

## **Review of Manuscript 1437**

### **General assessment**

The paper deals with an interesting topic – the determinants of export propensity of SMEs - which also may be relevant for policy. The focus on SMEs, and in particular on microfirms, is promising as our knowledge on (very) small firms is poor in general and, even more so, with respect to internationalisation. As the authors are able to draw on firm-level panel containing the total population one may expect reliable results (if an adequate analysis is provided). As this is largely the case, I recommend to publishing the paper, although some (minor) revisions are necessary.

### **Comments**

The focus on microfirms and their difference to larger SMEs is of particular interest as the research gap with respect to the first category is particularly large. Therefore, I would concentrate on comparing model estimates for firms with 1-9 and 10-249 employees.

Discuss in some more detail (and not only in the introductory and the final section) the specific obstacles to internationalisation of (very) small firms. Assuming that these differ not too much from those of SMEs in general, I recommend to taking account more explicitly of the respective literature (e.g. Buckley, 1989; Hollenstein, 2005; or the survey of Castellani in Wolfmayr et al., 2013).

Indicate that, given these obstacles, it may be optimal for an SME (in particular a microfirm) to internationalise in an indirect way by supplying their services to large (exporting) firms (as an independent contractor or through formal or informal co-operation). A specific element explaining the relatively low export propensity of small firms is the well-known fact that some of them (this may hold for software companies in particular) are primarily performing tasks that are outsourced by large to other local firms (face-to-face contact often is a specific advantage of local firms although it is true that, in particular in software development, outsourcing over long distances is also quite common). In this case, there it is not really necessary to look for foreign markets. Discuss these aspects (indirect internationalisation, local outsourcing) in a paragraph following that dealing with the obstacles to internationalisation.

In model estimation, multicollinearity could be a problem. I presume that productivity is correlated with human capital as well as with firm size, which, in turn, may be correlated with firm age. Show the correlation matrix and investigate whether the explanatory pattern is robust if such correlations are accounted for.

Indicate that in case of services the (general) variable “human capital” captures to a large extent innovation activity. Therefore, missing data for innovation is not a real deficit which requires an extension of the analysis (as is argued in the final paragraph of the conclusions).

Contrasting the results for the software industry with those of a high-tech industry or another service industry would allow, to some extent, to separate general patterns of explanation from those that are specific for the software industry. The reference industry should be similar in terms of relevance of microfirms, (change of) export propensity and knowledge intensity.

Finally, I suggest to discussing policy implications. Would it be sensible to promote export activity of microfirms in view of the larger export barriers of this category of firms?