Future of manufacturing

Global Lehan –
Internationalisation policy measure
(Spain)

Born globals and their value chains

Disclaimer: This working paper has not been subject to the full Eurofound evaluation, editorial and publication process.
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1. **Context**

1.1. **Circumstances in which the measure was introduced, rationale, and relevance**

The Basque economy can be defined as open, highly sensitive to the evolution of the global trade in general and the European economy in particular, with a strong focus on three main traditional markets (namely Germany, France and the United Kingdom). Also, the Basque foreign trade is characterised by a high concentration in certain medium/high technology-intensive economic sectors (that is, mechanical engineering and machine tools, chemical and petrochemical industry, machinery, aeronautics, car components). Both foreign investment towards the Basque Country and the Basque investment abroad have increased in recent years.

In this context, the ability of Basque enterprises to face foreign markets is conditioned by the size, sector specialisation and technological intensity of their products and services. Basque manufacturing companies, and particularly those larger than 20 employees, are particularly open to foreign markets compared to service and very small companies. Quality, followed by customer service and price, are the main competitiveness factors of Basque enterprises in global markets.

The ‘Global Lehian’ measure is framed within the Basque government’s activities intended at improving internationalisation activities of Basque companies. Global Lehian replaced a previous measure called ‘Prointer’, ended in 2013. The aim of Prointer was to support both initiation and consolidation of the international activity of Basque companies as well as the establishment of facilities abroad. The beneficiaries of the measure were mainly Basque individual medium-sized companies (over 50 employees), but also Basque companies’ consortia.

In order to reinforce the focus on small and medium-sized enterprises (SMEs), Global Lehian came firstly into place by the Order of 19 March 2014. The Basque Department of Economic Development and Competitiveness and the Basque Consortium of Internationalisation (Consejo Vasco de Internacionalización) played an essential role in the initial launching of the measure. Thus, the Basque Consortium of Internationalisation, together with other relevant agents, elaborated and formulated the Basque Business Internationalisation Plan 2014-2016, subsequently approved both by the Basque government and the Basque parliament. This initiative was entirely launched by the Basque country, with no involvement of other administrations.

This Plan’s main objective was to promote the international competitiveness of Basque companies (particularly SMEs) and their involvement in international markets. Specifically, the Plan established a support framework adapted to the capacities and needs of Basque SMEs that may boost the openness and internationalisation degree of the Basque economy, enhancing and consolidating foreign trade, contributing to the increase of Basque facilities/establishments abroad and attracting foreign investment to the Basque Country.

This Internationalisation Plan was structured around six axes, each of them containing different action lines. In this sense, the Global Lehian initiative is located under the second axis ‘Differentiated support for Basque companies to access international markets’. This axis stresses the need to adapt the Basque government’s measures to the different size and the internationalisation stage needs of the Basque companies (such as new exporters, exporters, multi-located businesses).

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1 The Basque Consortium is a public-private collaborative platform formed by the Basque government, provincial councils (Diputaciones Forales), Basque Chambers of Commerce and sector clusters, which coordinates the objectives, priorities, actions and needs of different Basque agents involved in the promotion of the internationalisation activities of the Basque enterprises.

2 Elections to the Basque parliament were celebrated in September 2016 and more recently the Basque government was constituted (November 2016), so there is no new Internationalisation Plan established at the time of drafting this document (April 2017). However, the new Department of Competitiveness and Infrastructures has presented the Department’s main lines of action 2017-2020 and the new Plan’s approval is contemplated.
Global Lehian is complementary to a series of policy measures developed by different regional and provincial public authorities to boost the internationalisation of the Basque companies (see table 1). In addition to this, Basque SMEs can also benefit from other policy measures available at national level (such as the ICEX-Next measure). According to the Basque Directorate of Internationalisation, Global Lehian can be regarded as the most important measure of the Basque government to promote export and internationalisation, because of the combination of the available budget and a specific focus on internationalisation. The European Regional Development Fund (ERDF) contributed to the Global Lehian measure’s funding in 2014, whereas since 2015 the only source of funding has been the Basque administration’s budget, as it is sufficient to fulfil the financial commitments of the programme.

The Basque Consortium of Internationalisation collaboration platform has among its functions to align the various existing funding and grants programmes to assure their effectiveness. However, there is no specific information on how they are aligned or complemented with each other.

Having said that, the Directorate of Internationalisation does not foresee any relevant improvement or change in the Global Lehian measure, as they consider it works properly. In that sense, the interviewee stresses that the new 2017 call which was opened on 22 March 2017 did not introduce significant novelties compared to previous calls.

Table 1: Different internationalisation support measures for SMEs in the Basque Country

<table>
<thead>
<tr>
<th>Name of the measure</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauzatu – Exterior productive implementations</td>
<td>The measure promotes the creation and development of productive establishments of Basque SMEs abroad, thus supporting the consolidation of business projects in the Basque Country and their future viability. It is managed by the Basque government and SPRI (Basque Agency of Business Development).</td>
</tr>
<tr>
<td>Interkoop</td>
<td>The measure promotes cooperation in internationalisation processes of Álava’s SMEs, as well as cooperation between companies of Álava in that aspect. It is managed by the provincial council of Álava.</td>
</tr>
<tr>
<td>SMEs’ internationalisation programme</td>
<td>The objective of this measure is to increase the access and presence of Biscay’s SMEs in international markets by supporting their export action. It is managed by the provincial council of Biscay.</td>
</tr>
<tr>
<td>3i Programme of comprehensive support to innovation, internationalisation and investment projects</td>
<td>The objective of this measure is to fund comprehensive projects to improve competitiveness covering at least two of the following areas: innovation, investment and internationalisation. It is managed by the provincial council of Biscay.</td>
</tr>
<tr>
<td>Programme of productive establishments abroad</td>
<td>The aim of this measure is to promote the foundation of establishments abroad, outside the EU, of businesses from Gipuzkoa. It is managed by the provincial council of Gipuzkoa.</td>
</tr>
<tr>
<td>Support programme for the international launch of new products</td>
<td>The goal of this measure is to support the commercialisation and launch of new products in the international market by SMEs based in Gipuzkoa. It is managed by the provincial council of Gipuzkoa.</td>
</tr>
<tr>
<td>Internationalisation programme in cooperation</td>
<td>The main objective of this measure is to promote the internationalisation and openness towards foreign markets of</td>
</tr>
</tbody>
</table>
Global Lehian – Internationalisation policy measure

with leading entities

Gipuzkoa’s SMEs, in cooperation with leading entities (big companies, chambers of commerce, etc.). It is managed by the provincial council of Gipuzkoa.

Source: Basque Consortium of Internationalisation (2017)

2. Content

The main objective of Global Lehian is to financially assist the promotional and operational activities of Basque SMEs of all sectors through subsidies in order to improve their penetration of foreign markets (from the initial introduction in foreign markets to the physical establishment of facilities abroad, as explained later in this section) and their competitiveness. Also, the measure is intended at helping Basque SMEs to overcome difficulties derived from their size limitations, basically through the support of inter-company cooperation initiatives related to collective opening of facilities abroad.

The applied definition of SME follows the specifications contained in the EU Recommendation 2003/361/CE. Inter-company cooperation activities are those led by, at least, two Basque independent companies (with no link or relationship in terms of control). In this case, these companies are motivated to act together because of the beneficial synergies produced by the cooperation. This commitment also relates to their engagement in foreign markets, where they share risks and costs.

Global Lehian covers three subsequent and differentiated stages of internationalisation, which are conceived as successive and excluding phases:

a) **Start phase**: This phase is aimed at any company, individually or in cooperation (export consortia or sales and promotion groups) with very limited internationalisation activities (total exports represent less than 5% of their total turnover) but interested in developing their internationalisation activities (basically exports). The beneficiary, at this point, undertakes a diagnosis about main strengths/weaknesses and opportunities/threats facing internationalisation, and elaborates an internationalisation strategy plan that must be valid for at least two years. In this phase, with a maximum duration of one year, the beneficiary has to initiate some initial internationalisation activities. In the case of cooperation activities between companies, before the application the export figure of participating companies obtained in the new target markets must be lower than 5% of their combined turnover.

b) **Consolidation phase**: In this phase, the beneficiary (individually or in cooperation) is supported in implementing the internationalisation plan in order to become a regular exporter (total exports represent between 5% and 50% of its total turnover), consolidating and increasing a portfolio of export clients and diversifying its target markets. Most likely, these international activities are carried out from the local headquarters of the SME, due to a lack of delegations or implementation of establishments abroad.

c) **Establishment of facilities abroad**: This phase is envisaged to companies with a consolidated international presence but interested in opening facilities abroad. Three types of facilities abroad are foreseen: i) commercial facilities (establishments/subsidiaries or branches, physical or virtual, from which the company commercially serves one or more of its international markets), ii) productive facilities (establishments abroad devoted to productive tasks, either by deploying new facilities or by acquiring participation in existing companies), and iii) service companies (establishments intended at providing services in an external market, either by deploying new facilities or by taking of participation in already existing companies). The measure supports the opening of facilities abroad only if the Basque SME has the predominant share of its facility abroad. Lower shares may also be supported if they occur due to legal imperatives within the destination country (for example, when it is compulsory that a local partner must have the majority of the shares of the foreign company’s new establishment).

This phase begins with the establishment of the facility abroad in the year of the call. Only one establishment per call is supported, and only during the length of the call. In any case, the
implementation stage must end when the beneficiary has realised a maximum of four different establishments or implementations (supported by the programme’s subsidies), regardless of the type of implementations (commercial, productive or services). Second establishments of the same type within the same market are not supported.

In addition, the measure foresees a ‘Talent activation and adaptation of organisations to the global market’ phase (d), supporting the hiring of an internationalisation technician or consortium manager per company/group of companies. The hired technician must be a foreign trade specialist and not an ordinary employee or intern. This phase is considered potentially concurrent with any of the three phases, meaning that any SME in the previous three phases can apply to talent activation funding anytime.

Exceptionally, companies that need to open up a facility abroad from the beginning because of market requirements can avoid previous phases. Nonetheless, in order to apply for the ‘consolidation’ and ‘establishment’ phases ‘b’ and ‘c’, applicants must have an internationalisation plan already elaborated and in force.

The budget allocation for the Global Lehian measure in 2016 followed the 2015 budget values, with a total of €5,520,000 funded by the general budget of the Basque Autonomous Community. This was distributed as follows: €828,000 for the ‘start’ phase, €3,864,000 for the ‘consolidation’ phase and €828,000 for the ‘establishment of facilities abroad’ phase. The ‘talent activation’ phase did not have a specific budget, which in turn was attached to the three phases (and not specified separately).

Global Lehian offers financial assistance once the beneficiary has made the expenditure (and not before). On the other hand, it does not provide non-financial assistance (like networking, provision of information, etc.) linked to internationalisation directly.

Subsidies are provided according to several limits, both in terms of percentages and absolute values, accordingly to the different supported expenses:

Table 2: Limits of the subsidies, in percentages and absolute values

<table>
<thead>
<tr>
<th>Modality/phase</th>
<th>Start</th>
<th>Consolidation</th>
<th>Establishment of facilities abroad</th>
<th>Talent activation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>40% €20,000</td>
<td>40% €30,000</td>
<td>40% €40,000</td>
<td>50% €20,000</td>
</tr>
<tr>
<td>Export consortia</td>
<td>50% €40,000</td>
<td>€14,000/participant</td>
<td>-</td>
<td>50% €30,000</td>
</tr>
<tr>
<td>Sales and promotion group</td>
<td>50% €40,000</td>
<td>€12,000/participant</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Basque Government

For each of the four phases described previously, the eligible costs or expenses that can be covered by the measure relate to the following items:

a) **Start phase**: i) The elaboration of the internationalisation plan, including the hiring of external counselling for diagnosis and/or the plan’s elaboration; ii) the development of early actions, including travels and/or assistance to fairs and contacts and agenda development (in the case of travels, the support consists in travel grants calculated depending on the destination); and
iii) in the case of export consortia and sales/promotion groups, feasibility studies of the cooperating structure and constitution expenses are also covered.

b) **Consolidation phase:** i) travel trips to analyse markets and/or contact potential customer companies and/or suppliers and visits to fairs; b) invitations to potential foreign customers and/or suppliers; c) participation in fairs abroad with stand and presentation of products, including rent of the floor or booth, booth decoration, travel grants, other expenses; d) promotional materials, including catalogues, brochures, videos, etc.; c) advertising, including creation and insertion of advertising in foreign media and on the internet; f) cooperative exploration trips, this is, a prospecting trip carried out by one or more companies of the sales and promotion group representing all the companies of the group; g) direct mission in cooperation, carried out by several or all the cooperating companies; h) reverse cooperation mission, this is, invitation trips to foreign buyers or prescribers to visit the companies involved in the cooperative action; i) for export consortia, the costs of operating the consortium, including rental of office equipment and external professional services directly related to the administrative operation of the consortium itself; and j) feasibility studies of potential deployment projects abroad.

c) **Establishment of facilities abroad:** a) set-up expenses (deeds, registrations, administrative permits, licenses and others that are carried out only once at the beginning of the activity); b) structure expenses (rental of premises, office equipment and others that are understood necessary for the deployment), c) travel expenses between the headquarter and the foreign establishment, calculated according to the destination; d) promotional expenses related to the deployment, including catalogues, participations in fairs, web, publicity, product homologation expenses, etc.

d) **Talent activation and adaptation of organisations to the global market:** Selection costs for hiring specialist technical personnel, as well as gross salary cost for new recruitment of specialised technical staff in internationalisation, which can reach a maximum of 50% of the total expenditure (during the year of the call) with an absolute limit of €20,000.

### 3. Relevance of the measure to SMEs/born globals and internationalisation

Global Lehian is highly beneficial for SMEs as it is designed and tailored to support these target groups. Whether it is a SME that initiates internationalisation activities or a SME with consolidated activities in this field, the measure adapts to any specific internationalisation requirements the company may have, so the measure can be also used by Basque born globals. Also, and as mentioned previously, the measure allows exceptionally to avoid previous steps and to go straight to the establishment of facilities abroad phase, provided that the beneficiary SME needs to establish itself abroad from the beginning due to market requirements.

The main challenge for Basque companies is to access foreign markets if their size is not big enough to face internationalisation activities smoothly. To overcome this element, Global Lehian assists existing partnerships and their cooperation initiatives and projects, thus rewarding and supporting inter-company practices. Nonetheless, the measure does provide support to companies to establish new partnerships.
4. The operation of the measure

4.1. The process of application and assessment of applications

The process of application is conducted exclusively by electronic means, through the official website of the Basque Government’s Department of Economic Development and Competitiveness. There is a single call per year, and entities can only apply for funding during the application period of the call. The interested parties complete a standard application in electronic format, according to the existing model. The content varies depending on the phase, but in general it includes, among other documents, general information on the company (number of workers, turnover figure, annual balance sheet total figure, amount of subsidies received etc.), the annual internationalisation project (describing actions and estimated costs) and a responsible statement regarding the veracity of the information reflected in the request. The measure’s regulation foresees the participation of the Chambers of Commerce as ‘collaborating entities’. For this reason, the pertinent collaboration agreement must be signed. Once it occurs, Chambers may play several roles, including collaborating in the applications’ evaluation and pertinent dissemination campaign, among others. However, since the 2016 call, the Basque Government runs the measure on its own, as it counts with the required resources for that.

The assessment of applications is done based on nine different criteria and each of them has a specific weight represented in points. The number of points that can be awarded depends on the characteristics of the beneficiary entity included in the submitted application form and also depends on how these characteristics meet the requirements established in the programme’s resolution document (that contains the terms and conditions of the programme). The assignment of award points depends on the degree of compliance and quality of the application with the programme’s requirements (whether it is an individual company or a consortium, as shown in the following chart. Please note that the size of the company is one of the applied evaluation criteria.

Table 3: Evaluation criteria used to evaluate projects and weighting factors

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of the internationalisation plan</td>
<td>35</td>
</tr>
<tr>
<td>Turnover and sales in new markets (a new market is one which represents no more than 10% of the turnover for a period of fewer than three years)</td>
<td>8</td>
</tr>
<tr>
<td>Employment and economic impact in the Basque Community (maintaining and creating jobs in the Basque Country is favoured)</td>
<td>12</td>
</tr>
<tr>
<td>Company size (projects presented by smaller size companies are favoured)</td>
<td>14</td>
</tr>
<tr>
<td>Cooperation (the greater complexity of alliances and inter-companies’ partnerships are positively discriminated)</td>
<td>12</td>
</tr>
<tr>
<td>Geographical diversification (the expansion of destination markets is favoured)</td>
<td>12</td>
</tr>
<tr>
<td>Receives and/or hires scholars, like the ones supported through the Basque government’s grants for young people to do internships in foreign entities (BEINT) and similar initiatives (collaboration with internationalisation scholarship programmes and recruitment of scholars is favoured)</td>
<td>5</td>
</tr>
<tr>
<td>Corporate Social Responsibility (certifications and recognitions in force are positively valued)</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: 2016 Global Lehian Resolution
To analyse the submitted applications, an ad-hoc evaluation board is set up, formed by a responsible of the mentioned Internationalisation Directorate and three technical staff members designated by the Directorate, one of them acting as a secretary. For this purpose, the mentioned staff members until recently could receive collaboration and support from Chambers of Commerce (but, as previously mentioned, since 2016 these entities do not participate in the programme anymore).

The evaluation of submitted applications is conducted by the designated technical staff and these are presented to the evaluation board as technical reports. These contain several elements, including the internationalisation plan’s validation and qualification, the stage where the application is situated, admitted eligible costs and the pondering of assessment criteria (for each application). The Directorate has up to six months (from the day following the publication of the call) to dictate if the beneficiary will be supported or not.

Beneficiary companies have to justify all the expenditures based on bills, but not all the bills are checked by the staff members. In fact, in the auditing process, a sample of companies is selected and the companies included are asked to submit all the bills, in order to do an exhaustive monitoring. In any case, companies must sign a sworn statement committing to follow the rules.

In contrast to the former Prointer measure (where the available funds were distributed amongst all eligible candidates and often resulting in companies receiving little funding), since 2014 and under Global Lehian, the allocation of the support funding is based on a strict assessment of candidates according to the weighting factors already mentioned before. Only those candidates who pass these criteria can be eligible for the Global Lehian measure. No specific numbers of envisaged beneficiaries are established beforehand by the measure administrating unit.

4.2. Diffusion and promotion of the measure

The main advertising channels of the measure are the Department’s website and the citizen web service Zuzenean. Also some informative talks are organised in Chambers of Commerce, employers’ organisations’ offices and other business events (Intergune - Basque Internationalisation Forum, fairs, etc.). In general, business related events and talks are an important way to spread the measure and to be in touch with companies, and all companies that apply for the programme or are interested in it can easily access all the information on how the measure operates and its characteristics. In this sense, all the information related to the measure hosted in the Department’s website and it is easy to understand and proceed.

5. Monitoring and evaluation

There is no monitoring or evaluation report publicly available about the Global Lehian measure. The Basque government’s Directorate of Internationalisation has some documents concerning the monitoring and evaluation of the measure but only for internal use. As there is no open access to these data, no further analysis can be done on the subject. Nevertheless, the list of beneficiaries and how much funding they have received is publicly available (see next section).

6. Evidence of outcomes and impact

In 2016, the allocated budget to Global Lehian was €5,520,000, the same as in 2015 and 2014. However, in terms of the budget actually spent, the levels have been lower (€4,379,659.41 in 2016, €5,517,437.25 in 2015 and €5,519,649.32 in 2014). For instance, in 2016 €1,140,340.59 were not delivered (20.66% of the total budget), mainly because of a decline in applications for the funding. There were 255 companies and cooperating partners who benefitted from the measure in 2016. In 2015, for which further data is available, 535 applications were presented for the support contained in the first three phases (start, consolidation and establishment of facilities abroad). Out of these, 465
applications were finally supported, namely 55 for ‘start’, 396 for ‘consolidation’ and 14 in the ‘establishment of facilities abroad’ phase. On top of this, 83 applications received funding for the talent activation and organisational adaptation section (for the purposes of statistical data, ‘talent activation’ is specified separately from the other three phases). All in all, 548 applications were supported. In 2014, the total number of beneficiaries was 357 (445 if including talent activation). As for the funding, in 2016 the average funding was €17,175.12, which was 30.8% more compared to 2015 (€11,891.03) and 9% more compared to 2014 (€15,461.20). Most of the beneficiaries are industrial companies.

7. **Strengths and weaknesses of the policy measure**

According to the information collected by the research team from the analysis of data and the conducted interview, Global Lehian has several strengths. Firstly, the measure adapts to the company’s situation regarding internationalisation (there are specifically designed phases whether the company is initiating, consolidating the internationalisation process or whether it needs to set up a facility abroad). Second, and in comparison to the situation with the previous ‘ProInter’ measure, Global Lehian provides a more generous support to beneficiary companies, reflected in higher subsidies and limits. Thirdly, Global Lehian is very flexible, in the sense that it covers a wide array of different eligible costs that participating SMEs and enterprises can benefit from, according to their specific needs and requirements. Fourthly, the measure promotes business cooperation activities among enterprises through the provision of more generous subsidies and support levels, strengthening in this sense existing synergies between Basque companies. Finally, the administrative procedures related to the application and management of the measure are not particularly complicated for the interested companies, facilitating their access.

As for the weaknesses or aspects to be improved, a first element refers to the fact that the measure is usually used as a source of cash for beneficiary enterprises for initiating internationalisation activities, even in cases where these activities would have been conducted anyway and irrespectively of the existence of the measure. This partly derives from the time needed to receive the funding (time period between the request of the support and the effective reception of the money), which can be quite long (25% of the support is given six months after the application, and the whole amount is paid two months afterwards), and it becomes especially relevant in those cases where the expenses have been effectively carried out by the company. Although Global Lehian promotes business cooperation activities amongst enterprises, the interviewee suggests that most of the beneficiaries are individual enterprises and not cooperating businesses, partially explained by the difficulties that enterprises in general and SMEs in particular experience in establishing collaborations. Moreover, and as already shown before, in 2016 there was an important decline in the number of applications for the measure. According to the interviewee, this element might require a more sustained effort in terms of reinforcing the communication and promotion of the measure amongst the Basque SMEs, particularly amongst those who might not be familiar with the measure. The interviewee said that although the information about the programme is clear and accessible on Internet (for those interested businesses and/or already familiar with it), the Directorate should be more proactive in terms of ‘going out and finding’ potential participant companies. Sometimes companies do not have time to get to know all the existing support measures, so things need to be made easier for companies (because until now, the Directorate has waited more for companies to apply).

With regard to the upgrading or adaptation capacity of the measure to the economic context, the measure could be more flexible and adaptable to the existing circumstances of the companies and the market. In this sense, policy learning mechanisms should be implemented so that the measure can respond more accurately to the market’s needs.

Finally, and in relation to transferability issues, Global Lehian can be regarded as a relatively easily transferable measure to other Member States/regions which want to support their new exporters and/or
their already exporting SMEs. For this purpose, required preconditions include, amongst others, the existence of a public administration actively involved in the support to its SMEs, as well as a need/latent demand amongst national SMEs for this type of support.

8. Recommendations
Looking at the future, and according to the interviewee, most efforts should be devoted to better promote and communicate the measure, increasing in this way the number of potential SME users that might benefit from the measure. Examples of promotion activities may include, amongst others, further mailing activities or the diffusion of newsletters amongst potential SME users, where the Basque government in collaboration with other institutions (that is, employers’ associations) may take the leading role. In addition, more complementarities and specific coordination mechanisms between measures should be fostered, so that the multiple public efforts regarding internationalisation activities can improve efficiency and effectiveness.
References

All Eurofound publications are available at www.eurofound.europa.eu


Basque government’s transparency website (Gardena), available at http://www.gardena.euskadi.eus/transparencia/-/transparencia-economico-financiera/

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