

Supply-push or technology-pull towards innovation? Setting a preliminary research agenda for Croatian SME suppliers and German automotive corporations

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Abstract:

Croatian international competitiveness will be determined by its export success (Borozan and Pfeifer, 2005). Even though their role in Croatian export has been less significant in the past, through their higher structural flexibility Croatian SMEs are assumed to adopt a central role for export growth in the future (Borozan and Pfeifer, 2005). We set out a research agenda for qualitatively diagnosing dyads of Croatian SME automotive suppliers and German automotive corporations. This conceptual paper therefore presents a study outline for researching international seller-buyer collaboration in the automotive industry. As to innovation, we are interested in the direction of technological transfer.

Keywords: technology, supply chain, innovation

Purpose

This paper's contribution is in giving an overview over the current research on SMEs' internationalization and the particular situation of Croatian SMEs, and in setting out a research outline for recognizing patterns of technological and economic flow in dyadic collaboration of SMEs. Testing this research on Croatian SMEs and their German automotive counterpart, we aim at proposing a framework for empirical studies of innovation intensive asymmetric buyer-seller dyads.

Theoretical Background

The literature suggests that SME internationalization strategies in transition countries (in general) and Croatia (in particular) are still quite under-researched (Račić et al. 2008). In order to provide some guidance we conducted a literature research on SME internationalization phenomena. Our preliminary database search revealed the 14 of research papers on the subject with keyword "Internationalization SME"

A quarter of all the work on internationalization of SMEs has been written in the last two years. All search results had to be manually looked at, so as to remove duplicates,

outdated articles and macroanalyses not fitting the purpose of this work. Altogether 50 articles were printed and carefully analyzed.

The first issue that had to be addressed is the definition of SMEs. For example (Huang, 2011) states there are as many definitions of SMEs as countries. We approached the issue by referring to the definition of the European Commission (EC, 2015). According to their Annual Report on European SMEs 2013/2014 (EC, 2015), SMEs in Europe are defined as having less than 250 employees. These enterprises amount to 78% of all European companies, generating 71% of value added and providing 79% of employment. As such the SMEs are known to promote the overall economy, to generate wealth and to drive the export industry (Charbonneau and Menon, 2013; Nummela et al., 2006; Fletcher, 2004).

Lu's and Beamish's (2001) definition of SMEs internationalization is much more comprehensive; it involves criteria such as exports, foreign direct investments (FDI), and alliances of a firm. Each mode of internationalization has of course its advantages and disadvantages. The fact that the classification „SME“ may rely on a variety of criteria (Beamish, 2001) as opposed to one (EC, 2015) points to a serious comparability issue among the internationalization literature. Apart from this, there are significant differences in characteristics of SMEs compared to large companies (Svetličič et al, 2007), the basis of most theories and scientific papers on internationalization (Sedoglavich, 2012). This finding already indicates that SME internationalization deserves an increasingly dedicated stream of research.

Internationalization Strategies of Small and Medium Enterprises (SMEs)

SMEs internationalize for several reasons. First of all, it is a means for survival; once the domestic market is saturated it is only logical that SMEs have to expand to other markets (Kuuluvainen, 2011). Tightly related to the survival issue is the phenomenon of market globalization forcing SMEs to enter international competition (Chiao et al, 2006; Musteen et al., 2014). Other factors include government (de-)regulation and advances in information technology (Lu and Beamish, 2001; Osei-Bonsu, 2014). Svetličič et al. (2007) go even further, stating that, in the long run, internationalization constitutes an essential strategy for an SME's survival. One of the indications for this necessity may be that, according to Sleuwaegen and Onkelinx (2010), exporting SMEs show a higher productivity compared with their non-exporting market companions.

Moreover, maintaining business relationships abroad has been found to foster growth and profitability (David and Cariou, 2014; Lu and Beamish, 2006) although the extant body of research may yield mixed results in this regard (Chiao et al, 2006). Lu and Beamish (2001), for example, postulate an inverted U shaped curve relationship between exports and profits, showing that maximal profits are obtained when exports amount to some 50% of total sales. Moreover, the authors (Lu and Beamish, 2006) diagnose a negative relationship of profits and exports on 164 Japanese companies.

Entering international markets, SMEs face a variety of challenges (Julien et al., 1994), moreover affecting on the enterprises' business more than large companies in comparable situations (Hutchinson et al., 2009). In particular, SMEs are more often privately owned, face a greater lack of resources as well as more inflexible organizations structures, and suffer from ill-defined processes to a greater extent than larger companies (Lu and Beamish, 2001). They have limited in-house knowledge and resources (Arup and Kushnood, 2010). To a much greater extent than multinational enterprises, SMEs often face the reluctance of investors to take risks and thus often lack in financial resources needed for preparing and executing exports (EC, 2015; Nummela et al., 2006; Neupert et al., 2006). Research accordingly indicates that SMEs

predominantly finance their exports by their own financial capacities (Oncioiu, 2012). Neupert et al. (2006) also see foreign government restrictions, inadequate knowledge of foreign sales practices, poor distribution practices and lack of knowledge of the foreign target market, as well as SMEs' sometimes unconventional management skills, poor language abilities, cultural differences, and socio-cultural distance to foreign markets as major obstacles to successful internationalization. According to Osei-Bonsu (2014), limited information may also result in failure to reach customers abroad. Despite these barriers, scholars do observe an increasing degree of internationalization among SMEs (Andersson et al., 2004). Many SMEs are suppliers for large multinational corporations, while others serve niche markets (Dornberger and Noor Un, 2008).

The ingredients the literature sets out for a fruitful internationalization of SMEs are various. Success factors include the entrepreneurial propensity of the owner (De Clercq et al. 2005; Andersson, 2000; Lu and Beamish, 2001; Krašnicka and Głód, 2013), network connections in foreign markets (Sedoglavich, 2012; Zucchella and Siano, 2014; Yu et al. 2011; Xu, 2011), and overall managerial and operational flexibility (Kubícková and Procházková, 2014). In particular, innovation and investments into research and development (R&D) are seen as significant predictors of exports (Sedoglavich, 2012; Huang, 2011; Sedoglavich, 2012; Golovko and Valentini, 2011; Chiao et al., 2006; Cassiman and Golovko, 2011; Zucchella and Siano, 2014; Krašnicka and Głód, 2013). The ability to innovate has been found to be a general key quality for competitiveness in home markets as well as internationally (Salunke et al., 2011), particularly in cooperation among firms (Srai and Gregory, 2008:394; Claycomb and Frankwick, 2010). This necessity also applies to SMEs supplying to international high-technology customers (Subrahmanya et al., 2010).

According to the literature, the modes of SMEs' internationalization mainly comprise exports, foreign direct investments, and alliances. The first of these modes, namely export, is a primary source of SMEs internationalisation; presumably because it requires smaller amounts of initial investments and bears less risk than other options (Lu and Beamish, 2001; Cassiman and Golovko, 2011). Therefore, most of the literature reviewed for this paper deals with SME exports and measures the degree of internationalization of SMEs by their exports (De Clercq et al., 2005; Li et al., 2011; Coviello and Jones, 2004). The significance of this subject area is shown by national shares in overall foreign trade: in Korea, for example, 40% of exports are generated by SMEs (Zhou et al., 2006). Lecerf (2012) reports that French SMEs contribute to the nation's economy with 8% of exports while German SMEs generate 14% of the country's exports.

Albeit less costly than other modes of internationalization, some export businesses do require significant investments (Chiao et al., 2006; Svetličič et al., 2007). Service companies, for example, enter counter trade agreements or pay for promotion and sales intermediation (De Chiara and Minguzzi, 2002).

The second significant mode of internationalization, namely foreign direct investment (FDI), requires a SME to set up some of their operations abroad. FDI involves direct investment into facilities, accompanied with additional coordination costs (Lu and Beamish, 2001).

The third way to internationalize, in entering an alliance with a foreign or multinational firm, is designed to supplement each others' resources, thus gaining competitive advantage over non-allies (Svetličič et al., 2007; Lee et al., 2012). However, as Lu and Beamish (2001) state, many SMEs in particular have difficulties to find an adequate alliance counterpart. Moreover, strategic or technological alliances bear the risk of conflicting goals, lack of trust and understanding and cultural

differences among partners (Lu and Beamish, 2001).

Regardless of the way they choose to internationalize, established SMEs do this by a gradual learning process (De Clercq et al., 2005; Sedoglavich, 2012), involving an adaptation in the SME's organizational structure towards the mode chosen, e.g. towards export (Nummela et al. 2006). This gradual internationalization which has been found to be particularly appropriate for mature industries (Armario et al., 2008; Andersson, 2004) is also referred to as the *Uppsala model* (Johanson and Vahlne, 2009). Some of the even smaller and medium-sized companies, on the other hand, can be termed „born global“, having skipped the slow process of internationalization and acting globally at their inception. The scientific literature points out that such SMEs can be found predominantly in high-technology sectors (Svetličič et al., 2007; Fernhaber et al., 2007), face a higher risk/return ratio (Sleuwaegen and Onkelinx, 2010) and ground their business models on innovation in particular (Thai and Chong, 2013).

According to Lu and Beamish (2001), due to lack of public data on SMEs, the internationalization of SMEs is considerably under-researched. Even though there are many significant attempts to explain internationalization strategies and phenomena of SMEs, there is still no common generic theory linking internal resources and external contingencies to success (Dickson et al., 2013).

While the research we found in the literature has been carried out for SMEs in developed countries, there is almost no corresponding research in developing countries (Leonidou, 2004; Amal and Freitag Filho, 2010).

Internationalization of Croatian SMEs

On grounds of the European Manufacturing Survey of the Fraunhofer Institut (2014) we extracted empirical data for Croatia. The survey's sample comprises 120 manufacturing companies in the of which 93 are SMEs, thus representing 77,5% of the study. Of the SMEs, 69% (64 companies) are exporters, operating in the following industries: production of finished goods for consumers (51%), production of finished goods for industrial business (25%), supply of parts/components (19%), contract manufacturing (4%), and system supply (1%). Findings of Buturac (2009) suggest that Croatian SMEs are expected to increasingly contribute to the country's overall export balance. Croatian SMEs are more likely to focus on specific customers or market niches where innovation is required (Račić, 2006).

According to Fraunhofer Institut (2014), Croatian manufacturers not selling directly to consumers predominantly work for the mechanical engineering industry (50%), automotive (30%), chemical (10%) and electrical engineering industry (10%). The mean export rate for small companies amounts to 44,92%, whereas for medium-sized enterprises a mean of 63,46% of the overall business is reached. The findings of the study, imply that, among SMEs, the proportion traded abroad increases with the size of the company. The largest proportion of goods exported by Croatian SMEs are for complex products (72,47%), followed by simple products (56,06%) and medium complexity products (50,03%) (Fraunhofer Institut, 2014). The Fraunhofer study also indicates that exporters invest significantly more into R&D (4,38% of sales), a finding in line with Sedoglavich (2012), Chiao et al. (2006) as well as with Cassiman and Golovko (2011). While the European Manufacturing Survey suggests that these R&D intensive enterprises are no more productive than non-exporting organizations – a finding which is in contradiction to Sleuwaegen and Onkelinx (2010) – they generate higher profits (Fraunhofer Institut, 2014; a statement not in line with Lu and Beamish (2001, 2006). 60% of exporters generate on average 21% of their revenues from new products, while only 27% of exporters launched radically new products and generated

on average only 10,2% of international sales (Fraunhofer Institut, 2014). Innovation is often hypothesized as an important factor for internationalization (Sedoglavich, 2012; Huang, 2011; Sedoglavich, 2012; Golovko and Valentini, 2011; Chiao et al., 2006; Cassiman and Golovko, 2011; Zucchella and Siano, 2014; Krašnicka and Głód, 2013).

Despite their important contribution to the Croatian economy, even effective SMEs are rarely able to achieve economies of scale (Račić et al. 2008). Moreover, the absolute amount of Croatian exports is relatively low compared with neighbouring Slovenia (Stojčić et al., 2012).

In 2013, the year of entering the EU, Croatian exports into Germany increased by 1,5 % (DCIH, 2015). Apart from increasing reliability, German companies sourcing from Croatia expect their suppliers to demonstrate adaptiveness to new technologies in the near future (DCIH, 2015).

Design

This paper is about the appropriate design for analysing innovation in Croatian SMEs supplying to German automotive manufacturers. To provide an easily comparable framework, we adhere to the European Commission's (2015) definition of SMEs by the only criterion of having less than 250 employees. For reasons of access, we frame the proposed study within the automotive sector. The gaps we found in our preliminary literature review – particularly on innovation activities – can be outlined into the following areas of scrutiny:

Are the Croatian SMEs generating inventions or new technologies they are proposing or trying to market to the German automotive industry? This gap we label “technology push”- question.

Are the German automotive corporations in the dyad requesting new technologies or inventions to be implemented by the Croatian SMEs? This gap we label “demand pull”- question.

These questions we want to internally triangulate with quantitative – statistical – questions and a general qualitative research section (Flick, 2008). The overall goal of the study is to recognize potential regularities and patterns of the collaborating dyads (Croatian SMEs – German automotive corporations).

The study's contribution will be to introduce and test a framework for empirical studies of high-technology buyer-seller dyads with asymmetric resources.

Methodological Foundation

Collaboration in the high-technology industry requires *sense-making* in Weick's (1969) notion of reality construction, for which the case study methodology is appropriate (Van de Ven, 2007). This paper's research proposal is about finding out phenomena that are subjectively perceived, such as the maturity of a technology or cultural differences; we therefore take an interpretative stance (Schütz and Luckmann, 1979).

The qualitative technology push and demand pull questions together with the quantitative (statistical) and qualitative common section will be addressed in dyads as the unit of analysis (Oosterhuis et al. (2011). One of the researchers has deep access into the relevant industrial field in Croatia; the other researcher maintains research partnerships with some of the major German automotive corporations. From the pre-selected Croatian sample of 64 SMEs responding to the European Manufacturing Survey, six SMEs working for German automotive sector will be extracted for conducting structured interviews. The German counterparts will be addressed as well in order to externally triangulate and validate (Flick 2008; Gibbert et al., 2008), the research thus covering six corporate/SME dyads that are mainly chosen according to

ease of access. Feedback loops in the sense of Van de Ven's (2007) "engaged scholarship" will seek the confirmation of the industrial respondents of both countries.

Findings

As the study is still in its conceptual stage, there have been no empirical findings so far. However, the literature review has yielded a proposal for the qualitative structured interview questionnaire, mirroring the Croatian part to the German addressee as in Table 1. General questions to the Croatian SME are not mirrored as these can be answered from the German corporations' public disclosures.

The questions are grouped into a technology-push, demand-pull, and quantitative complex, followed by the general questions for Company A:

Table 1: Structured interview questionnaire; Croatian SMEs and German automotive corporations

Question for Croatian SMEs (Company A)	Questions for German automotive corporations (Company B)	Source
Demand-pull questions		
Was your upper management contacted by potential customers or alliance partners and asked to export? How? Was there such an occasion with Company B?	Did your management or technical purchasing department actively seek to import the goods and services? How was this the case in particular with Company A?	Felício et al. (2015), Musteen et al. (2014)
According to your observation, how is your productivity affected by exports you were asked to provide?	Did your organization take additional efforts to increase Company A's productivity?	Sleuwaegen and Onkelinx (2010)
For meeting a potential foreign customer's demand, did your firm make any organizational changes?	As far as you know, did Company A make any organizational changes to meet your demand?	Kubíčková and Procházková, 2014
Supply-push questions		
Did your upper management actively contact potential customers or alliance partners to start to export? How?	Did Company A address your organization to start an export business or market a new technology?	Felício et al. (2015), Musteen et al. (2014)
In your opinion, is your firm's management prone to risk taking as to entering new markets?	How do you rate the export-related risk propensity of Company B?	Sapienza et al. (2006)
In your opinion, is your home market (Croatia) saturated as to your firm's offering portfolio?	In your opinion, would Company A have alternatives in marketing their offerings to their home market?	(Chiao et al, 2006; Musteen et al., 2014)
For marketing products and technologies abroad, did your firm make any organizational changes?	Do you think that Company A made particular organizational changes for actively addressing the German automotive market?	Kubíčková and Procházková, 2014
Do you have a partner or a specialized service company helping you sell your products abroad?	Is/ was there an intermediate helping Company A to sell their products to Germany?	De Chiara and Minguzzi, 2002
Does your upper management speak foreign languages? Which ones?	In which languages do you communicate with Company A?	De Clercq et al. 2005; Andersson, 2000; Lu and Beamish, 2001; Krašnicka and Głód, 2013

To which extent are your employees aware of the necessity to export?	In your experience, is Company A an export-oriented firm?	Neupert et al., (2006)
How are your firm's reward systems tied to export activities and attempts?	Do you know of special incentives Company A makes for their managers to export?	Neupert et al., (2006)
Do you actively market your new products to foreign markets as well?	Have you been actively approached by Company A with their own new products and technologies?	(Chiao et al, 2006; Huang, 2011)
How do you get information about foreign markets and possibilities? How do you stay informed about opportunities in Germany?	Do you think the German import market for automotive suppliers is transparent enough?	Sedoglavich, 2012; Zucchella and Siano, 2014; Yu et al. 2011; Xu, 2011
General questions		
In your opinion, are your firm's /(Company A's) products complex and/or fall into the high technological category?		Svetličič et al., 2007; Fernhaber et al., 2007
Do you allocate a dedicated working and finance capital for export?	Are you aware of the financial structure Company A needs for exports?	Sapienza et al. (2006)
How do you finance these export needs for capital (Internal, bank loan,...)?	Have you given Company A any financial support (loan or similar) for their exports?	Oncioiu, 2012
How much does your organization import? What good is the focus of imports?	Do you provide any semi-manufactured goods to Company A for further processing?	(Kamakura et al., 2012)
Is your equipment foreign and from which country did you import it?	Do you provide any equipment to Company A for joint production?	
Questions only for the Croatian SME ("Company A")		
To which extent do currency fluctuations affect your exports?		Oncioiu, 2012
How much effort do you spend learning about legislation of the countries you export to? Do you seek additional services for foreign legal advice?		Chiao et al., 2006; Svetličič et al., 2007
What are the logistics problems your firm experiences in exporting? How have you overcome them in so far?		
Are you experiencing cultural differences with countries you export to? How do you overcome them?		Osei-Bonsu (2014)
How many years has your firm been in operations?		Ruzzier and Ruzzier (2015)
How many years have you been an exporter? Of these, how many have you exported to Company B?		Sapienza et al. (2006)
To which extent did your return on sales increase/decrease since then?		(Kamakura et al., 2012)
How many employees are working in your firm?		(Chiao et al, 2006; Huang, 2011;
How many formally trained engineers does your firm employ?		Sedoglavich, 2012;
How many new products per year do you introduce?		Golovko and Valentini, 2011; Cassiman and
How many patents does your firm hold? In which countries?		Golovko, 2011;
What is your firm's percentage of exports?		Zucchella and Siano, 2014; Krašnicka and
In how many countries are you present? What are your top 3 countries you export to?		Glód, 2013); Huang, 2011; (De Chiara and
What are your investments into R&D as % of sales?		Minguzzi, 2002)
What is the price difference (positive or negative, in %) of your products in external markets compared with domestic (Croatian) prices?		
What is your marketing budget abroad in % of sales for foreign markets?		

Relevance

SMEs are particularly expected to gain importance as drivers for Croatian exports (Buturac, 2009). To enable comparable studies over time, industries, and countries in the European Union, a framework for SME research is needed. This paper aims at establishing and testing such a framework.

Limitations

The research design is limited to industries with a high proportion of technology and innovation and not suited for e.g. commodities or service industries. It is not suited for symmetric relationships, e.g. two large corporations as a buyer-seller dyad, either. Tight access and the willingness to respond is required for the proposed research design. In particular, the statistical questions may not be answered overtly. It is therefore left to practical execution to test the questionnaire proposed in this paper.

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