus on those activities that are most important for firm growth. The 2016 Brexit political decision and the 2019 Covid-19 pandemic have added additional uncertainties and as a result UK SMEs have experienced a decline in exports, and some SMEs even ceased to export, as our research shows.

Nationally, in 2020 exports by SMEs accounted for just 32% of the UK's overall exports in 2018, down from more than 50% in 2008 and 2009 (British Business Bank, 2020). Moreover, in 2021 the Confederation of British Industry's (CBI) quarterly SME trends survey confirmed that export optimism again deteriorated, albeit at a slower pace than in previous quarters, to -10% from -24% (CBI, 2021). This is showing that Brexit and Covid-19 have had a significant effect on SME internationalisation. Supporting SMEs to increase exports and getting the 'dormant' exporters to export would contribute greatly to the economy (Brown, Kalafsky, Mawson and Davies, 2020).

SMEs can, with appropriate support, overcome uncertainties created by the external environment, deal with various barriers to exporting (Abel-Koch et al., 2018) and not only maintain but importantly also increase export activity (Stawiarska, 2021). UK SMEs have national, regional and local support mechanisms available to call upon when export advice is needed or access to networks and introduction to feasible partners is sought after. Kent SMEs are in this regard no different, however, it is unclear whether the present support available is effective in helping Kent SMEs overcome the barriers to exporting. The next section of this report examines the export activity of Kent SMEs, followed by an assessment of the support available for exporting SMEs, in terms of awareness, use and effectiveness.

Export activity of Kent SMEs

General picture: The impact of Covid-19 and Brexit

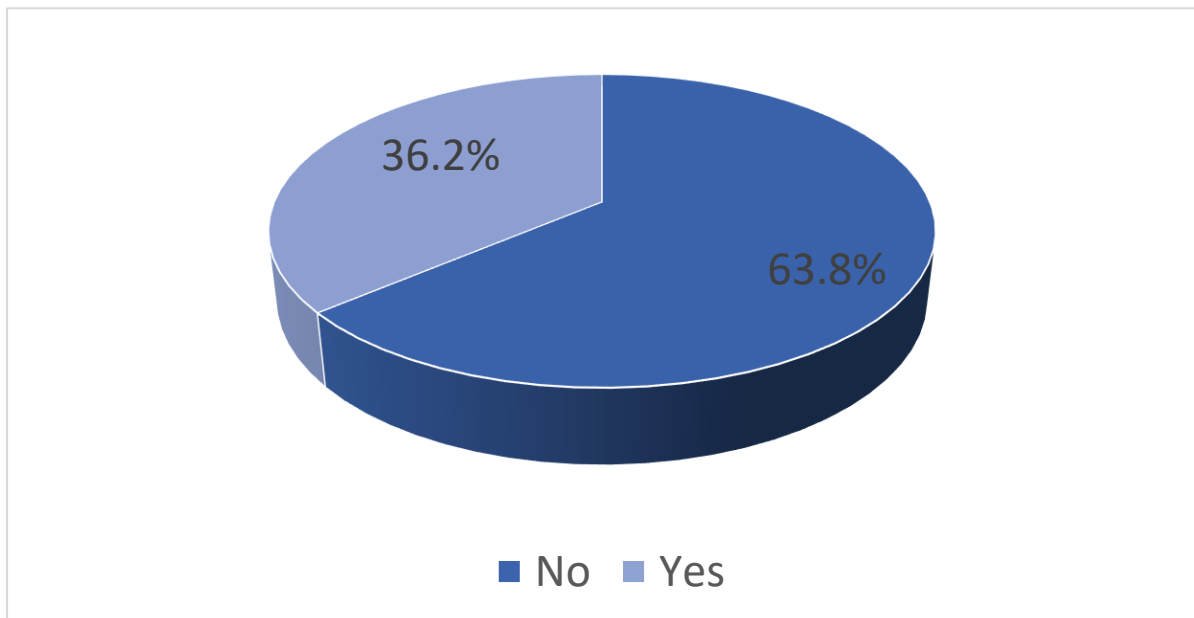
The first objective of the report (RO1) is to assess the current state of export activity within Kent SMEs. This section therefore looks at the SME export activity in the UK and Kent given the impact of Brexit

and Covid-19. Secondly, it investigates the barriers and challenges to internationalisation and finally it ascertains the current value and benefits of international trade activity to the Kent economy.

Current exporters

The results of our study confirm that just over a third of the SMEs included in our sample export, comparable with the findings of the 2017 report (Figure 1). For most SMEs exports contribute to less than 30% of their turnover, with almost a third of respondents noting that the contribution of exports does not exceed 10% (Figure 2). This is again in line with the 2017 report.

Figure 1 Does your company export?



Source: Authors' calculations.

The export economic activity is also unequally distributed across economic sectors. As it can be seen from Table 6, economic sectors such as Finance and Insurance, Transport and Storage, Production and Information and Communication tend to have a majority or close to a majority of exporting firms while others such as motor trades, accommodation and food services, health and construction tend to have no exporters or very limited number of firms exporting. In light of Kent's economic activity structure (seen in Table 3) this creates a challenge for organisations fostering exporting activity as only a small number of firms would be in a position to start and develop considerable exporting activities.

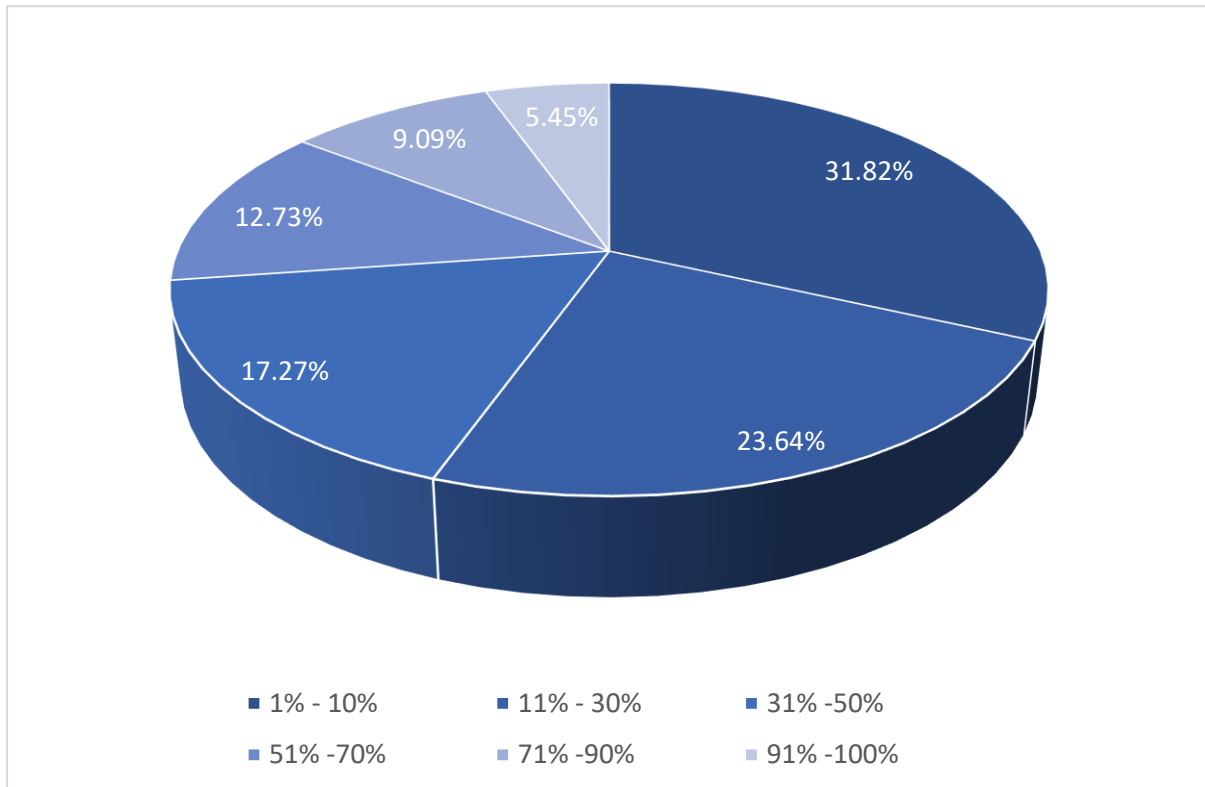
Table 6. Proportion of exporters by economic activity

Economic Activity	Proportion of exporters
SIC07: 01-03: Agriculture, forestry & fishing	33.33%
SIC07: 05-39: Production	71.93%
SIC07: 41-43: Construction	8.11%
SIC07: 45: Motor trades	0.00%
SIC07: 46: Wholesale	50.00%
SIC07: 47: Retail	38.46%
SIC07: 49-53: Transport & storage (inc. postal)	66.67%
SIC07: 55-56: Accommodation & food services	0.00%
SIC07: 58-63: Information & communication	45.83%
SIC07: 64-66: Finance & insurance	80.00%
SIC07: 68: Property	16.67%
SIC07: 69-75: Professional, scientific & technical	25.45%
SIC07: 77-82: Business administration & support services	37.78%
SIC07: 85: Education	25.00%
SIC07: 86-88: Health	5.56%
SIC07: 90-99: Arts, entertainment, recreation & other	28.57%

Source: Authors' calculations.

However, in contrast to 2017, the percentage of SMEs for which exports contribute to 50% or more of their turnover has fallen substantially from 36% to 14%. Moreover, only 5% of respondents state 90% dependence of exports or higher, compared to 10% in 2017 (Figure 2). This suggests that the export intensity of export-oriented SMEs has been affected considerably by Brexit and Covid-19 and specific support is needed to address this impact. In other words, export-oriented SMEs have been affected more by Brexit than SMEs that rely less on exporting for their turnover. A similar trend has been observed in another study by Brown, Kalafsky, Mawson and Davies (2020) in Scotland.

Figure 2 Exports as a proportion of turnover

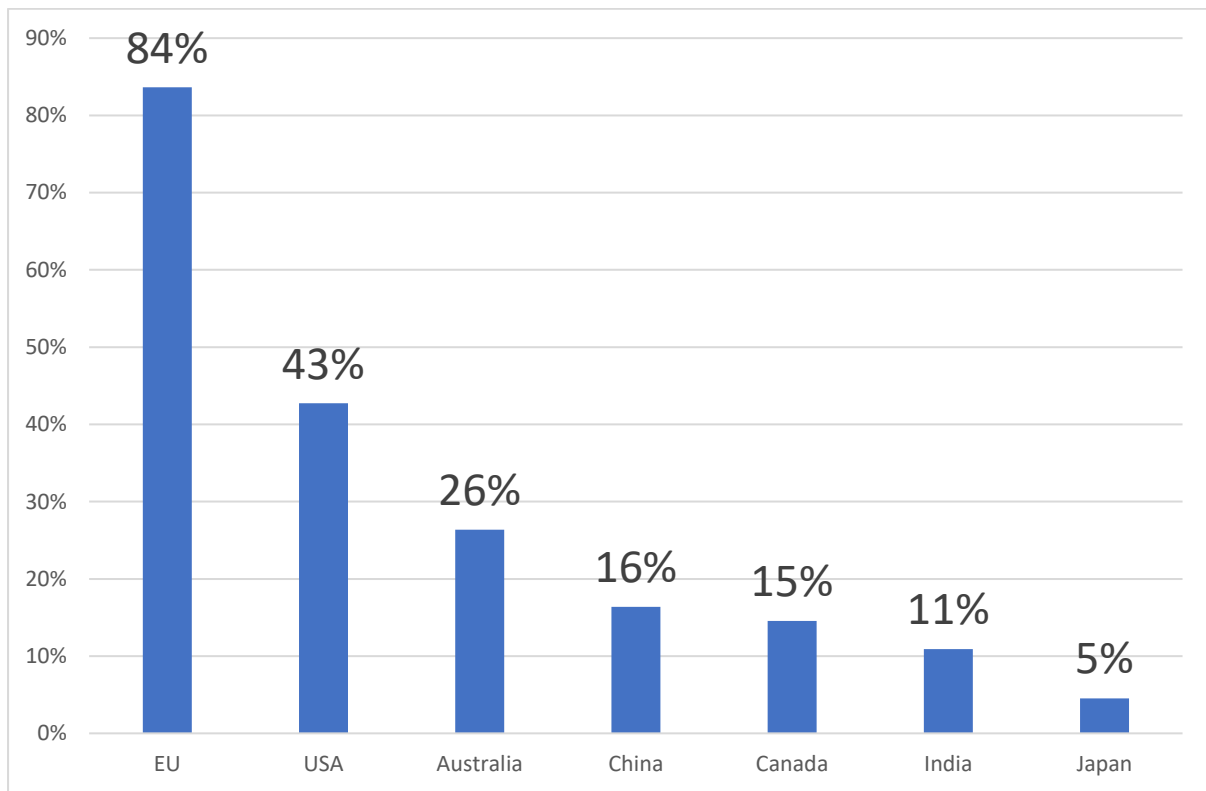


Source: Authors' calculations.

Key markets

The main export markets for SMEs are the European Union, followed by the US and Australia. It is noteworthy that the importance of the EU is comparable with the data for 2017, as 84% of respondents consider it a main export market (Figure 3). Despite the increased bureaucracy, costs and uncertainty brought by Brexit, the EU market continues to appeal to exporting SMEs. Finding new markets is a time and cost intensive process, hence maintaining a trading relationship with the EU is important, especially given the market size, market potential and geographical proximity of the EU. Historical ties and the commonality of language between the UK and the target markets may explain the importance of the US, Australia and Canada as export markets for Kent SMEs. China and India, large promising emerging economies, are key markets for 16% and 11% of respondents respectively (Figure 3).

Figure 3 Key markets (proportion of exporters)



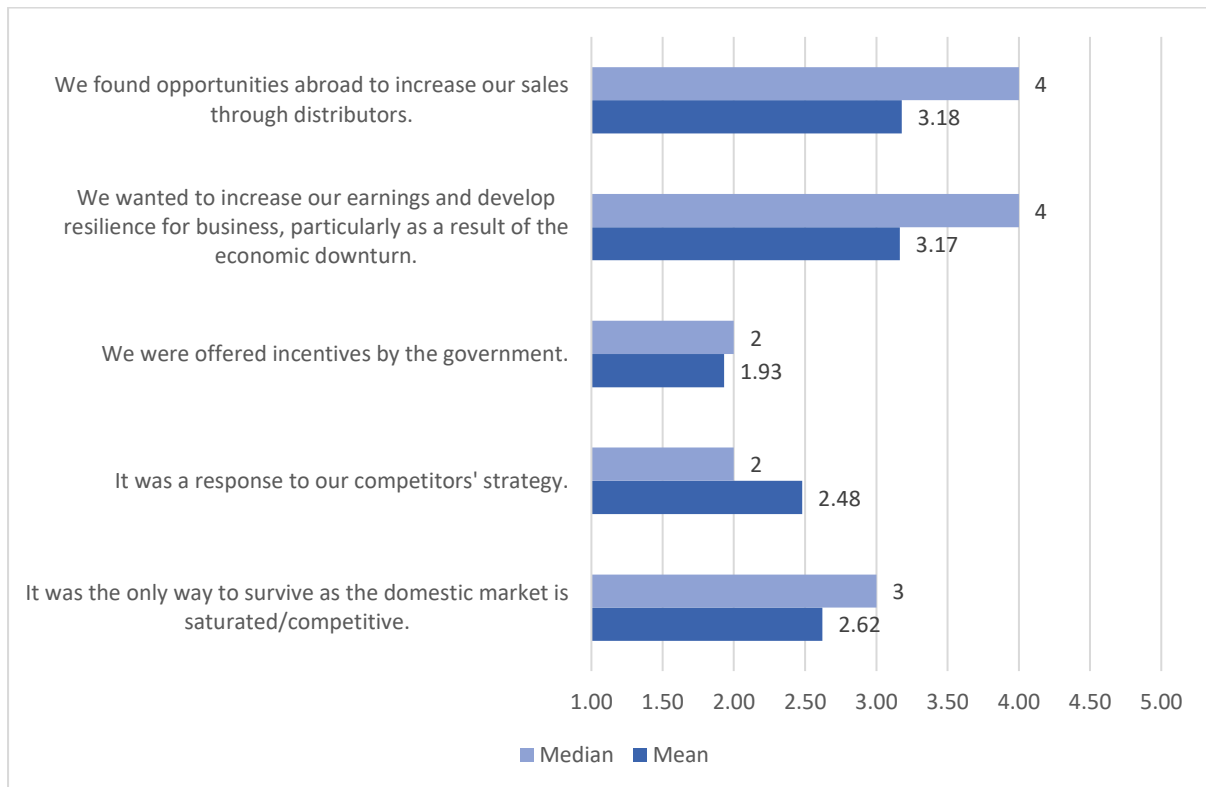
Source: Authors' calculations.

Reasons for internationalisation

When asked to evaluate the reasons that have led SMEs to internationalise in the first place, the most important factor was the existence of opportunities to increase sales through distributors. This indicates that exporting is a strategic decision. However, unlike in 2017, the second most important reason for SMEs internationalisation is to increase earnings and build resilience, particularly during periods of downturn. This suggests flexibility of SMEs that use exporting as a strategy to cope with the uncertainty created by Brexit and Covid-19. Figure 4 shows the factors that have contributed to the SMEs decision to export. The third reason for deciding to export appears to be reactive, as firms export to survive, when the home market is saturated. Interestingly, incentives offered by the government do not seem to significantly affect the decision to export.

Figure 4 Why did you start to export your products/services?

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)

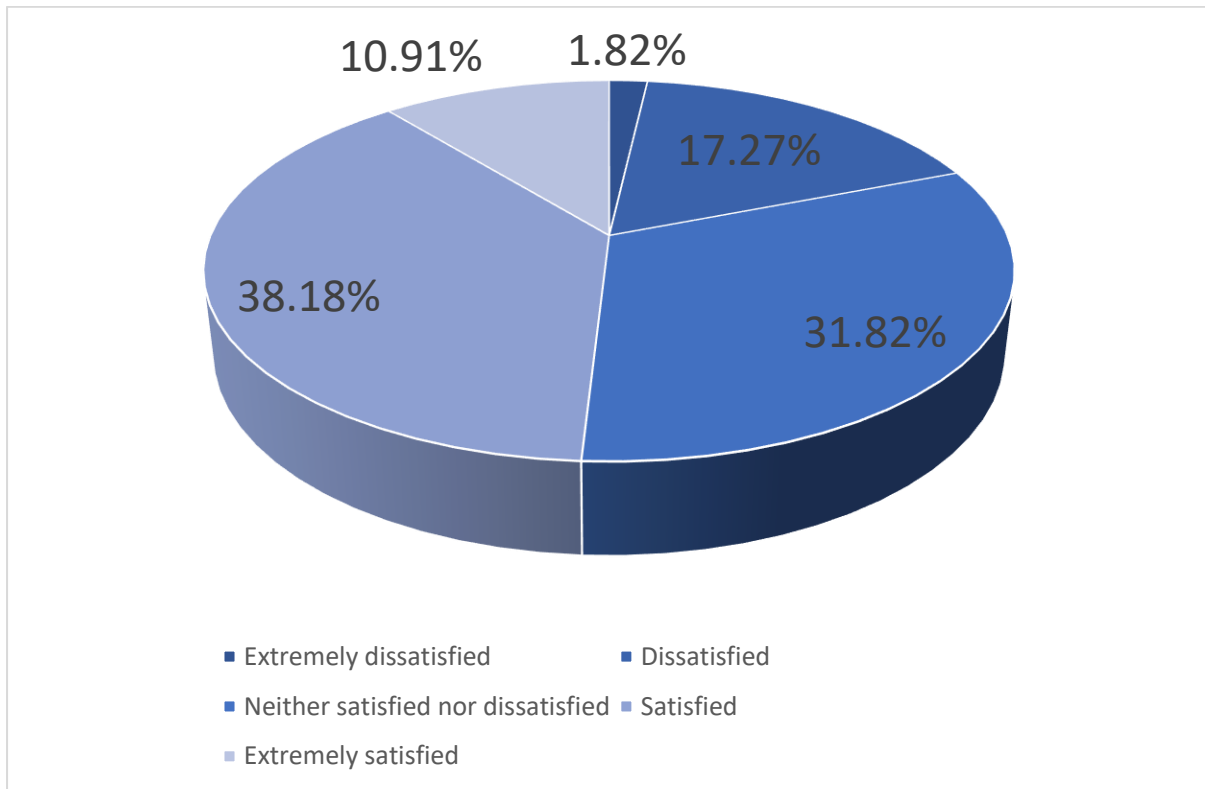


Source: Authors' calculations.

Self-evaluation of export activity

As it can be seen in Figure 5 only 50% of the respondents have a positive perception of the export activity of their firm, compared to the 68% who in 2017 were extremely satisfied or satisfied with their firm's exports. This significant drop suggests that Brexit and Covid-19 have affected considerably export activity of SMEs in Kent. Hence, there is a need for support that is tailored to the different types of SMEs. Moreover, Figure 5 shows that 18% of respondents are dissatisfied or extremely dissatisfied with their export activity. This suggests that there is a significant need for support that is aimed at addressing the barriers and challenges to exporting and increases export activity.

Figure 5 How satisfied are you with your exports?

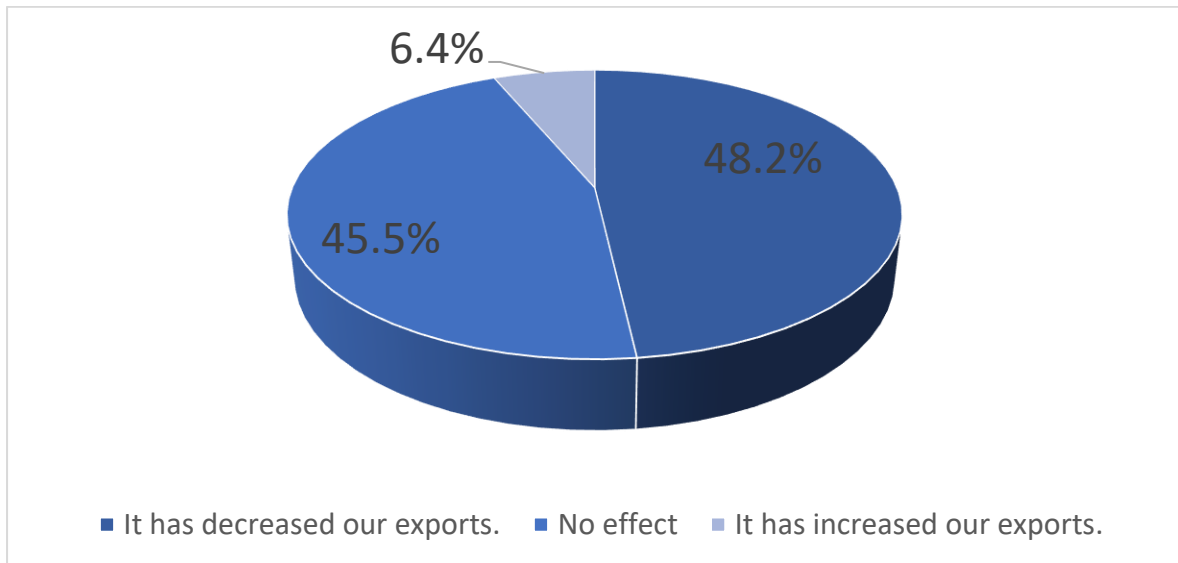


Source: Authors' calculations.

The impact of Brexit on SME exports

Our study seeks to explore the impact of Brexit and Covid-19 on SMEs internationalisation. According to our survey, Brexit has considerably affected the export level of SMEs. For almost half of respondents, Brexit has decreased exports (Figure 6). Amongst these SMEs, more than a third experienced a fall in exports of up to 20% and almost a third saw exports fall by between 21-40%. Only 10% of respondents saw a fall in exports of between 61-80%, suggesting that firms maintained good levels of exports since 2020 (Figure 7).

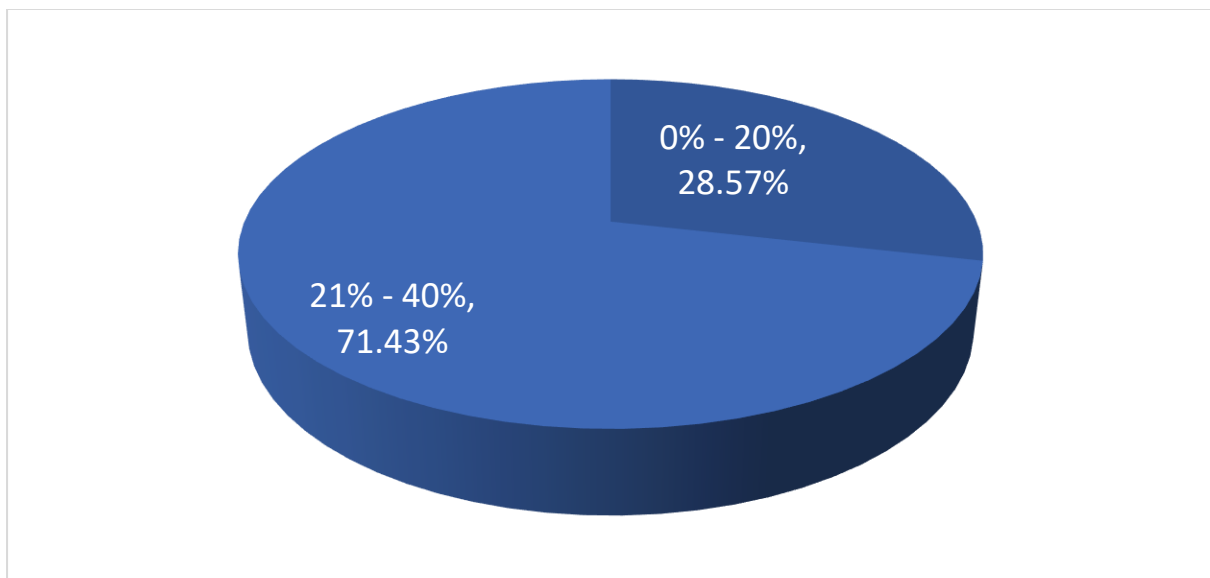
Figure 6 The effect of Brexit on exports



Source: Authors' calculations.

Interestingly, for 6% of SMEs Brexit has led to an increase in exports, perhaps as a strategy to build resilience and decrease the reliance on the home market only (Figure 6). For one third of these 6% of SMEs the export activity has increased up to 20%. For the remaining exporting SMEs, the export activity increased up to 40% (Figure 7).

Figure 7 Brexit related increase in exports

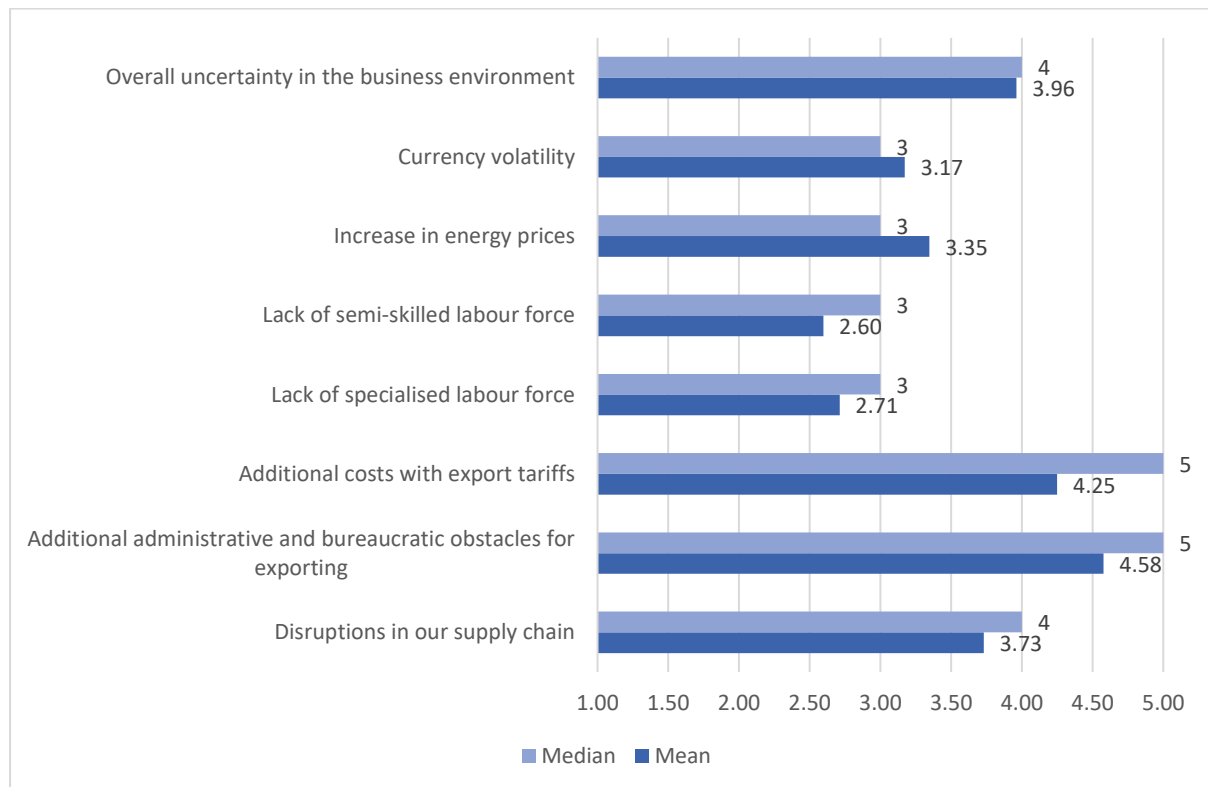


Source: Authors' calculations.

Our respondents have ranked as the most important reasons for the fall in exports related to Brexit the additional administrative and bureaucratic obstacles for exporting, additional costs with export tariffs, followed by the overall uncertainty in the business environment and disruptions in the supply chain. The least important factors leading to a decrease in exports associated with Brexit were the lack of labour force, skilled or unskilled (Figure 8). This finding is in line with other studies as indeed Brexit has created additional red tape for exporters (Meakin, Burden & Hipwell, 2021), who now need to fill in phyto-sanitary certificates, register for VAT in each of the European target market. Moreover, for goods that do not meet the rule of original requirements for trading with the EU, export tariffs apply, increasing the costs of exporting (Meakin, Burden & Hipwell, 2021). Research also shows that, despite the free trade agreement between the UK and the EU, since 31st January 2020 many SMEs have paid export tariffs when exporting to the EU, due to their lack of knowledge of how to fill in the customs declaration forms (British Chamber of Commerce, 2021). Uncertainty in the business environment is still a factor leading to a fall in exports, but its importance is likely to decrease as firms ‘learn by doing’ and the plan for 2022 is to clarify and improve UK’s new trade relationship with the EU (British Chamber of Commerce, 2021).

Figure 8 Brexit has led to a decrease in our exports due to:

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)

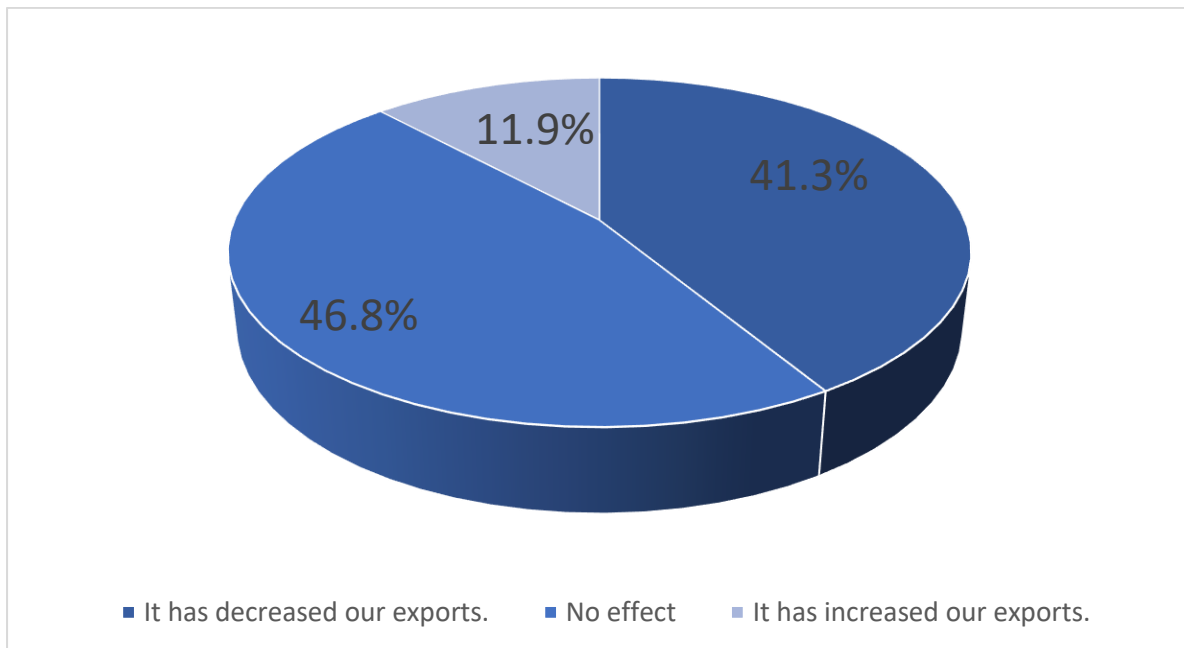


Source: Authors’ calculations.

The impact of Covid-19 on SME exports

Whilst the impact of Brexit on SMEs exports may take more time to materialise and address, the negative impact of Covid-19 on SMEs exports has been relatively smaller and related to different factors. 41% of respondents reported a fall in exports compared to 48% that experienced decreased exports due to Brexit. Moreover, almost half of the firms (45%) registered a fall in exports of up to 20% due to Covid-19 (Figure 9), compared to a third (38%) that experienced lower exports as a result of Brexit (Figure 6). This suggests that Covid-19 has had a lower level at an individual firm level but has affected more companies, those whose export markets are in the EU, but also further afield (the USA, Canada, Australia, India, China). This is consistent with the fact that many SMEs export to other countries than the EU and that Covid-19 affects all aspects of business for all businesses, including exporting.

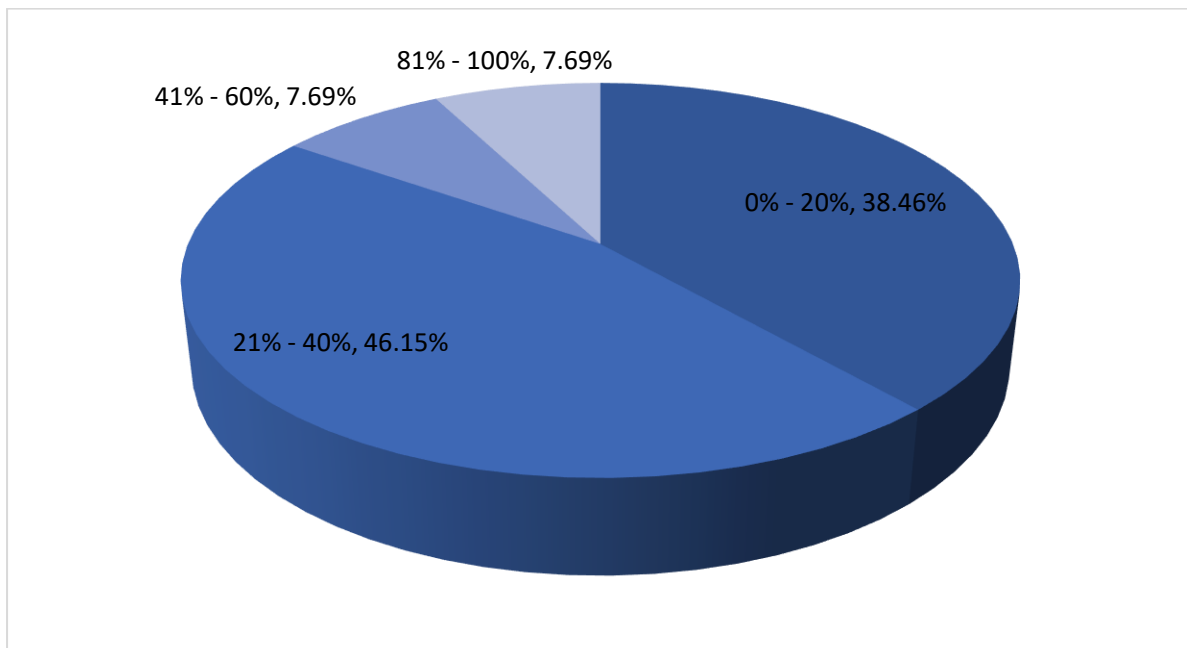
Figure 9 The effect of Covid-19 on exports



Source: Authors' calculations.

Interestingly, more SMEs started exporting as a result of Covid-19 than of Brexit (11%, compared to 6%). A third of these respondents have increased exports since Covid-19 by under 20%, while almost a half experienced an increase in exports between 21 and 40% (Figure 10).

Figure 10 Increase in exports related to Covid-19



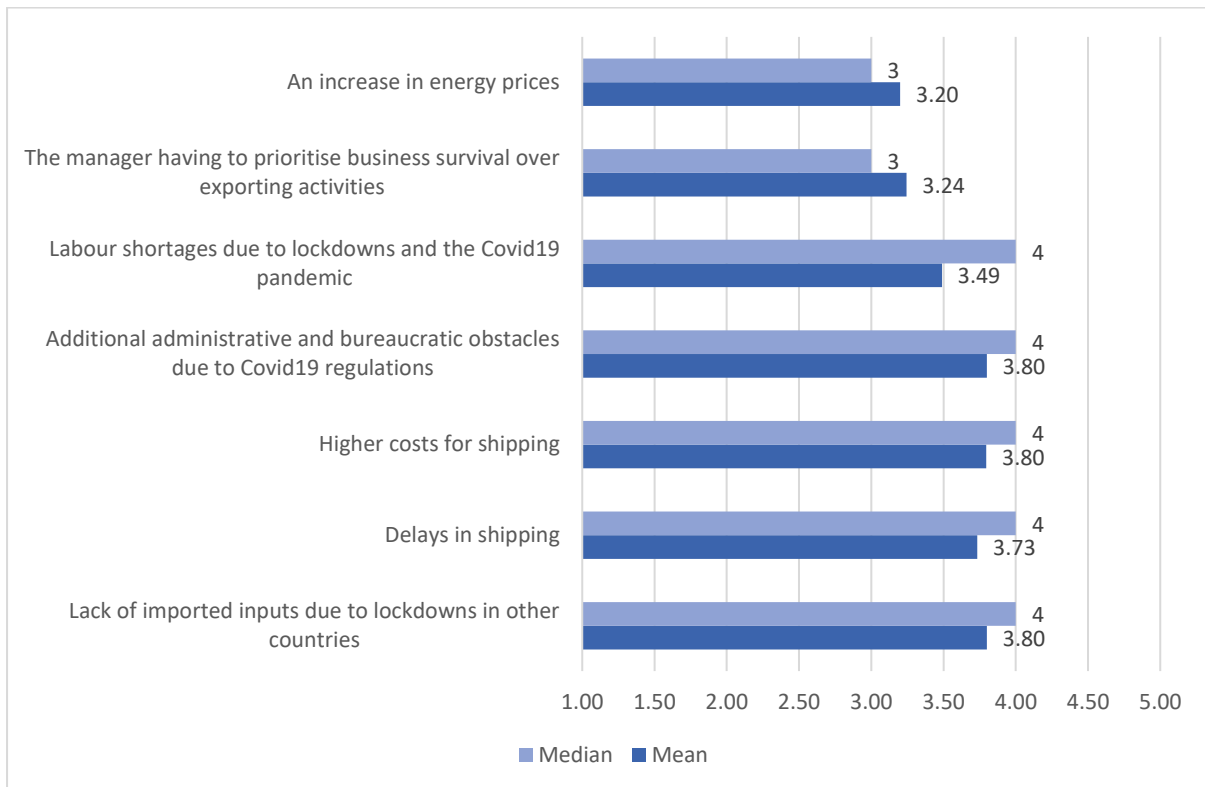
Source: Authors' calculations.

This shows that some SMEs have utilised exports as a strategy to build resilience during Covid-19 and have leveraged Covid-19 as an opportunity for the firm to increase its export activity. Indeed, a 2020 survey by Bartik et al. (2020) shows that over 71% of small businesses indicate their firm has the opportunity to emerge better and stronger after COVID-19.

When asked about the factors that have led to a fall in exports since Covid-19 (Figure 11), our respondents considered as the most important: additional administrative and bureaucratic delays due to Covid-19, higher costs of shipping and lack of imported goods due to lockdowns in other countries, followed by delays in shipping and labour shortages due to lockdowns. These appear to be short term factors that may lose salience once the vaccination programmes across the world progress. However, with new strains of Covid-19 emerging, with reluctance to vaccinate in several countries and uneven access to vaccine across economies, it is difficult to estimate how long these barriers will continue to affect SMEs internationalisation.

Figure 11 Since 2020 the Covid-19 pandemic has led to a decrease in our exports due to:

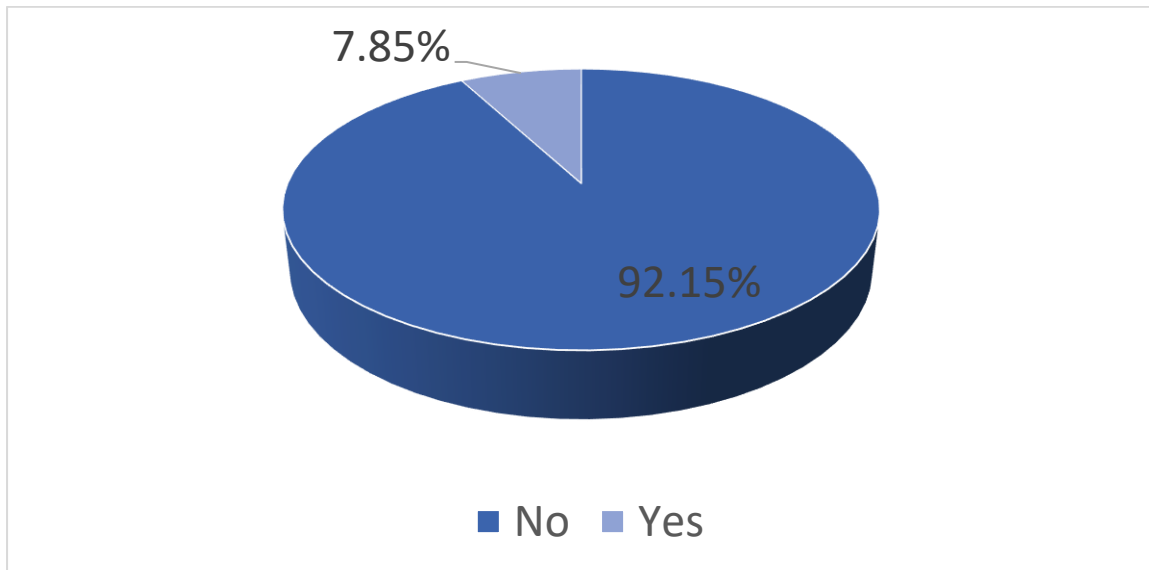
(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)



Source: Authors' calculations.

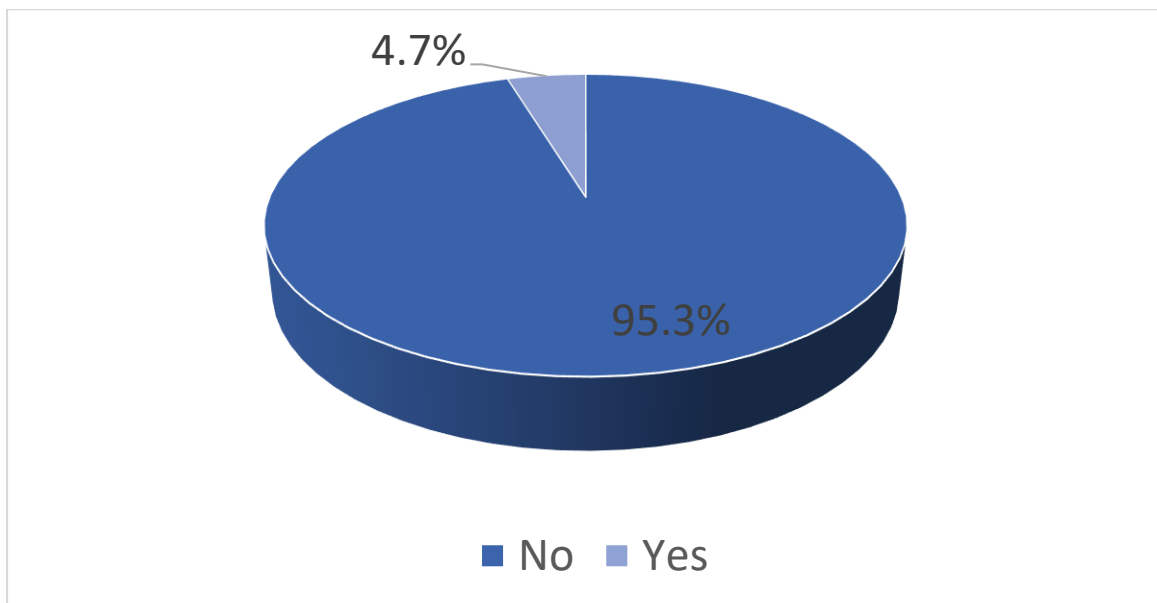
Finally, a small percentage of firms (8%) have stopped exporting since Brexit (Figure 12) and a smaller percentage (4%) have stopped exporting since Covid-19 (Figure 13). These firms appear to have faced insurmountable barriers and resource constraints due to the uncertainty associated with Brexit and Covid-19 respectively, and will need bespoke support, should they aim to start exporting again. We discuss these barriers the following section.

Figure 12 Have you stopped exporting since Brexit?



Source: Authors' calculations.

Figure 13 Have you stopped exporting since the beginning of the pandemic?



Source: Authors' calculations.

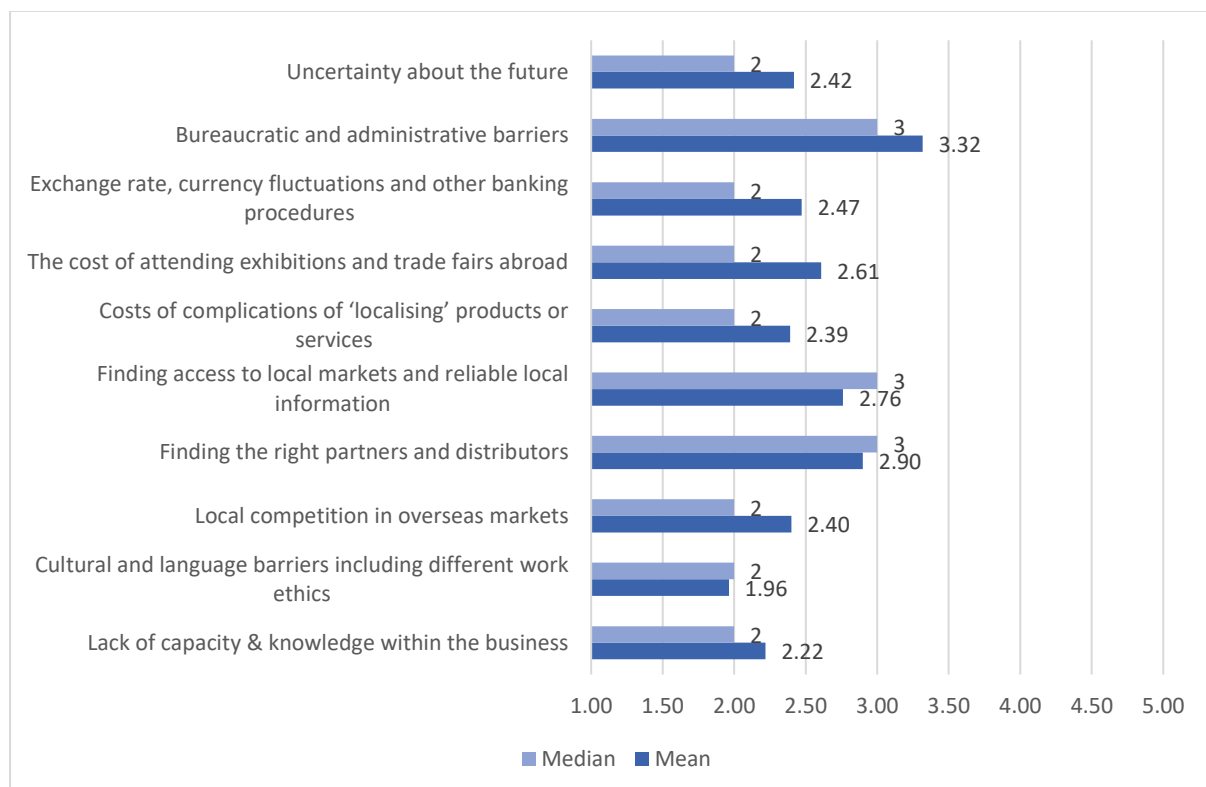
Barriers and challenges to internationalisation

Our study also seeks to explore the barriers for SME internationalisation. According to our survey the most important barriers that SMEs face when deciding to export include bureaucratic and administrative delays, finding the right partners and distributors, finding access to local markets and reliable local information, as well as the cost of attending exhibitions and trade fairs abroad (Figure

14). On the other hand, lack of capacity and knowledge within the business or cultural and language barriers including different work ethics appear to pose the least challenges to SMEs when deciding to export. Our findings resonate a British Chamber of Commerce’s survey of 465 firms, out of which about 95% were small businesses, which state that about half of U.K. exporters are experiencing difficulties, mainly in the form of extra documentation, higher costs, and delays to shipments (Mayes, 2021).

Figure 14 To what extent do the following barriers influence your decision on exporting?

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)



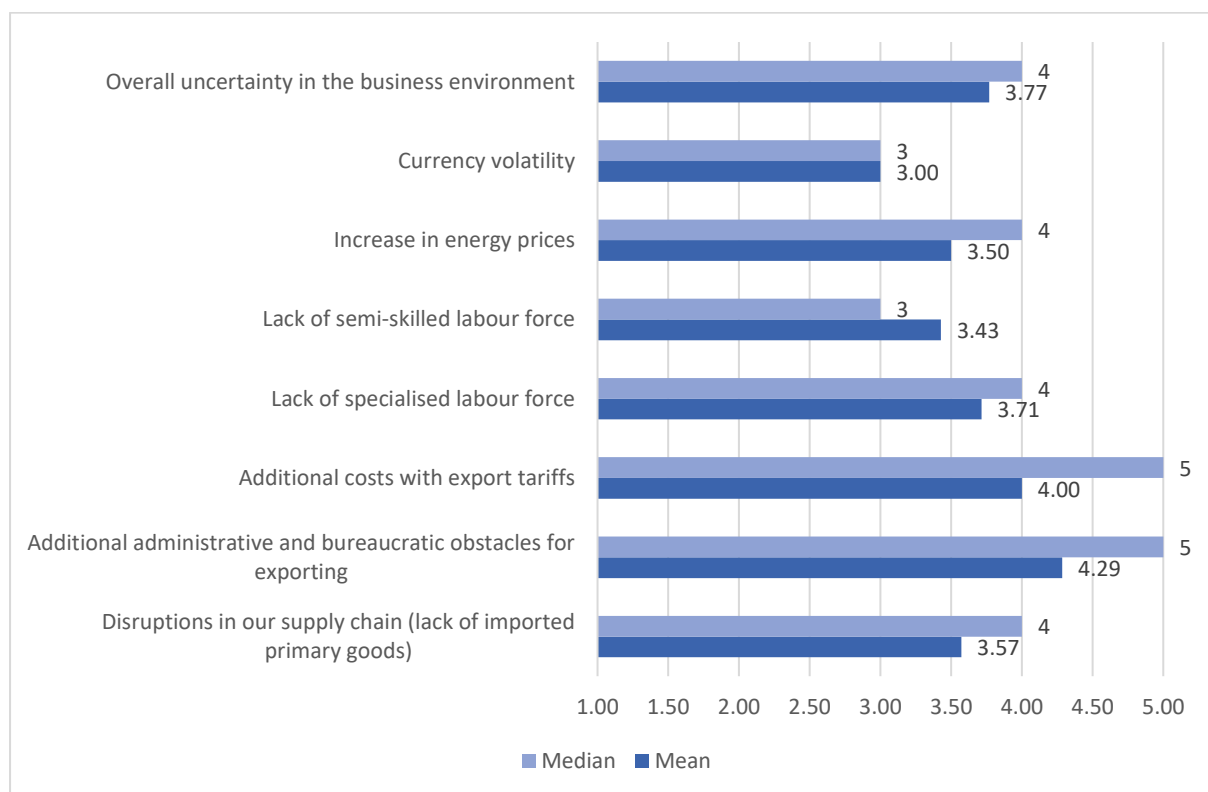
Source: Authors’ calculations.

Our survey also asked respondents the reasons why the SMEs have stopped exporting since Brexit and Covid-19 respectively. These answers offer interesting insights. The most important barriers leading to the decision to stop exporting since Brexit include (Figure 15): additional administrative and bureaucratic obstacles for exporting as well as additional costs with export tariffs. Also, very important were the overall uncertainty in the business environment and the lack of availability of specialised workforce. The latter two factors differ from the main barriers to exporting. SMEs unable to navigate the uncertainty and lacking human capital appear to have been substantially affected by Brexit, as they have lost entirely the benefits of exporting by deciding to stop. The lack of specialised workforce

may be related to the UK leaving the Single European Market and no longer being able to benefit from the freedom of movement of labour associated with EU membership. Labour is a key factor production for SMEs and addressing the shortage of skilled labour needs to be a key priority of policy makers. The British Chamber of Commerce have in their 2021 report provided a recommendation on the introduction of short-term visas policy for up to two years to deal with the current challenges of labour and skills shortages.

Figure 15 Thinking about the impact of the Brexit specifically, to what extent have the following barriers influenced your decision to stop exporting?

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)



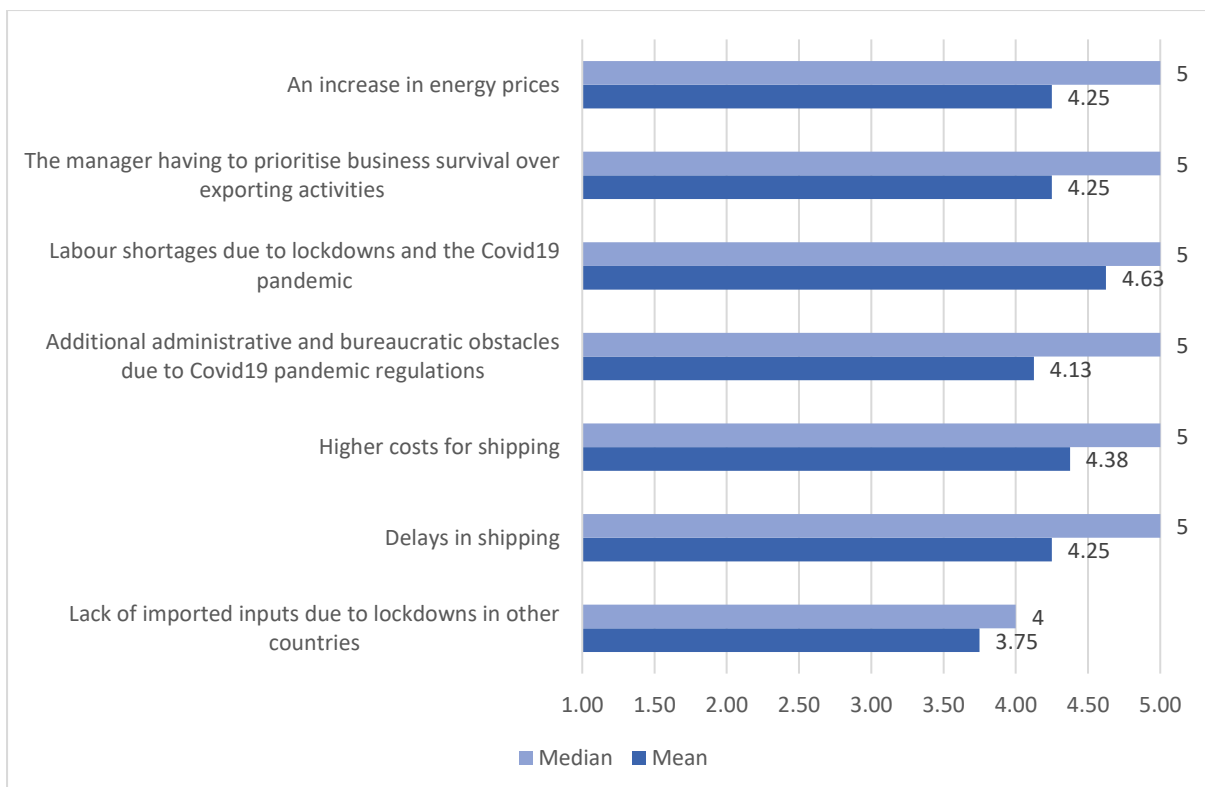
Source: Authors' calculations.

We further explored the reasons why SMEs have stopped exporting since Covid-19. Labour shortages as a result of lockdown and the pandemic, higher costs of shipping, increases in energy prices, delays in shipping as well as the manager having to prioritise the survival of the business have been ranked as the most important reasons for SMEs to stop exporting since Covid-19 (Figure 16). It is important to note that our respondents have considered these factors almost as equally important as each other. This contrasts with the reasons to stop exporting due to Brexit, where the two most salient factors were visibly more important than the following two. Whilst labour shortages because of the pandemic

and lockdowns may not be a significant barrier in the future as the vaccination programme progresses in the UK, the impact of the higher costs of energy and shipping may continue to affect the decision of SMEs not to export in the future. Increased costs put pressure on the financial resources of SMEs and managers need to prioritise their spending. The British Chamber of Commerce has already called for a deepened VAT cooperation and the adoption of common regulatory approaches to manage the cross-border VAT red tape and thus high exporting costs to SMEs (British Chamber of Commerce Report, 2021). By stopping exporting, SMEs are forgoing numerous advantages, such as increased revenues from larger markets. It is also interesting that survival of the firm features as a reason both to stop exporting, for some firms, but also as a reason to start exporting, for other firms. We suggest that former exporting experience and exporting intensity, technological agility of the firm, access to networks will be some of the factors determining why stopping or initiating exporting can be seen as the feasible survival strategy for an SME.

Figure 16 Thinking about the impact of the Covid-19 pandemic specifically, to what extent have the following barriers influenced your decision to stop exporting?

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)



Source: Authors' calculations.

Current value and benefits of international trade activity

Current value and benefits of international trade activity

Kent is part of the Southeast region which has had the highest value of exports in goods in 2019 with 13% of the total value of UK goods exports, albeit this being a decrease in the value of goods exported compared to 2018 (UK Trade in Numbers, 2021). By using data from our survey, we can infer those exports represent approximately 38% of the turnover of firms that engage in exporting activity (on the basis of a weighted average) and over 10% of the overall economic activity in the region.

Effectiveness of current business support for internationalisation

The relevance of the main internationalisation support policies

Another objective of this report (RO2) is to assess the effectiveness of the current business support for SMEs internationalisation with the view of improving the support available and implicitly the export activity.

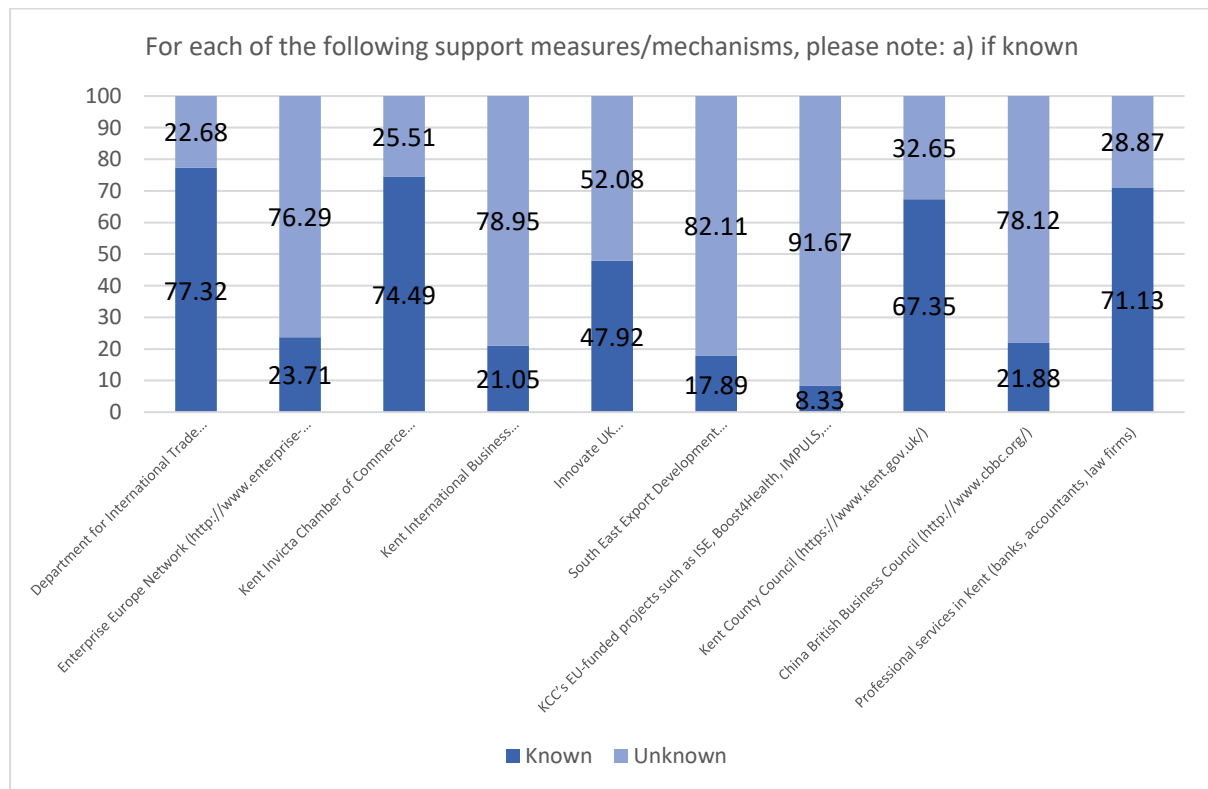
Awareness

Given the aforementioned research objective, we first explored the level of awareness of our respondents regarding the different types of existing support (Figure 17). The most known sources of support, perhaps unsurprisingly, are the Department for International Trade, followed closely by Kent Invicta Chamber of Commerce, as stated by around three quarters of our respondents. The Department for International Trade governs foreign trade at national level whilst the Kent Invicta Chamber of Commerce offers support to businesses at local level. The third most important support comes from professional services in Kent such as banks, accountants, law firms. These offer crucial support with the day-to-day running of businesses. Two thirds of respondents were aware of the Kent County Council and almost a half showed awareness of Innovate UK. The least known sources of support are the EU funded projects such as ISE, Boost4Health, IMPULS, SIE, which are industry specific.

It is important to note that respondents were not aware of sources of support which are specifically designed to help SMEs boost exports, such as Kent International Business, Enterprise Europe Network and Southeast Export Development. By accessing this support, SMEs may be able to address some of the barriers to exporting whilst harnessing some of the enablers of exporting. For example, Enterprise Europe Network offers access to potential distributors and other partners in the EU and support for

business innovation. Moreover, Kent International Business offers advice of how to navigate the administrative and bureaucratic obstacles encountered when exporting, thus addressing the top barrier mentioned by our respondents. The Southeast Export Development (SEED) helps SMEs from East Sussex, Kent & Medway, Essex and South Essex to get into overseas markets, currently focusing on helping companies to make new virtual connections overseas.

Figure 17 Support mechanisms - Awareness

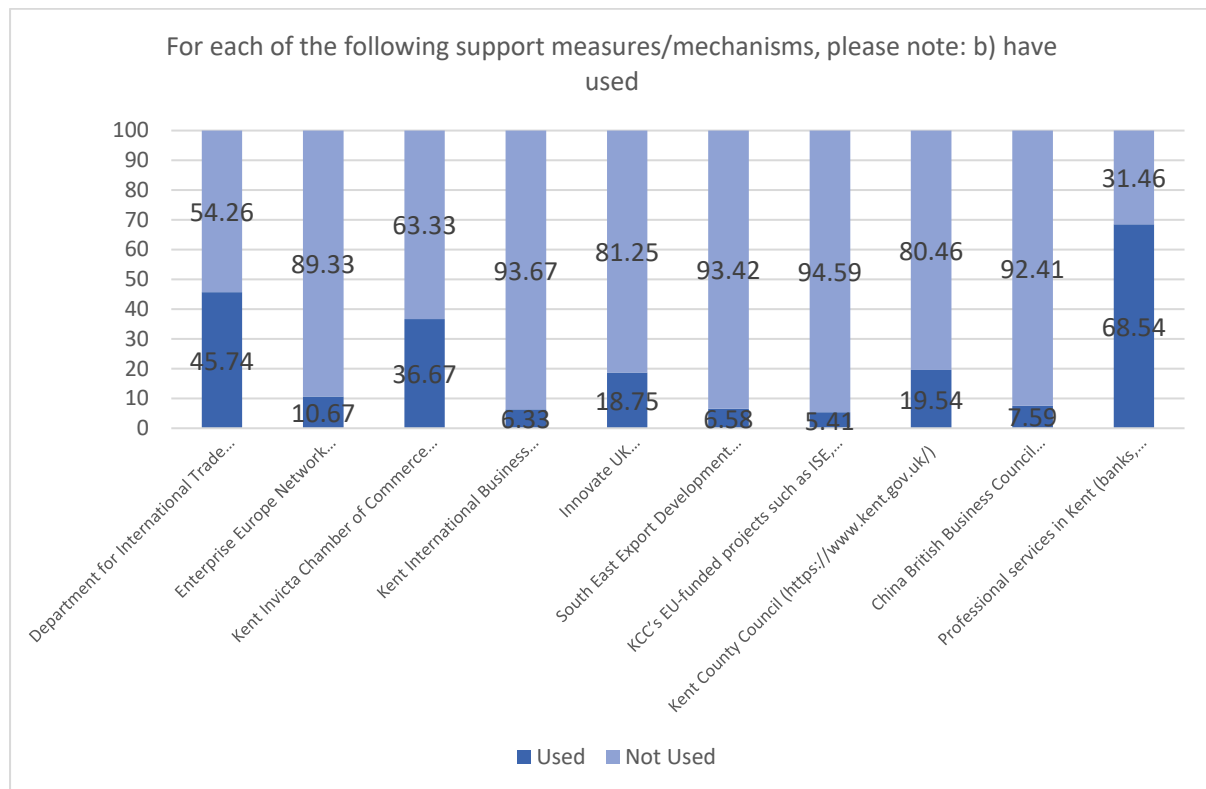


Source: Authors' calculations.

Use

Regarding the use of the support available, the picture is very different (Figure 18). Most SMEs (69%) appear to rely on professional services in Kent such as banks, accountants, law firms for the day-to-day running of the business. However, despite a high level of awareness, the support provided by the Department for International Trade and the Kent Invicta Chamber of Commerce is accessed by fewer respondents than the support offered by professional services. Almost half have used the support by the Department for International Trade and slightly over a third of respondents have accessed the support by the Kent Invicta Chamber of Commerce. Other services such as Innovate UK and the Kent County Council have been used by around 20% of SMEs each, whilst Enterprise Europe Network has been accessed by 10% of respondents (Figure 18).

Figure 18 Support mechanisms - Use



Source: Authors' calculations.

Strikingly, the least use was noted for the support by Kent International Business (signposting service), Southeast Export Development (SEED – launched in June 2021 with support programme commencing in November 2021) and KCC's EU funded projects such as ISE (closed December 2020), Boost4Health (Life Science Sector), IMPULS (Life Science Sector support launched in June 2021), SIE (a small 'Export Manager Voucher Scheme' pilot ran in 2020 and helped 8 Kent-based SMEs), with fewer than 10% of respondents accessing each type of this support. This support is aimed specifically at boosting SMEs exports, and the combination of both the lack of awareness of this tailored support and the small use by those who are aware signals a missed opportunity for SMEs and those organisations. Perhaps increasing the proactive approach by these organisations and reaching out to SMEs individually rather than expecting SMEs to make the first call would lead to both increased awareness and better utilisation of the internationalisation advice and support available.

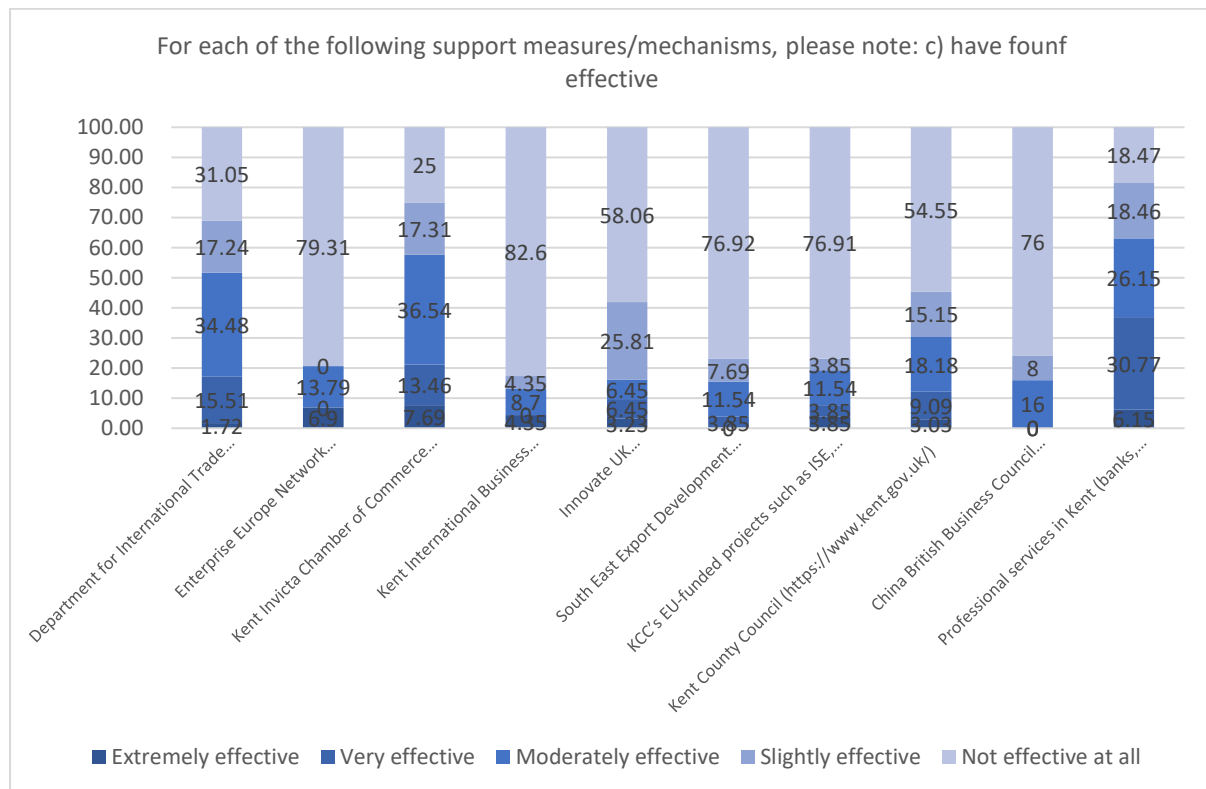
Effectiveness

When asked about the effectiveness of the support available (Figure 19), over a third of respondents considered the support by professional services in Kent as extremely or very effective. This is not

surprising, as banks, accounting firms and law firms develop long standing relationships with the SMEs managers and offer bespoke services. In contrast, a third of respondents categorised the support by the Department for International Trade and the support by Kent Invicta Chamber of Commerce (respectively) as moderately effective. This may reflect the general nature of the support provided by these two organisations. Overall, more than half of respondents considered the top three sources of support - professional services in Kent, the Department for International Trade, and the Kent Invicta Chamber of Commerce as moderately effective or more. This finding is consistent with the high levels of awareness and use of these support providers. However, there appears to be room for improvement among the organisations specifically advising on international trade opportunities, in particular to drive more ambitious growth, offer solution driven services and introduce SMEs to partner networks. Professional services firms are not able to provide this support, but ultimately Kent SMEs seek to maintain or increase exporting activity.

The above rationale of clearly differentiating the value-added element of the international trade specific support mechanisms is further substantiated by another striking result whereby around 80% of the respondents considered the advice of the Kent International Business ineffective, with a similar perception regarding Europe Enterprise Network. As a note of caution, it may be that the respondents who have not used these services are categorising them as ineffective, based on perception only, rather than experience, especially given that the Kent County Council KIB team only deals with a handful of general SME enquiries each year with most contacts being made about specific support organisations, programmes or projects. These organisations have a bespoke offering that is aimed at boosting SMEs exports, so it is crucial that they address this potential misperception by aligning their services better with the needs of SMEs. Also, many SMEs included in the survey appear to target markets other than the EU, so they would not be able to benefit from the UK's possible future involvement in Europe Enterprise Network. Similar networks with other potential markets could be set up by the embassies in these countries in collaboration with local chambers of commerce.

Figure 19 Support mechanisms - Effectiveness



Source: Authors' calculations.

Gaps in the internationalisation support

To ascertain whether there are gaps in the internationalisation support for Kent exporting SMEs we have compared the survey findings with an audit of the support available at national, local and professional level. We have included in our audit the support offered by the Department of International Trade, the Kent Invicta Chamber of Commerce, Kent International Business.

Our analysis suggests that, overall, the support available in Kent for exporting SMEs matches the requirements of SMEs in terms of enablers of exporting, as well as in terms of support needed to address the challenges and barriers of exporting. Indeed, the support available appears to fulfil Czinkota's (2002) criteria for a complete set of internationalisation support types: transfers of informational and experiential knowledge to increase firm competence (e.g. seminars, consulting and exhibitions abroad); advice on and support with direct or indirect subsidisation of export activities; finally, advice on reducing red tape and easing of legal constraints.

The issue thus does not seem to be the availability of the relevant support, but more its perceived value and actual effectiveness. As such, a tailored relationship-based support and advice that speaks

to the specific needs of each SME, given its internationalisation stage and export intensity, is what support providers need to focus on.

The needs of SMEs at different stages of their internationalisation stages change. An early-stage internationalising SME will have very different support needs to one already at a later stage of internationalisation life that wishes to further intensify its presence. Research on internationalisation of SMEs has long ago confirmed that experiential learning and commitment building drives the internationalisation process (e.g. Dominguez and Mayrhofer, 2017). For instance, during the internationalisation journey, social networks have more influence in the initial phase of an SMEs international life whereas business networks are more important during later stages. Moreover, SMEs that have stopped exporting due to Brexit or Covid-19 may also require different support than those SMEs that have continued to export despite the uncertainty brought by these two events. Similarly, bespoke support may be needed by SMEs that have seen Covid-19 as an opportunity to start exporting. Finally, SMEs that are export oriented (i.e. exports represent more than 50% of their turnover) may have different support needs than SMEs that engage in exports sporadically, thus also requiring bespoke support mechanisms.

Examples of good practice from internationalisation support services

SMEs have a great need of support services at any internationalisation stage, with some studies affirming that the need for a greater support is at the early stages (Czinkota, 2002; Dominguez and Mayrhofer, 2017). Well-designed support mechanisms can help SMEs to clarify and diagnose their needs and as such get to benefit from a tailor-made advice offered by national and local, private and support available. There are many good examples of internationalisation support available nationally and further afield. For instance, the Kent Invicta Chamber of Commerce offer a multi-sector SME advice on visa relaxation and removal of cabotage as well as SME grants (e.g. Brexit Support Grant) while Innovate UK and Enterprise Europe Network offer innovative virtual trade missions and a hybrid trade fair participation (HOFEX 2021).

The examples offered from France are, however, more in line with the tailored SME support the outcomes of this study also point to. The set-up of 'Team France Export' brings together the expertise of private professionals working in international trade and provides rigorous tailored information on foreign markets, facilitates financial export support, and perhaps uniquely covers 50% of eligible expenses for an SME international support (e.g. business digitalisation costs). Direct financial support

and digital promotion of the Czech SMEs and their products has also been utilised in the Czech Republic.

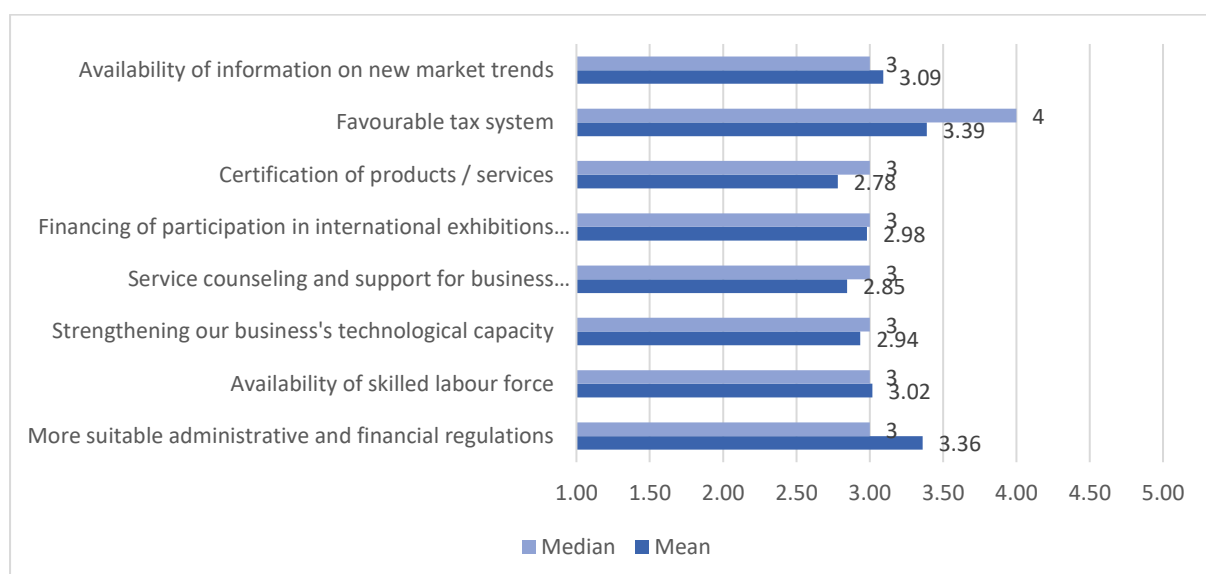
Opportunities to increase internationalisation activity & capacity among Kent SMEs

Key enablers of internationalisation capacity for Kent firms

The third objective of our study is to explore how best to support SMEs in their exporting activity going forward, in a post-Brexit and post Covid-19 business environment. Our survey shows that the most important factor that would help SMEs enhance exports is a favourable tax system (Figure 20). This is consistent with the finding that SMEs consider the high costs associated with exporting an important barrier in their decision to export. Our respondents consider most suitable administrative and financial regulations as the second most important enabler for exporting. This would address the most important barrier to exporting, the bureaucratic and administrative delays, including the additional administrative and bureaucratic obstacles for exporting imposed by Brexit. Thirdly, our respondents would enhance their exports if they had availability of information on new market trends. This could be addressed through participation in fairs and exhibitions but also through access to expertise bespoke to the industry in which the SMEs operate. Indeed, our survey also shows that SMEs would increase their exports if they had access to skilled labour and to financial support for attending fairs and exhibitions.

Figure 20 For each of the following, consider how much it could help enhance your exports:

(1-Strongly disagree, 2-Disagree, 3-Neither agree or disagree, 4- Agree, 5-Strongly agree)



Source: Authors' calculations.

The role digital technologies have in facilitating export activity

Strengthening the business' technological capacity is not considered one of the most important factors that may enhance exports (Figure 20). However, this may mean that managers of SMEs simply underestimate the importance of technology in today's exporting activity. This may be related to a lack of technological capability on the manager's side, thus limiting the potential use of technology in improving exports. Access to digital fairs like the ones offered by Network Enterprise Europe would be a way to address the lack of funding that is a barrier for exporting, and provide the opportunity to find distributors in target markets, which is a significant reason for SMEs starting to export. This approach seems to be working in other European countries such as France or the Czech Republic. Attending digital fairs would also put less pressure on the time of the managers who have been concentrating on the survival of the business since Covid-19. However, access to digital fairs may require a mind-set change from the managers' perspective, and some upskilling in the use of digital technologies may be necessary.

Key international markets for Kent exporting companies in future

Our survey shows that the EU continues to be the main market for SMEs, despite the increased red tape and export tariffs incurred. Moreover, the uncertainty generated by Brexit does not appear to be the most important barrier to exporting and its salience is anticipated to decline as SMEs learn by doing and the relationship between the UK and the EU becomes clearer. Geographical proximity and high market attractiveness matter when trading (Abel-Koch, 2018), so we anticipate that the EU will continue to be an important market for SMEs in the future. The common language and historical ties between the UK and the US, Australia and Canada respectively are also likely to continue to favour exports to these countries, despite their far away geographical location. Exporting may also be facilitated by the signing of a free trade agreement between the UK and Australia (BBC, 2021a) and by the continuity agreement with Canada, which preserves preferential market access for both UK and Canadian businesses. The signing of a new trade deal between the UK and New Zealand (BBC, 2021b) may create an opportunity for SMEs to export to this market too, given the shared language and historical ties between the UK and New Zealand.

Covid-19 has exposed the risks associated with long and fragmented supply chains and many firms have changed their business models to focus on domestic suppliers or ones closer to home (British Chamber of Commerce, 2021). This may have a knock-on effect on the exporting activities of SMEs

and may reinforce the importance of exporting to a geographically close market, thus potentially strengthening the appeal of the EU.

However, our report shows that China and India are key markets for 16% and 11% of our respondents, respectively. To reach these distant markets in the future the digitalisation of business may prove to be crucial. Moreover, SMEs whose managers are from the diaspora may favour exports to the managers' home countries. This may minimise the risks and costs associated with understanding the target market. Indeed, it is already possible that some of the SMEs are already adopting this strategy, as the cultural differences between the UK and the target market do not appear to constitute a very important barrier to exporting. Furthermore, when asked about the markets they are exporting to, the answers covered a wide variety of countries.

Conclusion and recommendations

This study aimed to provide a better understanding of the current internationalisation (exports) levels of Kent SMEs and explore the support needed by exporting SMEs. In particular, the report assessed the impact on exporting levels among Kent businesses since the start of the Covid-19 pandemic; it analysed the effectiveness and relevance of internationalisation business support policies and services against the (new) needs of SMEs in the context of the current economic climate; it identified gaps and opportunities for policy making. The report also makes recommendations about how to increase internationalisation (export) capacity and activity among Kent firms in a post-Brexit, post-Covid-19 environment with a particular focus on the types of business support interventions which would boost exports levels among businesses in Kent and key markets on which to focus.

SMEs are key employer in the UK and an engine of economic growth (British Chamber of Commerce, 2021). Furthermore, exporting SMEs boost exports and bring additional employment opportunities, whilst enjoying growth, increased innovation and building resilience (e.g. Department for International Trade, 2020). Yet, often SMEs face significant barriers when exporting, due to their size and resource constraints (e.g. Tan, Brewer & Liesch, 2018). Appropriate governmental and local support is key in helping SMEs overcome these barriers and capitalise on the benefits of exporting.

Our study addressed the following objectives: Firstly, it assessed the current state of export activity within Kent SMEs (RO1). Secondly, it ascertained the effectiveness of current business support in Kent

for SME internationalisation (RO2). Finally, it investigated opportunities to increase internationalisation activity and capacity among Kent SMEs (RO3).

This report employed both primary and secondary data. Our survey with 316 Kent SMEs managers enabled a detailed quantitative analysis of the SMEs exporting activity and their awareness, use and perception of the support available. These findings were triangulated with valuable information from academic sources, industry reports, as well as government and local authorities' policy documents. This comprehensive analysis provides the opportunity to put forward meaningful recommendations of how best to support exporting SMEs, especially given the new uncertainty created by Brexit and Covid-19.

Applicability of findings

Above all, the findings of this report are relevant for Kent SMEs and the authorities - both national and local - that can support exporting SMEs. The sample is comparable with the sample from the 2017 study on Kent SME internationalisation and is representative for the Kent region. Indeed, local authorities of other regions in the UK provide bespoke support to exporting SMEs (Brown, Linares-Zegarra and Wilson, 2019) and this study paves the way for more tailored support at Kent level. We are also confident that, although the survey includes Kent SMEs only, some of the findings are applicable to the UK as well. The profile of Kent SMEs generally mirrors the profile of UK SMEs in terms of key characteristics such as the distribution of firms by economic size (turnover), employment composition and industry classification. Furthermore, Brexit and Covid-19 have affected the UK in its entirety, so the findings related to their impact on SMEs exporting can be generalised beyond our sample. Our sample also shows no evidence of non-respondent bias, meaning the results of the study are valid and can be generalised to the Kent SME population.

Current internationalisation among Kent SMEs: The impact of Brexit and Covid-19

Exporting represents a key opportunity for SMEs, and Kent SMEs are not different. This study shows that SMEs internationalise through exports to increase sales through foreign distributors, but also to build resilience. This is very important, as the current business climate is characterised by heightened uncertainty which can act as both an opportunity and a risk for firms. Moreover, for most SMEs exporting appears to be a strategic decision and an important revenue source, as it contributes to 30% of turnover. However, a third of SMEs appear to only rely on exporting for 10% of their turnover, suggesting a more reactive approach, perhaps linked to the aim of building resilience. There is

potential here for SMEs that only rely on exporting for 10% of their turnover to improve their export capabilities and increase their export intensity, as well as increasing the advantages associated with exporting.

At a first glance, the internationalisation levels of Kent SMEs are comparable with 2017, as a third of the SMEs of our sample internationalise through exporting. Moreover, the EU remains the main market for exporting SMEs, followed by the US and Australia. Despite the increased bureaucracy, higher costs associated tariffs and the added uncertainty due to regulatory changes brought by Brexit, the EU continues to appeal to exporting SMEs. Geographical proximity, long standing business relationships, and remaining common business rules are likely to continue to make the EU a desirable market for SMEs. Language and historical ties may continue to encourage exports to the US, Australia and Canada. Similar to 2017, other SMEs appear to favour China and India as target markets, and this may continue, as the UK seeks to negotiate bilateral agreements with new countries.

However, a more nuanced analysis demonstrates that Brexit and Covid-19 have changed the nature of SMEs internationalisation. First, SMEs managers are generally less satisfied with their firm's export activity than in 2017. This suggests that managers believe there is room for improvement regarding export activity and that additional support is needed to help SMEs navigate the challenges associated with exporting during the present uncertain times.

Second, a significant change is that the SMEs export intensity- the extent to which they rely on exports as a percentage of turnover- has fallen since 2017. This implies that SMEs are no longer able to fully leverage the advantages of exporting as they scaled back their exports. Indeed, SMEs export levels have fallen since Brexit and Covid-19, as a result of the additional barriers faced by SMEs. Providing support to alleviate these specific barriers related to Brexit and Covid-19 specifically is key for helping SMEs increase their export levels.

Third, there is a differential impact on export levels between Brexit and Covid-19. While half of the SMEs have experienced a fall in exports (of less than 10%) due to Brexit, the fall in exports due to Covid-19 was lower. The results suggest that Covid-19 has impacted the exporting activity less on an individual SME level, however it has affected in this way more firms than Brexit has. It is also anticipated that the impact of Brexit may last longer than the impact of Covid-19, and thus support

needs to address short term, medium term and long-term challenges respectively. This recommendation is in line with the British Chamber of Commerce report from 2021.

Fourth, the importance of exporting as a strategy to build resilience is higher compared to 2017. Having learned to cope with uncertainty, SMEs managers use exporting as an opportunity, and especially as a strategy to deal with the impact of Covid-19 and improve export activity. Indeed, more SMEs have started exporting as a result of Covid-19 than of Brexit (11%, compared to 6%).

Fifth, the main barriers to exporting differ considerably between Brexit and Covid-19. Additional administrative and bureaucratic obstacles for exporting, additional costs with export tariffs are the most important barriers, followed by the overall uncertainty in the business environment and disruptions in the supply chain associated with Brexit. On the other hand, additional administrative and bureaucratic delays due to Covid-19, higher costs of shipping and lack of imported goods due to lockdowns in other countries, delays in shipping and labour shortages due to lockdowns are all fairly equally important barriers leading to the decline in SMEs exports since Covid-19. A note of caution: whilst it is difficult to fully disentangle the impact of Brexit and Covid-19 on SMEs exports due to the overlapping nature of these events, our survey identifies barriers that are specific to each event. This allows us to capture some interesting differences between the impact of Brexit and Covid-19.

Finally, a small percentage of firms (8%) have stopped exporting since Brexit and a smaller percentage (4%) have stopped exporting since Covid-19. These firms appear to have faced insurmountable barriers and resource constraints due to the uncertainty associated with Brexit and Covid-19 respectively, and will need bespoke support, should they aim to start exporting again. This support is discussed in the recommendations section.

Current international trade support policies and mechanisms for exporting SMEs

This research has shown that the support mechanisms available for Kent exporting SMEs generally match their needs in terms of enablers of exporting as well as in terms of support necessary to address the barriers and challenges faced when exporting. Despite the wide provision of support for exporting SMEs, our survey findings highlight a significant gap between the level of awareness of some of these types of support and their use. Whilst there is a high awareness of the support offered by the Department for International Trade and the Kent Invicta Chamber of Commerce, most SMEs tend to

rely on the support offered by professional services in Kent such as banks or accounting firms. Less than half of respondents rely on support from the Department for International Trade and around a third access support from the Kent Invicta Chamber of Commerce. This is to some extent understandable, given that the support offered by professional services is bespoke and necessary to the day-to-day running of the business, whilst the offering of the latter institutions is much broader in scope. Unsurprisingly, professional services are also considered the most effective.

Moreover, this research highlights a significant missed opportunity on the part of both SMEs and local authorities, as SMEs show very little awareness or use of support targeted at exporting SMEs by Kent International Business, Enterprise Europe Network and Southeast Export Development. By accessing this support, SMEs may be able to address some of the barriers to exporting whilst harnessing some of the enablers of exporting. For example, Enterprise Europe Network offers access to potential distributors in the EU and lowers the costs of attending fairs and exhibitions, as at the moment the network operates digitally. Moreover, the various services brought together under the Kent International Business umbrella offer advice on how to navigate the administrative and bureaucratic obstacles encountered when exporting, thus addressing the top barrier mentioned by our respondents.

There appears to be room for improvement among the organisations specifically advising on international trade opportunities, in particular to drive more ambitious growth, offer solution driven services and introduce SMEs to partner networks which not only local professional services firms would not have the ability to do, but ultimately Kent SMEs seek in order to remain competitive with innovation ideas. The support for export intensive SMEs (i.e. SMEs with more than 50% of their turnover) should be tailored to their support needs and support agents should be approaching these SMEs directly. Similarly, to jumpstart the export activity of those SMEs who ceased exporting completely (8% since Brexit and 4% since Covid-19) a tailored early internationalisation stage support is needed.

[Recommendations to better support Kent exporting SMEs post-Brexit and post-Covid-19](#)

This report aimed to put forward several recommendations on how best to support Kent SMEs with their exporting activities. This research shows that SMEs in Kent have access to a wide variety of support both at governmental and local level regarding exporting. However, this also represents a

weakness, as there appear to be several overlaps in the support offering whilst awareness and use of several bespoke support provider appear to be limited. First, more co-ordination among the support providers - both at governmental and local level - is needed in order to avoid overlaps. Second, extant support should be better publicised amongst SMEs, thus increasing its awareness and use. Finally, tailored support is needed at local level to help SMEs overcome the barriers to exporting and navigate the challenges brought by Brexit and Covid-19 respectively. We discuss these recommendations in more detail in the next sections.

Support for exporting SMEs: What can the UK government do?

Our research suggests that SMEs may benefit from several government policies, as follows:

First, a favourable tax system will help alleviate the costs associated with exporting. Depending on a firm's product and their shipping destination, several taxes are charged to their consignment. The problem of double taxation seems key to address in the overall efforts to reduce the cost to business of local and international transport connections (British Chamber of Commerce, 2021).

Second, the Government needs to reduce the burden placed on SMEs by other various bureaucratic obstacles when exporting, especially when targeting the EU. This can be done in two different ways. The Government may continue to negotiate with the EU ways in which red tape associated with exports can be reduced or simplified. Alternatively, user friendly guidance of how paperwork associated with exporting needs to be completed can be made available on the Department for International Trade website to facilitate exporting. At a regional level a tailored advice via phone or digital technology meeting platforms (MS Teams, Zoom, etc) can be utilised to offer a personalised support. In particular, SMEs would benefit from guidance on phytosanitary certificates and VAT registration in member states.

Third, the Government needs to address the shortage of skilled workers which has forced several SMEs to stop exporting since Brexit. In the short term, this may entail continuing to provide visas for skilled workers that SMEs lack. In the medium and long term, this requires increased training in the areas where shortages have occurred. However, more research in the type of skills that SMEs are missing is needed to gauge the type of necessary support.

Fourth, the Government should facilitate access to networks for SMEs by working with embassies and the chambers of commerce in potential target markets, thus allowing SMEs to find distributors and increase exporting. Similar networks to Europe Enterprise Network should be established with businesses and support providers in the US, Australia and Canada which represent important markets at the moment. Building similar networks for China and India can facilitate exports to these two markets where building a relationship is a very important pre-requisite for trade.

Finally, we believe that SMEs managers would benefit from upskilling with respect to leveraging digitalisation in exporting. The Government should provide webinars on how best SMEs can benefit from digitalisation, as this would decrease the costs associated with exporting and increase export activity. Covid-19 has accelerated the digitalisation of firms, and it is crucial that SMEs are able to benefit from digitalisation.

Improving the awareness, use and effectiveness of current support

Whilst government initiatives are important, we believe that local support and in particular tailored support is key for SMEs to increase their export capacity and activity. At local level, several initiatives may improve the SMEs' engagement with the support already available. Kent International Business, Enterprise Europe Network and Southeast Export Development- organisations that offer support to exporting SMEs, yet are little known or approached by SMEs - need to increase awareness of their services among SMEs. Representatives of Kent International Business, Enterprise Europe Network and Southeast Export Development can participate in the Kent Business Summit and showcase their services through presentations, workshops, sponsoring and networking. Press releases in Kent media (e.g. the Kentish Gazette, Southeast Today) and social media (e.g. LinkedIn, Facebook, Instagram) may also provide an opportunity for building awareness.

Another type of support that needs further publicity and better targeting is the support offered by KCC's EU funding projects, through schemes such as ISE, Boost 4Health, Impulse, SIE. As these provisions are niche, they need to be advertised through industry associations and specialised media.

In particular, Kent International Business needs to improve its brand awareness as a one stop- agency in Kent. We recommend that the Department for International Trade and Kent Invicta Chamber of Commerce signpost better the offering of Kent International Business as a hub for exporting SMEs.

Moreover, Kent International Business should focus on providing a tailored relationship-based support and advice that speaks to the specific SME needs, given their internationalisation stage and export intensity. The support for export intensive SMEs (i.e. SMEs with more than 50% of their turnover) should be tailored to their support needs and support agents should be approaching these SMEs directly. Similarly, to jumpstart the export activity of those SMEs who ceased exporting completely (8% since Brexit and 4% since Covid-19) a tailored early internationalisation stage support is needed. Finally, SMEs managers could also benefit from better information on market trends.

Limitations of this study

This report has several limitations. First, it is likely that some of the support needed by SMEs will be industry specific. However, such analysis is beyond the scope of this report. Follow up industry level research may be able to ascertain whether more tailored support mechanisms are required. Second, an interesting finding of this report is that some SMEs have started exporting as a strategy to deal with the uncertainty of Brexit and Covid-19. It would be interesting to investigate the characteristics of these SMEs and the type of support these may benefit from. This would require a qualitative approach with interviewing these firms to identify and understand their export motives.

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