

ENTREPRENEURIAL CHARACTERISTICS OF CROATIAN EXPORTERS

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1. INTRODUCTION

Entrepreneurial activity has for long been acknowledged as a significant contributing factor to the economic vitality of a nation or a region (i.e. Schumpeter, 1934; Kent, 1982;). It is linked with individuals, new ventures, risk-taking and innovation (Jennings and Lumpkin, 1989; Lumpkin and Dess, 1996). It is very often associated with growth and job creation, and thus crucially important for emerging economies such as Central and Eastern European transitional countries. According to Balabanis and Katsikea (2003), entrepreneurial posture is determined by three major attributes: the organisations' propensity to take risks, innovativeness and proactiveness.

Risk taking propensity refers to company's willingness to engage in business ventures in which the outcome may be highly uncertain. It is a relatively stable characteristic, but can be modified through experience. Although it is often viewed as an individual characteristic (of a person, i.e. manager), the positive association between risk propensity and risky decision making by individuals is expected to translate to organisations through top management teams (Panzano and Billings, 2005).

Innovation refers to the ability of a company to create new products or procedures or to modify the existing ones in order to meet the changing market requirements. Innovativeness is important for company growth and development for several reasons: innovative products present opportunities for companies in terms of growth and expansion into new areas and allow companies to gain competitive advantage. Innovative policies and innovations themselves are important for both established and new companies. They allow established companies to gain dominant competitive positions and afford new-comer companies an opportunity to gain an edge in the market (Erdil, 2004).

Proactiveness refers to companies' capacity to compete in the market by introducing new products, services, technologies, etc. It relates to aggressive posturing relative to competitors, with emphasis on execution and follow-up of tasks in pursuit of the company's objectives (Knight, 2001).

Different companies, due to their different characteristics such as size, age, branch, organizational structure, etc. possess different ability to adopt an entrepreneurial posture as well as to reap benefits of it.

On the other hand, the major characteristics of the world economy today are shortened product development cycles, customer-driven markets and knowledge intensive products. There are only a few products and producers that do not have to face keen international competition, either on their local or international market. Competition is getting a more international dimension and is intensifying.

Exporting has always been an important mode of doing business internationally and it is a «must» for small and medium sized companies and small countries in general, as it represents one of the most applicable opportunities for their growth. However, international markets by definition tend to be more complex and unpredictable and possibly more hostile for foreign companies. Therefore the adoption of entrepreneurial characteristics in doing business internationally becomes crucial.

The aim of this paper is to test the level of entrepreneurial behaviour and typical characteristics of Croatian exporters. Using the multivariate and inferential statistics we have analysed a sample of 88 Croatian exporters and results of the research are presented in this paper.

2. CROATIAN EXPORTS AND EXPORTERS

Out of about 76,000 registered companies in Croatia there are only about 7,000 exporting companies (less than 10%). Among them only 3,144 can be called active exporters that made export value of over 1 million kuna (about 133,000 Euro), and only about 200 of them export value of over 1 million Euros. Large groups and companies make over 95% of Croatian exports. At the same time, the long-term export results in Croatia are rather unsatisfactory: imports are constantly growing and exports are stagnating, thus creating a disturbing balance of trade deficit.

The research (Izvoznik, 2004) has shown that most export managers see several reasons for such situation:

- problems with export financing,

- non-competitive export pricing,
- insufficient or bad promotion activities, and
- export products' quality.

Table 1 shows the major indicators of Croatian economy concerning international business results in period 1998-2005

Table 1: The major indicators of international trade results in Croatia 1998-2005 (mil US\$)

	1998	1999	2000	2001	2002	2003	2004	2005
EXPORT	4,517.2	4,302.5	4,431.6	4,665.9	4,903.6	6,186.6	8,022.5	8,809.0
IMPORT	8,275.6	7,798.7	7,886.5	9,147.1	10,722.0	14,209.0	16,583.2	18,546.5
BALANCE	-3,758.4	-3,496.1	-3,454.9	-4,481.2	-5,818.5	-8,022.4	-8,560.7	-9,737.5
FOREIGN DEBT	10,738.9	10,192.7	11,282.2	11,870.2	15,679.6	24,759.3	31,002.2	30,219.9

Source: Croatian Chamber of Commerce 2006; reports

The export/import coverage throughout the whole period was around 50%. In 2004 it was only 48.4 %. Within the analyzed period, only in year 2004 exports growth was more rapid than imports growth. The value of exports per capita in 2005 in Croatia was only about 1,100 US\$, whereas in Slovenia, for example, it was 4,774 US\$ and in Ireland 22,120 US\$. Figure 1 shows the major trends in Croatian export and import in period 1998-2005.

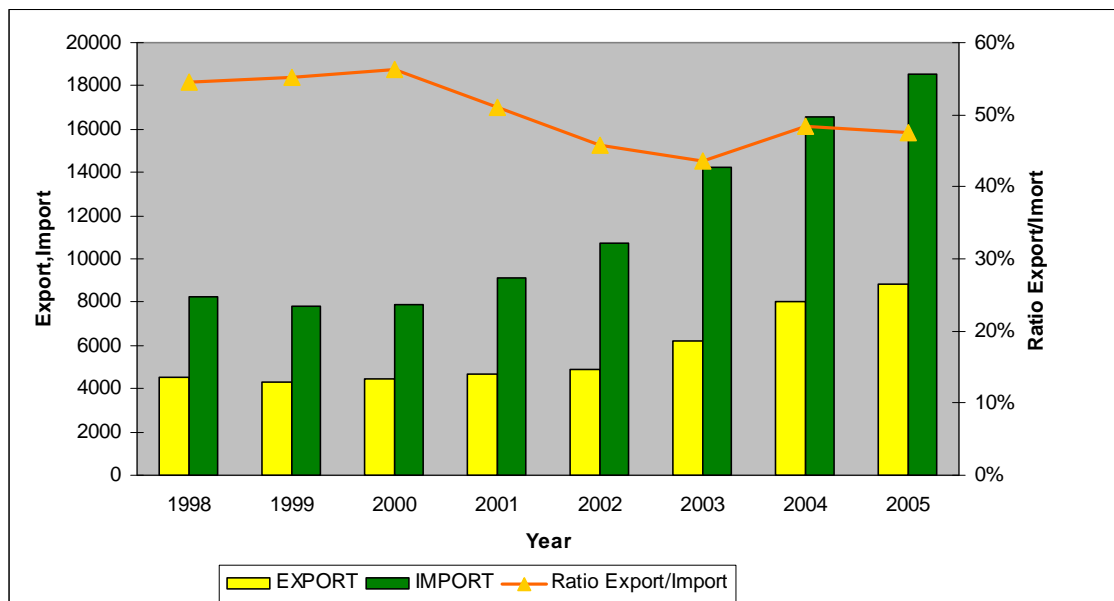


Figure 1: Import and export growth and export/import ratio (1998-2005) in mil. US\$

3. RESEARCH

We have conducted a research of Croatian exporters in period March – May 2004. The data collection model was a postal survey. A questionnaire was sent to a sample of 300 exporters which were randomly drawn from the Croatian Chamber of Commerce database as 10% of active exporters. A weighing variable was computed (sample representativeness is $\pm 4\%$) in

terms of company age, number of employees and type of business activity. The sample covers the whole territory of Republic of Croatia. The key informant approach was used and the recipients of the questionnaire were chosen to be managing directors of the companies. Four weeks after initial mailing a remind letter and a new questionnaire was sent to non-respondents. At the end, a total of 90 questionnaires were returned and 88 of them were usable for our research (two companies were not exporting anymore). The effective responsive rate reached 29.3%.

3.1. Sample description

According to the business activity, the sample of 88 Croatian exporters was divided into two groups: one that consisted of so called traditional activities that are characterized by labor intensity, and other that is mostly technology or capital intensive. 46 companies (52.9%) of the sample belong to the first group and 41 (47.1%) to the second.

Number of employees was used as a measure of company size. According to this criterion, 20.5% of the sample has 100 and less employees. 50% of the sample employs 215 or less employees. Almost half (45.5%) of the sample belongs to large companies with over 250 employees. The largest company in the sample has 3880 employees.

Company age, according to some research, seems to have an impact on level of innovativeness (Hansen, 1992; Balabanis and Katiskea, 2003). Our sample has the following age structure: 50% of the sample is 44 years old or younger, i.e. older. The oldest company is 300 years old. Only 12 exporting companies in the sample (13.6%) can be considered young (10 years or younger).

The basic characteristics of the sample are shown in Table 2.

Table 2: Sample description

	N	Valid percent
Type of activity		
<i>Traditional (labour intensive) activities</i>	46	52.9
<i>Non- traditional (technology or capital intensive) activities</i>	41	47.1
Number of employees		
<i>Up to 50</i>	13	14.8
<i>50-250</i>	35	39.8
<i>250 and more</i>	40	45.5
Company age		
<i>0-10</i>	12	13.6
<i>10-30</i>	24	27.3
<i>30-50</i>	18	20.5
<i>50-80</i>	18	20.4
<i>80-300</i>	16	18.2

3.2. Questionnaire

The questionnaire was constructed to analyze the structure of exporting companies in Croatia: type of business activity, number of employees and company age on one hand, and on the other to test their entrepreneurial orientation in doing business internationally. This part was tested by evaluation on 5-point Likert scale of the well-known construct for measuring international entrepreneurial orientation used by number of authors (Covin and Slevin, 1989; Khandwalla, 1987; Balabanis and Katiskea, 2003).

The results were then checked against the company characteristics and secondly, against variables describing:

- environmental hostility (reliability of financial and material resources, possibilities for business development, competition, industry settings and general climate for business),
- environmental diversity (key foreign markets and their economic and cultural diversity), and
- environmental dynamism (importance and influence of political, economic and cultural changes in the key export markets).

These variables, according to Balabanis and Katiskea (2003), are correlated with entrepreneurial posture.

3.3. Analysis and results

Innovativeness was tested on five variables, as can be seen in Table 3.

Table 3: Innovativeness

	Mean	Median	Std. Deviation
Employees' knowledge and expertise	3.76	4.00	.763
Level of change acceptance in company and environment	3.29	3.00	1.022
Research application in business	3.10	3.00	.903
Level of communication process formalization	3.26	3.00	.893
Ability to change products and processes in accordance with market requirements	3.65	4.00	.855
<i>Total</i>	<i>3.42</i>		<i>.6873</i>

The average innovativeness value was marked as 3.42 on 5 point Likert scale. The highest average mark was given to "employees knowledge and expertise" variable and the lowest to "Research application in business" variable.

Proactiveness was tested on three variables, as can be seen in Table 4.

Table 4: Proactiveness

	Mean	Median	Std. Deviation
“we constantly search for new possibilities for existing business activities”	3.71	4.00	.998
“we are often the first ones to introduce new products/technologies on the market”	3.33	3.00	1.207
“we constantly actively search for new partners to improve business activities”	3.95	4.00	.909
<i>Total</i>	<i>3.67</i>		<i>.83750</i>

Proactiveness was given an average mark of 3.67, the highest of all three characteristics. The highest mark, was given to the “we actively search for new partners to improve business activities” variable, and the lowest to “we are often first ones to introduce new products/technologies on the market” variable.

Risk taking propensity was tested on four variables as it is shown in Table 5.

Table 5: Risk taking propensity

	Mean	Median	Std. Deviation
“our business activities can be considered risky”	2.67	3.00	1.014
“we introduce new projects slowly and step by step”	3.63	4.00	.966
“we are very conservative in major business decisions”	2.98	3.0	1.95
“we hold onto existing and well known projects and procedures”	3.21	3.0	.869
<i>Total</i>	<i>3.12</i>		<i>.57873</i>

The average mark given to risk taking propensity was 3.12., the lowest of all three characteristics. The highest mark to the risk taking propensity was given to the “we introduce new projects slowly and step by step” variable, which is the negative measure of risk taking propensity, and adequately, the lowest mark was given to the “our business can be considered risky” variable.

The means of each of these complex three variables (innovativeness, proactiveness and risk taking propensity) were than standardized (z-score) in order to ensure their comparability. They were marked as criteria variables for hierarchical cluster analysis. The cluster analysis has divided the sample in two clusters: the first one (“entrepreneurial”) with 50 companies, and the average score of entrepreneurial behavior of 3.76 and the second one (“non-entrepreneurial”) with 26 companies with the average score of entrepreneurial behavior of only 2.9. Twelve companies in the sample did not fit into any if the clusters, because of the missing data so we can assume that unanswered options, i.e. variables are non-existing, so these 12 companies might also fit into non-entrepreneurial cluster. Table 6 shows the results of t-test analysis of cluster differentiation according to criteria variables, i.e. average of variables that were used for innovativeness, proactiveness and risk taking propensity measurement.

Table 6: t-test analysis of cluster differentiation according to criteria variables

	Cluster number of case	N	Mean	Std. deviation	t-test	Sig.
Mean of innovativeness variables	1	50	3.9800	.6914	4.957	0.000**
	2	26	3.0513	.8148		
Mean of proactiveness variables	1	50	3.7920	.4462	9.231	0.000**
	2	26	2.7154	.5002		
Mean of risk taking propensity variables	1	50	3.4950	.5567	4.689	0.000**
	2	26	2.9327	.4613		

** Mean Difference was significant at the 0.01 level ($P < 0.01$)

Further analysis has shown that the two clusters do not differ significantly according to their own characteristics: type of business ($t=0.153$; $p=0.695$), number of employees ($t= 0.001$; $p=0.971$) or company age ($t=1.850$; $p=0.178$).

According to the t-test results, they do significantly differ in evaluation of all elements of environment hostility (reliability of material resources ($t=2.471$, $p=0.018$), reliability of financial resources ($t=3.219$, $p=0.002$) and possibilities for business development ($t=4.249$, $p=0.000$) in their key export markets. They also significantly differ in their perception of economic aspects of environment diversity (i.e. differences in economic environment) in their key export markets ($t= 2.115$, $p=0.036$). However, they do not significantly differ in evaluation of cultural aspects of environment diversity (i.e. cultural differences) and in evaluation of environment dynamism (political, economic and social changes and their influence on their own business) in their key export markets.

Table 7 shows the statistically significant differences between the two clusters. Cluster 1 is the "entrepreneurial" and cluster 2 the "non-entrepreneurial" one.

Table 7: Statistically significant differences between the two clusters

	Cluster number of case	N	Mean	Std. deviation	t-test	Sig.
reliability of material resources	1	50	4.12	.90	2.471	.018*
	2	26	3.50	1.10		
reliability of financial resources	1	50	3.64	1.01	3.219	.002*
	2	26	2.88	.95		
possibilities for business development	1	50	3.94	.89	4.249	.000**
	2	26	3.04	.87		
economic aspects of environment diversity	1	50	3.74	1.03	2.155	.036*
	2	26	3.23	.95		

** Mean Difference was significant at the 0.01 level ($P < 0.01$)

* Mean Difference was significant at the 0.05 level ($P < 0.05$)

4. DISCUSSION

Altogether, if innovativeness, proactiveness and risk taking propensity are used as a measure of entrepreneurial behavior, our research shows that Croatian exporters have relatively low level of entrepreneurial behavior. Although the majority of the sample exporters belong to the “entrepreneurial” cluster, the average mark on 5 point Likert scale for all the three characteristics is only 3.40 (entrepreneurial cluster 3.69, and the non-entrepreneurial only 2.70). In the whole model, the highest mark was given to proactiveness, but mostly thanks to the variable of searching for partners in international market - mostly to share the risk, while the risk taking propensity variable consequently got the lowest mark, only 3.12. Innovativeness as a characteristic of entrepreneurial behavior got the middle mark (3.42) but there is a noticeable gap between the highest and lowest marked variable: employees have rather good knowledge and expertise, but the research application in business operations is extremely low. These findings indicate an underestimation and suboptimal use of human resources and their potential contribution to international business success and also might be one of the reasons for low risk taking propensity of Croatian exporters.

Contrary to some other research for different countries (Balabanis and Katiskea, 2003; Guan and Ma, 2003; Mtigwe, 2005), this research shows that company internal characteristics such as size, age or type of business activity, do not significantly influence the level of entrepreneurial orientation and behavior in international markets in case of Croatian exporters, while some of the external variables seem to have a much more significant influence. External variables that represent elements of environment hostility of the foreign market and environment economic diversity differ significantly. Elements defining environment cultural diversity and dynamism, again, do not significantly differ in case of entrepreneurial vs. non-entrepreneurial Croatian exporters.

These phenomena might be explained by the environmental turbulence of the transitional economies of the ex-Yugoslavian market during past two decades: the 1991-1995 war has split the single country into six independent states, so previous parts of the domestic market have become international. These ex-Yugoslavian markets create the most important export markets (export concentration of over 50%) for 27 companies, i.e. 1/3 of our sample. The same stands for the data of all Croatian exports: ex-Yugoslavia countries make about 28% of Croatian export markets. These countries share the same history as well and socio-cultural environment. Therefore, it is understandable that cultural diversity and environment dynamism are not seen as important factors for both clusters. However, economic diversity which is obvious even in the ex-Yugoslavia countries (for example Slovenia in EU and Bosnia and Herzegovina as politically and economically disunited market) seems to play a significant role, especially in the entrepreneurial cluster since it requires research, strategy adaptation and other elements of entrepreneurial posture.

5. LIMITATIONS AND FURTHER RESEARCH

This research has some limitations. One is relatively small sample, which might be biased to a certain extent, i.e. that only those managers that have recognized the researched topics have answered the questionnaire. The other bias is the fact that many managing directors of companies are also the owners, so their objectivity might be questioned.

The next step of this research would be to check the relationship of entrepreneurial characteristics of exporters with their export performance and is if any or all of these characteristics influence the Croatian companies' export performance.

Furthermore, it would be interesting to compare the results of exporting with the new research of non-exporting companies and see if they differ significantly, i.e. if exporters have recognized the entrepreneurial orientation as a key concept to solving specific challenges of doing business internationally.

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