Chapter 19
SME’s Innovation and Internationalization in Knowledge-Based Economy: EU Case

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ABSTRACT
The main goal of the chapter is to make an assessment of the innovative position, the level of internationalization and potential of small and medium-sized enterprises in the EU in the light of challenges implied by the building of knowledge-based economy. The chapter comprises several parts. Main attention is paid to the substance and factors that shape the knowledge-based economy, determinants of innovation in SMEs and the assessment of SMEs’ innovation and internationalization in the EU. We also analyzed dependence between the development level of the EU Member States and R&D expenditure and the level of innovation and competitiveness of individual countries. To this end we used Spearman’s rank correlation coefficient. Final part of the chapter is devoted to the EU support scheme for small and medium-sized enterprises, in particular it focuses on instruments connected with innovation and internationalization.

INTRODUCTION
The theory and practice of economics attach an increasing importance to small and medium-sized enterprises (SMEs) as operators capable of generating growth, new jobs, and exerting impact upon local and regional development. Globalization and regionalization of the global economy intensify competitive pressure on enterprises. The ability to compete on the domestic and international markets can be ensured by factors, which provide the foundations for the building of the knowledge-based economy. Firstly, the share of services in employment and in GDP increases.
Secondly, knowledge and innovation become the main sources of growth. The new economy is also the effect of increased internationalization, which enables the collection, processing and use of data on an unprecedented scale but also intensifies competition, domestically and internationally.

The growth of cities and regions stimulated by innovation and new technologies reveals a high share of R&D expenditure in the GDP and the tendency of public institutions to exploit knowledge-intensive production of goods and services. In fact, not only technological knowledge resources gain in importance but also entrepreneurship, often treated as another factor generating production and innovation.

Small and medium-sized enterprises may be important elements of knowledge-based economy. On the one hand, they represent demand for new technological solutions, be it product or marketing ones. On the other hand, they are sources of innovation meaning they are capable to search, implement and diffuse innovation. Besides, the SMEs mobilize highly skilled human resources, they are flexible and easily adaptable. In the times of crisis and economic downturn the above characteristics are increasingly important.

The growth of companies may be favored by expansion, which, in a simplified form, consists in winning new markets, also abroad. Establishing collaboration with other countries through the exchange of goods, services or capital may contribute to an accelerated growth of a company and its improved competitive profile.

Regional economic integration and internationalization of companies are the major phenomena in the contemporary global economy. Internationalization is a long-lasting process of transforming a domestic business into international one. It engages own resources, also financial, knowledge and calls for the adoption of an appropriate development strategy. All of the above factors impact the intensity of transformations that take place in an enterprise, their scope and type. Internationalization of small and medium-sized enterprises is often identified with activities implying more threats and uncertainties than development opportunities and perspectives on the international market. Obviously, the approach evolves in time and an increasing number of SMEs decide to open to foreign markets and start exporting (or importing) or establish links with foreign partners. This is, inter alia, due to globalization, especially to the development of modern information and communication technologies (ICT) or trade liberalization.

Internationalization rate of the European SMEs clearly increases. According to the survey, 44% of SMEs are involved in at least one mode of internationalization (Wach, 2012). The rate is higher for enterprises from smaller countries. Negative correlation is connected with the openness of an economy in question. Most empirical studies confirm that economic factors are decisive for the SMEs when it comes to their operations outside of their home country. However, we must bear in mind additional benefits, such as: acquiring new technologies, knowledge, skills, expanding organizational structure, which enhances the competitive position. Hence, they link directly to the building of the knowledge-based economy.

At the same time, we must take account of numerous development barriers faced by the SMEs and connected, e.g., with innovation or internationalization. These are external and internal limitations. They depend, inter alia, on economic policy pursued by a given country, available support schemes, industry, countries of destination, products and services on offer and many other. Support schemes and initiatives of the European Union available within the framework of the building of knowledge-based economy play an important role in assisting the SMEs.

That is why the main goal of the chapter is to make an assessment of the innovative position, the level of internationalization and potential of small and medium-sized enterprises in the EU in the light of challenges implied by the building of knowledge-based economy. The focus on the European Union as a case to be studied was mainly