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Proactive international strategies of cluster SMEs

Marta Gancarczyk^a, Jacek Gancarczyk^{b,*}^a Institute of Economics, Finance and Management, Jagiellonian University in Krakow, ul. prof. S. Lojasiewicza 4, 30-348 Krakow, Poland^b Department of Management in Tourism, Jagiellonian University in Krakow, ul. prof. S. Lojasiewicza 4, 30-348 Krakow, Poland

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ABSTRACT

In this conceptual paper, proactive international strategies of small- and medium-sized enterprises (SMEs) in the cluster context are discussed. The majority of cluster SMEs assume passive roles as network participants in the process of internationalisation. However, a smaller fraction adopts proactive strategies to foreign expansion acting as leaders of networks. SMEs as network leaders are embedded in the source clusters and dependent on local networks that provide them with complementary resources. We assert that this mutual dependence between a firm's resources and the development of industrial agglomeration should be reflected in the strategic options that SMEs adopt when going international. This paper contributes by synthesising and evaluating a comprehensive range of SME-strategic options and by proposing the proactive competitive strategies of SMEs in the international arena that are both feasible and effective. The feasibility of adopting a specific strategy means the suitability for this group of companies, considering their characteristics. The evaluation of the effectiveness of each strategy was performed according to the objectives of avoiding lock-in and of protecting and developing the core competencies embedded in cluster networks. We address the research gap in evaluating the outcomes of SME international strategies and in synthesising a comprehensive range of cluster SMEs' strategic options.

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1. Introduction

This paper focuses on proactive international strategies of small- and medium-sized enterprises (SMEs)¹ in the cluster context. SMEs are considered to be the core of the industrial agglomeration since they form a critical mass of its entities. Their participation in internationalisation processes takes both reactive and proactive forms. A majority of SMEs are reactive participants of the value chains of large firms as cluster leaders. However, recent technological changes, as well as requirements of flexibility and speed to market, make the smaller scale of international operations feasible and effective (Agostino, Giunta, Nugent, Scalera, & Trivieri, 2015; Aslesen & Harirchi, 2015; Massini, Perm-Ajchariyawong, & Lewin,

2010; Cusmano, Mancusi & Morrison, 2010). Consequently, the role of SMEs as active players forming international linkages has increased (Coviello, 2006; Fernhaber, McDougall, & Oviatt, 2007; McDougall, Shane, & Oviatt, 1994). This smaller but increasing population of SMEs undertakes proactive international strategies as network focal companies and shapes the internationalisation path and development prospects of its source clusters (Aslesen & Harirchi, 2015; Biggiero, 2006; De Propriis, Menghinello, & Sugden, 2008; Mazzanti, Montresor, & Pini, 2011). Inclusion into global value chains (GVCs) results in either upgrading or downgrading of clusters' competitive positions and eventually in their decline or renewal and further growth. It is maintained that clusters can prevail only as kernels of knowledge within a range of their specialisation at the country level and in the global division of work (Biggiero, 2006; Sturgeon, 2003).

The international strategies of small- and medium-sized enterprises are more embedded in their parent agglomerations than those of large firms. Scale and scope limitations of SMEs cause a necessary reliance on the resources of local networks. The result is a mutual dependence between the internationalisation path of the cluster as well as its further development prospects and the internationalisation strategies of individual SMEs. The current

* Corresponding author.

E-mail addresses: marta.gancarczyk@uj.edu.pl (M. Gancarczyk), jacek.gancarczyk@uj.edu.pl (J. Gancarczyk).¹ In the paper, SMEs are differentiated from large enterprises according to the criteria of EU Commission Recommendation 2003/361/EC, which states that the category of SMEs comprises the enterprises that employ fewer than 250 persons, with an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

paper asserts that this mutual dependence requires SMEs to embrace competitive strategies that combine two objectives. Namely, they need to protect and develop the core competencies embedded in cluster networks, and to build international networks in order to avoid the lock-in that prevents access to external tangible and intangible resources.

The aim of this paper is to identify and evaluate the options of cluster SMEs' proactive competitive strategies in the international arena according to their feasibility and effectiveness. The feasibility of adopting a specific strategy means the suitability for this group of companies, considering their characteristics. The evaluation of effectiveness was performed according to the objectives of avoiding lock-in and of protecting and developing cluster core competencies.

This paper contributes by synthesising and evaluating a comprehensive range of SME-strategic options and by proposing the proactive competitive strategies of cluster SMEs in the international arena that are both feasible and effective. In doing so, it addresses the research gap in current literature on SME internationalisation, with a focus on the specificity of cluster SMEs. Regarding the research on SME internationalisation, this paper addresses the deficiency of the evaluation of SME-strategic options in this process. Existing studies predominantly focus on the antecedents and drivers of internationalisation rather than on the evaluation of outcomes (Carr, Haggard, Hmieleski, & Zahra, 2010; Hilmersson, 2014; Tang, 2011). With regard to the specificity of cluster SME internationalisation, recent studies analyse some selected strategic options, which calls for integrating the extant evidence (Mariotti, Micucci & Montanaro, 2004; Biggiero, 2006; De Propriis et al., 2008; Mariotti, Mutinelli & Piscitello, 2003; Cutrini, 2011). We respond to this need by synthesising the knowledge on SME and cluster internationalisation from the literature on international entrepreneurship and small business, regional entrepreneurship and regional development.

This article has seven sections. After the introduction, a mutual dependence between SMEs and the cluster governance is discussed in the second section. The third section analyses the essence and objectives of SMEs' proactive strategies in the process of cluster internationalisation. On the basis of these theoretical insights, we present a research framework for evaluating international strategies of cluster SMEs in the fourth section. The following two sections (Sections 5 and 6) systemise and evaluate the cost- and differentiation-based options of cluster SMEs' expansion in the international arena, which results in eight research propositions (two general and six detailed ones). Discussion and implications for further research and practice comprise the seventh section.

2. SMEs and the cluster governance

Clusters are geographical concentrations of firms in one or a limited number of related industries that form cooperative and competitive networks together with the institutions of environment (European Commission, 2002; Gancarczyk, 2015; Porter, 1998; Vanhaverbeke, 2001). In this vein, the structural characteristics of clusters are spatial and industrial concentration and network relationships among business, social and public organisations (Gancarczyk & Gancarczyk, 2013). Spatial and industrial concentration is a source of regional specialisation (Bellandi, 2001; Krugman, 1991; Piore & Sabel, 1984; Porter, 1998). It ensures agglomeration externalities, namely the access to specialised suppliers, qualified employees and information spill-overs (Marshall, 1920; Krugman, 1991; Porter, 1998). Network relationships among cluster companies and social and public institutions form a governance system that affects prospects not only for exchanging information but also for generating and transferring knowledge (Asheim & Isaksen, 2003; Brusco, 1982; Markusen, 1996; Porter,

1990; Pyke & Sengenberger, 1992; Saxenian, 2000).

Governance is one of the key concepts describing the regional context of entrepreneurship. It is understood as modes or structures of implementing economic activities that include market, organisational hierarchies (vertical integration) and hybrids, combining the former two modes (Williamson, 1991). In the entrepreneurship and small business literature, the network governance is described as a hybrid being a set of relationships coordinated by key agents based on some form of hierarchy and market transactions (Agostino et al., 2015; Johannisson, 1998). Although the number of entities forming networks is not clearly determined in the literature, we can assume that these relationships are complex and go beyond bilateral business exchange (Johannisson, 1998; Kogut, 2000; Huggins & Johnston, 2010; Jack, Drakopoulou Dodd, & Anderson A.R., 2008).

SMEs form a critical mass of cluster enterprises and they are its specific beneficiaries. Acting in cooperative networks, they achieve scale and scope economies similar to those of large firms (Pyke & Sengenberger, 1992). These cooperative relationships cause a partial inseparability of networking firms' capabilities and, consequently, governance itself (Argyres & Liebeskind, 1999; Aslesen & Harirchi, 2015; Mazzanti et al., 2011). The interrelations and mutual dependence between firm capabilities and governance are reflected in the notions of network resources (Gulati, 2007), network capital (Huggins & Johnston, 2010) and knowledge networks (Hansen, 2002; Owen-Smith & Powell, 2004). Namely, firms' competitive advantage and underpinning core capabilities are not fully appropriated by an individual company, but they are embedded in practices and routines of a network (Nelson & Winter 1982; Nonaka, 1991; Gertler, 2007; Aslesen & Harirchi, 2015).

Considering the above characteristics of firms' resources and governance, the focus of cluster analysis was traditionally not on an individual enterprise but on a local or regional production system embedded in the social and cultural context (Brusco, 1982; Piore & Sabel, 1984; Pyke & Sengenberger, 1992). This systemic approach neglected the role of individual firms and entrepreneurial opportunity seeking. Recent research on clusters in the area of entrepreneurship and small business as well as regional entrepreneurship and regional development aims to fill this gap. It emphasises the growth of entrepreneurial ventures that affect the development prospects of their networks and the entire agglomeration (Alberti, Sciascia, Tripodi, & Visconti, 2008; Best, 2000; Klepper, 2007; Ter Wal & Boschma, 2011; Malipiero, Munari, & Sobrero, 2005; Munari, Sobrero, & Malipiero, 2011; Sornn-Friese & Sørensen, 2005).

The role of individual enterprises in cluster development is grounded in the theory of firm growth (Best, 2000; Penrose, 1959) and the resource-based view (RBV) of the firm that originated from it (Wernerfelt, 1984; Kogut & Zander 1992; Peteraf, 1993; Barney, 1991). Firm growth results from matching enterprise capabilities with environmental chances (Gancarczyk, 2016; Penrose, 1959; Best, 2000). The RBV emphasises the heterogeneity of firms' capabilities, which affects their differing competitive positions. Rare, valuable, inimitable, immobile and non-substitutable resources that underpin the competitive position should be integrated within the company as its core competencies (Barney, 1991; Hamel & Prahalad, 1990; Freiling, Gersch, & Goeke, 2008; Gancarczyk & Zabala-Iturriagoitia, 2015). The capabilities that are non-core can be outsourced to network partners (Kogut, 2000; Huggins & Johnston, 2010; Jack et al., 2008). Relative to large firms, SMEs are less capable of internalising and appropriating the competencies that are the core of their competitive advantage. They are inclined to choose network governance rather than vertical integration, due to resource constraints and willingness to maintain flexibility (Hoetker 2005; Verwaal, Bruining, Wright, Manigart, & Lockett,

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