

**International Small Business Series 18**

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**University  
of  
Göttingen**

**Wolfgang König, Klaus Müller**

**Empirical Survey of  
Cross-Border Co-operations  
in the Crafts Sector**

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edited by:  
International Department  
Institute of Small Business  
Director: Prof. Dr. Wolfgang König

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Many enterprises feel a compulsion to internationalize. In this context, the European Internal Market plays an important role. There are no reasons why the crafts sector should not be engaged in cross-border business activities, as well. On the contrary, these enterprises have been considerably involved in exports for years. Recently, other ways of internationalization like cross-border co-operations were attempted. The importance of this strategy was evaluated through an empirical survey of various cases<sup>1</sup>.

## 1. Theoretical Background and Issues Raised

To start a survey of internationalization strategies, it first has to be asked which factors enable enterprises to operate in foreign markets. Only afterwards, it can be examined which factors influence the choice between alternative ways to become active in foreign markets. The modern internationalization theory, which is basically identical with the approach of the transaction cost theory, emphasizes the aspect of the optimal use of firm-specific advantages by choosing between different forms of internationalization.

Usually, the objectives of an enterprise are both multidimensional and the result of managerial decisions. Concerning crafts enterprises, it has to be asked which standards these decision-making processes incorporate, respectively if these decisions are being made ad hoc. In any case, regarding the objectives, one has to differentiate between sales or market motives, cost motives, and procurement motives. Various explanations of an internationalization strategy can be related to any of these motives. The decision on how to internationalize leads to an examination of the forms of internationalization. This task is by far the most complex element of cross-border business activities. According to the transaction cost theory and the internalization theory an enterprise has various options. Therefore, the entrepreneur needs to compare different forms of internationalization. Beside traditional forms like trade and direct investment abroad, the attention is particularly focused on "new" forms of co-operation. The main characteristics of these forms are the legal and economic independence of the participating enterprises, a contractual basis of the relationship, mutual interest and action to achieve an economic goal, supplementing and co-ordinating operational functions or single activities of the firms, and a long-term relationship. However, a clear line between co-

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<sup>1</sup> The survey was carried out on behalf of the EU-Commission. Within the framework of its measures to improve the business environment for small enterprises and craft firms, the Commission awarded a project for "Studies on conditions for establishing co-operations between small enterprises and craft industries". The contract was commissioned to the Seminar für Handwerkswesen an der Universität Göttingen in co-operation with partners from five different nations. The partners came from Germany (Handwerkskammer Trier, Handwerkskammer des Saarlandes, Exportberatungsstelle Handwerk Baden-Württemberg, Landesgewerbeförderungsinstitut für das Nordrhein-Westfälische Handwerk, EU-Info-Center ZENIT in Mühlheim), from Luxembourg (Chambre des Métiers), from France (Chambre des Métiers Metz), from Belgium (DeBeLux), and from Denmark (Institute for Small and Medium-Sized Enterprises in Auning). The project was carried out in the first half of 1993.

The report with the detailed results will soon be published in German as *Göttinger Handwerkswirtschaftliche Studien* Volume 48, and in a short version as *Göttinger Handwerkswirtschaftliche Arbeitshefte* 31.

We would like to thank Mrs. Angela Lüttgens, M.A. for her collaboration.



operation on the one hand and the market respectively foreign direct investment on the other hand cannot always be drawn.

Therefore, market, co-operation, and foreign direct investment are simplifying categories for certain contractual arrangements. If co-operations between enterprises are of high importance in this context, one has to bear in mind that such a collaboration between two or more legally and economically independent firms serves the purpose of supplementing individual advantages respectively of compensating individual disadvantages. Cross-border co-operation is an obvious internationalization strategy for small and medium-sized enterprises, because it is based on a special relationship between the partners, which is not typical for large firms. A commitment in this sense promises a certain security regarding future behaviour. By establishing a co-operative relationship both partners understand that opportunistic behaviour has to be avoided. Such considerations will be examined in the empirical part of this paper.

Basically, one has to distinguish between external and internal conditions of a co-operation. The external conditions describe situations in which a co-operation is more efficient than alternative forms of internationalization. The internal conditions show how certain problems arising within the co-operation can be avoided. Without claiming completeness, in the following, some hypotheses will be suggested which belong to the external conditions, and which should especially concern cross-border co-operations of crafts enterprises. Each states, why a co-operation is a relatively advantageous form of internationalization:

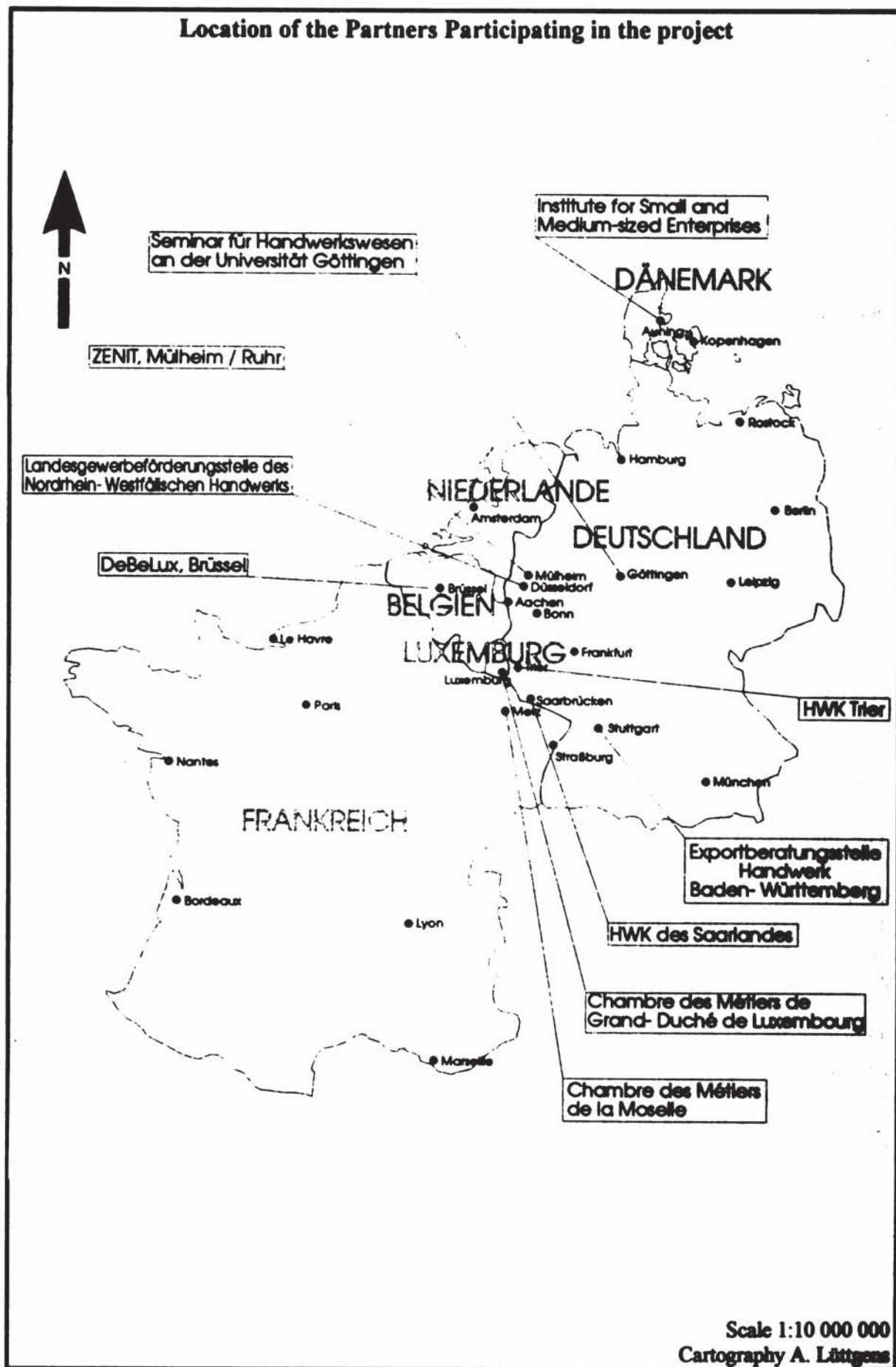
- The economic activities are very partner-specific and demand different skills.
- Unprotected know-how is supplied; to use it, new and different skills have to be developed and employed.
- The intended internationalization principally implies great risks which are supposed to be shared.

Even if these and other external conditions are fulfilled, the cross-border co-operation is not necessarily stable, because securing internal stability is another basic precondition for a successful collaboration. Regarding this, the following conditions for small and medium-sized enterprises and their cross-border co-operations should be considered:

- The number of participating partners is small.
- There is no time limit for the co-operation.
- The expected performance of the partners will be specified as detailed as possible and regularly updated; and there is a high level of tolerance based on trust concerning these questions.
- The importance of the co-operation success is equally high for all partners.
- The partners already know each other because of former business activities, or they meet in a forum which creates mutual trust.
- The results and the profit of the co-operation can be shared among the partners in such a way that all feel fairly treated and motivated.



### Location of the Partners Participating in the project



At the end of this section, it can be stated that cross-border co-operations play a specific role in internationalization strategies, regardless of the size of the enterprise. In certain situations, considerable advantages can be realized compared to alternative forms of internationalization. Crafts-specific characteristics are to be expected and would reflect the relevant external and internal conditions of stability.

The research for this paper concentrated on this point. The main question dealt with is whether cross-border co-operation is an internationalization strategy by which crafts enterprises not only act defensively against competitive threats arising from the European Internal Market but also find a way to stimulate the efficient use of firm-specific advantages, and to promote thereby the expansion of their activities.

## **2. Main Characteristics of the Enterprises Interviewed**

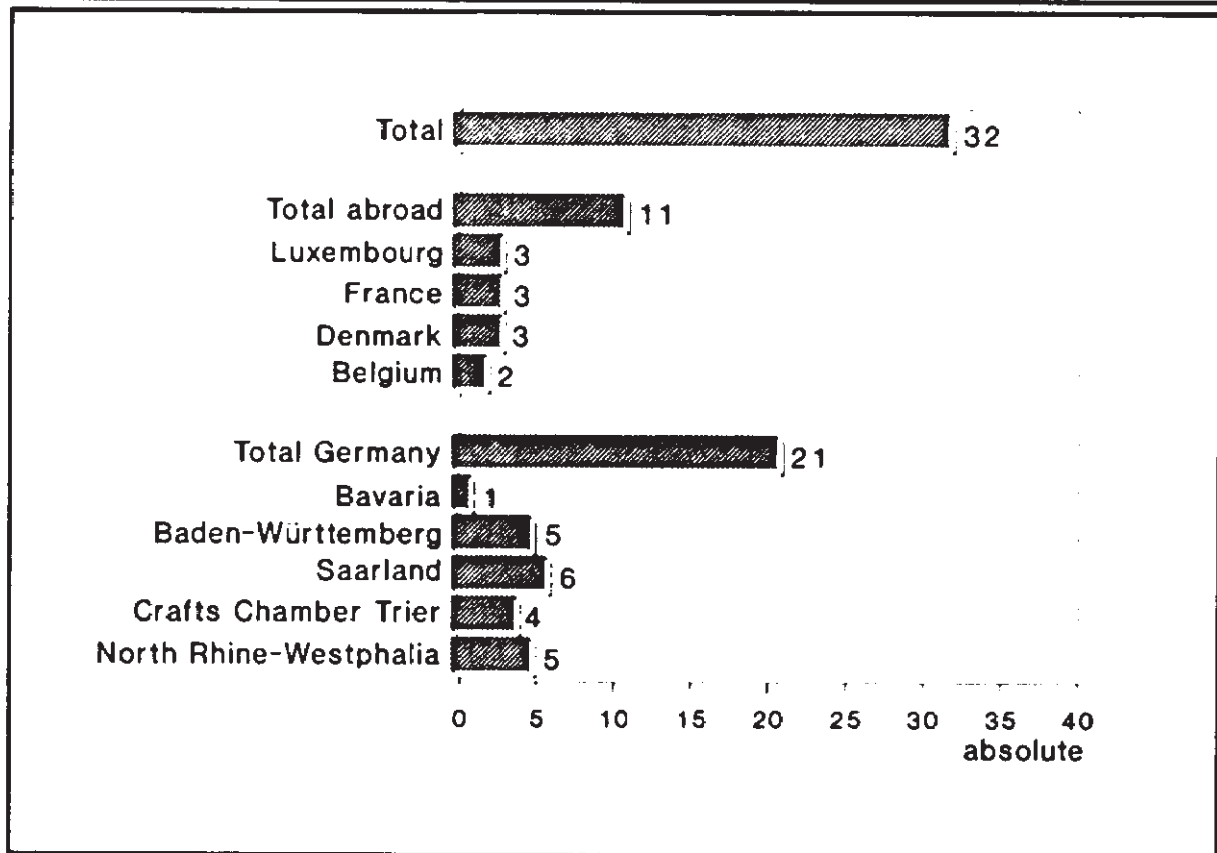
The area of research for this paper comprises the regions where the participating partners are located, as shown in the graph. Crafts enterprises which still look for or negotiate with a partner for a cross-border co-operation, or whose co-operation has ended already, have been considered, too. The number of co-operation cases in the examined area was determined according to the knowledge of the partners participating in the project. It was assumed that almost all co-operations have been included. Altogether, 32 crafts enterprises have been interviewed, the origin of which is documented in chart 1.

The state of the co-operations from searching a partner to ending the co-operation is displayed in chart 2.

The number of existing co-operations is surprisingly low, particularly if considered that most parts of the examined area can be characterized as border regions. In this context, the following numbers should be mentioned: the German crafts sector exports about 2% of its turnover, and in Lower Saxony every twentieth crafts enterprise is engaged in exports. Therefore, concerning co-operations crafts enterprises have a lot to catch up on.

Those crafts enterprises, which have not found a partner yet, have been looking for a partner since 2 ½ years, on average. This relatively long search allows two conclusions. On the one hand, the intended cross-border co-operation is not a problem of vital significance for the crafts enterprises, on the other hand, the search for a partner is being done carefully and very selectively.

Chart 1: Number of Enterprises Interviewed according to Regions and Countries

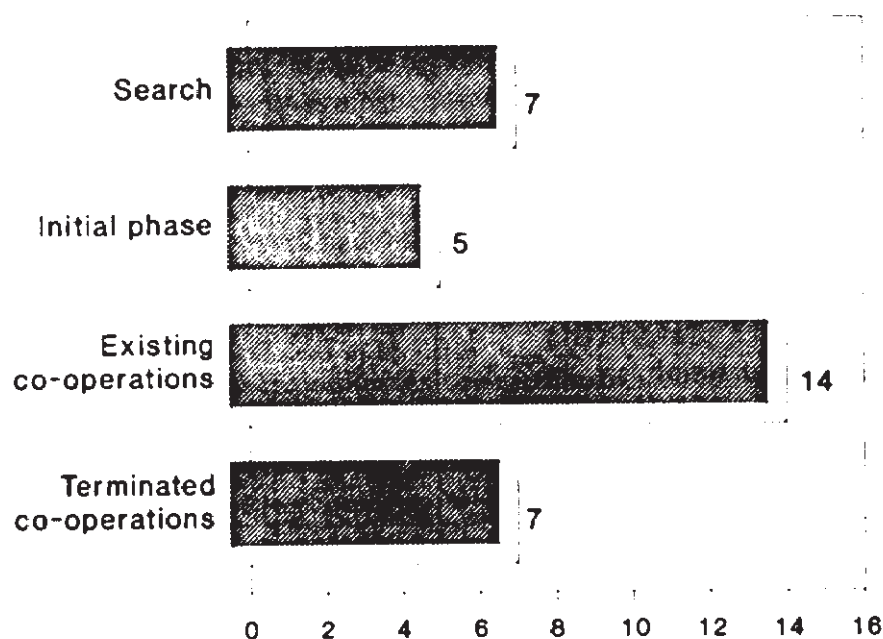


Source: Survey EU-project IVb  
Population: n=32

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Disregarding both the oldest and the youngest co-operation, an average duration of 2.5 years was determined for the co-operations at the time of the interviews. The pattern allows to conclude that cross-border co-operations in the crafts sector have gained a certain momentum since the end of the eighties, even when subtracting the cases of terminated co-operations. The dynamic development of cross-border collaboration in the crafts sector has a cumulative element insofar as, after a short time, partners of existing co-operations try to initiate additional co-operations, because they obviously regard such an international engagement as a good opportunity to expand their business.

Chart 2: State of the Co-operations



Source: Survey EU-project IVb  
Population: n=33

Moreover, the interviewed enterprises are considerably engaged in pure exports. Mostly, they exported before they started a cross-border co-operation. However, more and more cases of a simultaneous beginning can be observed. Many of these co-operations are characterized by a transfer of technology. The size of the enterprises and the area of business are shown in charts 3 and 4.

The analysis of the geographic range of the co-operations is particularly instructive, because it can be compared with the role of distance costs. Disregarding the co-operation of a German firm with a Mexican enterprise, the range varies between 5 km to 1,000 km. Only 6 out of 14 existing co-operations collaborated within a distance of 150 km. This is a distance within which, under certain assumptions of business conduct, ad hoc meetings and personal contacts are still relatively inexpensive and little time-consuming. Nevertheless, five of the terminated co-operations were realized within that distance. That leads to the conclusion that distance costs do not play a role, at least in ending a co-operation.

<b>Chart 3: Enterprises according to Countries and Number of Employees</b>				
<b>Country</b>	<b>&lt; 10</b>	<b>11-30</b>	<b>&lt; 30</b>	<b>Total</b>
<b>Germany</b>	7	6	8	21
<b>Belgium</b>	2	-	-	2
<b>Denmark</b>	2	1	-	3
<b>France</b>	2	1	-	3
<b>Luxembourg</b>	1	1	1	3
<b>Total</b>	14	9	9	32

Source: Survey EU-project IVb  
Population: n=32

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<b>Chart 4: Area of Business</b>	
<b>Trade</b>	<b>Number of Enterprises</b>
<b>Metal</b>	10
<b>Wood</b>	5
<b>Electricity</b>	4
<b>Printing</b>	3
<b>Computer</b>	3
<b>Construction</b>	1
<b>Chemistry</b>	1
<b>Synthetic material</b>	1
<b>Photography</b>	1
<b>Food</b>	1
<b>Sanitation, heating, and air-conditioning</b>	1
<b>Arts and crafts</b>	1

Source: Survey EU-project IVb  
Population: n=33

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### **3. Firm-Specific Advantages of the Co-operation Partners**

From previous research on small and medium-sized enterprises we know that lean organization and management are the crucial advantages of crafts enterprises because of the greater flexibility concerning managerial decision processes. Besides, most small enterprises have a close contact to the market and their customers. Therefore, crafts enterprises are quicker than large companies in identifying and occupying market niches. An additional advantage is the consequential specialization. Contrary to large companies focusing on mass production, many small enterprises concentrate on few products, thereby gaining considerable advantages in series production of single units. A supplementary advantage is that they offer product quality and an intensive service while satisfying a special demand, which particularly emphasizes firm-specific know-how and the flexible use of production processes. This, in turn, plays a role in enlarging the geographical range of sales and helps to participate in intra-industrial specialization. Apart from that, special skills are developed to react to demand fluctuations.

In the empirical survey, the question of advantages for an engagement abroad was at the same time a question of internationally using firm-specific advantages. The firms see their particular advantages foremostly in their products and the least in research and development (see chart 5). Regarding the products, emphasis was put on the quality of products and the orientation towards a special demand. Apart from the service, the price of the products was frequently named as an advantage, surprisingly by German enterprises in particular. Deficits were observed concerning market know-how, which is indicative of the fact that crafts enterprises often recoil from an engagement abroad.

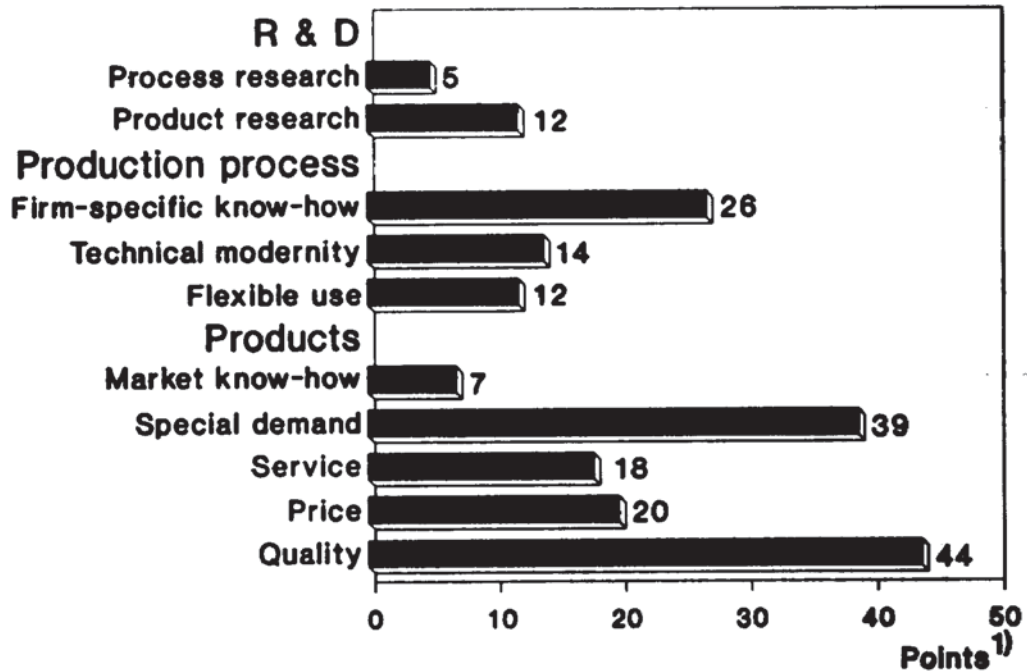
It is obvious that the above mentioned external and internal conditions can be fulfilled to a different degree from case to case, and that therefore the character of the co-operations varies. In small and medium-sized enterprises the personal relationship between the entrepreneurs can play a particularly decisive role, whereas in the industrial sector rigid rules of conduct and contractual conditions may dominate.

Within the category 'production process' the firm-specific technical know-how is the greatest advantage. The modernity of the production technique and the possibility of flexibly using the production process play a minor role. Even though research and development seem to be a rather weak point of crafts enterprises, it cannot be concluded that their technical progress is slow. The situation is rather that technical progress is not a function in itself, as in large companies, but a permanent characteristic of production processes and therefore a considerable firm-specific advantage. There is no other explanation for the high score of the sub-categories special demand, quality, and firm-specific technical know-how. The ensuing knowledge often cannot be codified, but is nevertheless an expression of strength which reveals itself in the possibility of product differentiation.



**Chart 5: Firm-Specific Advantages for an Engagement Abroad**

(All co-operation cases, multiple answers possible)



Source: Survey EU-project IVb

Population: n=29

1) Up to three points could be given for each answer.

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#### 4. Motives and Initiation of Co-operations

Chart 6 shows that sales motives dominate the objectives of a cross-border co-operation of crafts enterprises. They comprise securing and enlarging existing markets, using market know-how of the partners, developing sales channels, and simplifying market entry.

The probable reason for the importance of sales motives is that insufficient information about foreign markets constitutes a great barrier for an engagement abroad.

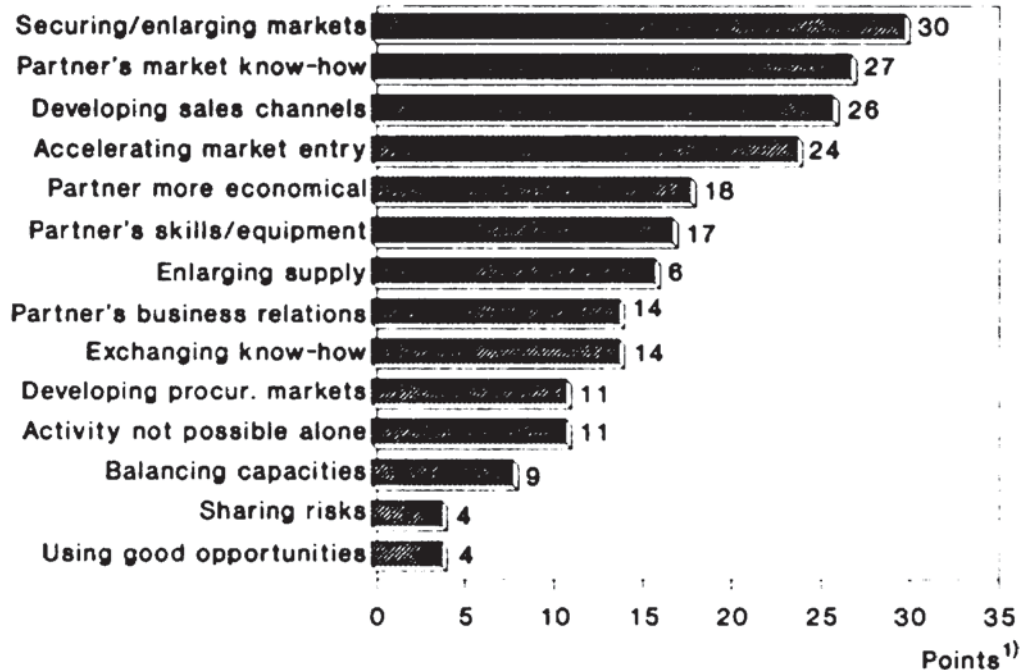
Objectives requiring the use of particular qualities of the partners play an important role, too. They include inexpensive production possibilities, as well as special knowledge, skills, and equipment of the partners. Thereby, costs can be lowered, or certain products and services, which cannot be produced individually, can be offered jointly.

Compared to the motive analysis, the co-operations themselves focus surprisingly often on the area of production, followed by marketing and sales.

21 out of 29 enterprises initiated the cross-border co-operation themselves. 13 (multiple answers were possible) mentioned the initiative of crafts organizations, which only comprised crafts chambers or EU export-counselling offices and Euro-Info-Centres affiliated to crafts chambers. The results concerning the initiation of co-operations allow the interpretation that the enterprises themselves gave the main impetus for a co-operative internationalization. In most cases, crafts organizations then increased the original motivation. It has to be taken into account, of course, that most firms were already involved in exports as a form of internationalization. Therefore, cross-border co-operations seem to be a particularly suitable way to efficiently use firm-specific advantages on an international level.

**Chart 6: Reasons for a Co-operation**

(All co-operation cases, multiple answers possible)



Source: Survey EU-project IVb

Population: n=31

1) Up to three points could be given for each answer.

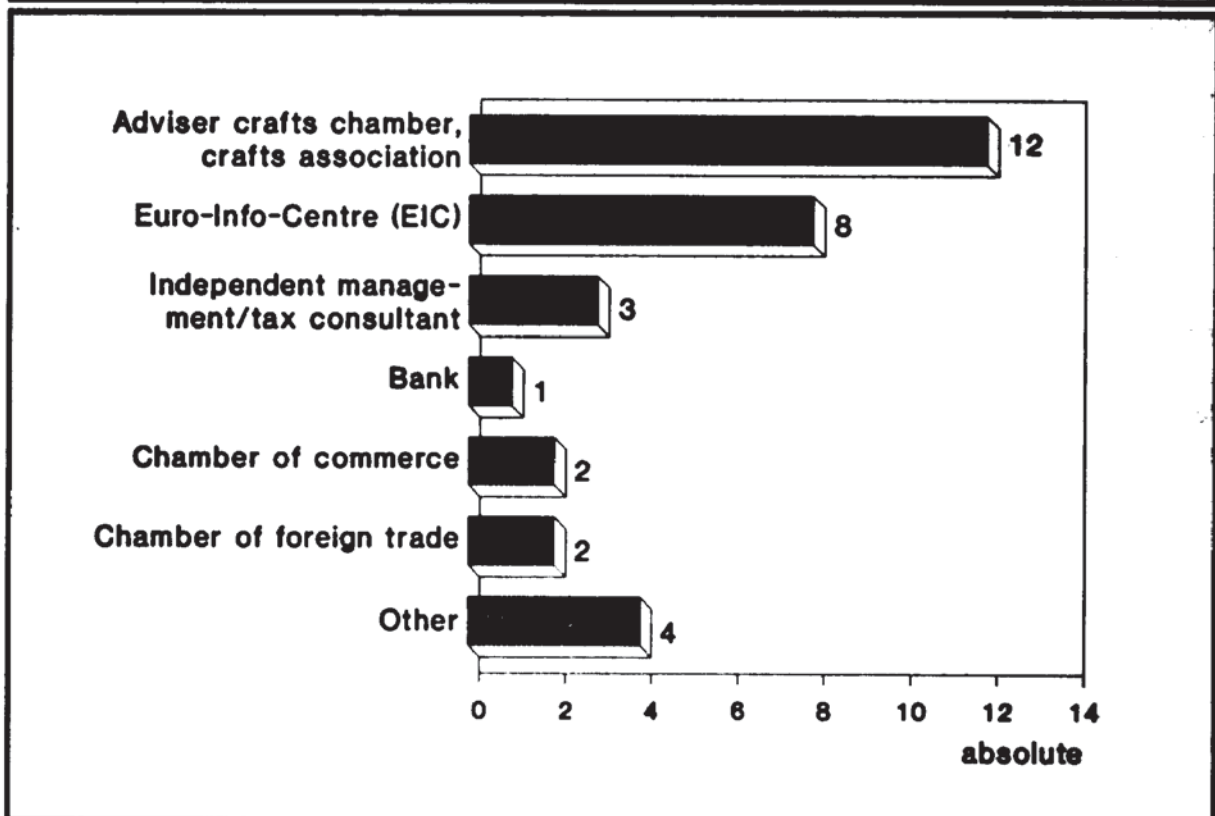
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In almost half of the cases studied, the contact with partners was arranged by crafts organizations. Considering, moreover, trips of delegations and co-operation fairs organized by crafts associations, the important role of crafts organizations in initiating co-operations becomes clear.

Finally, chart 7 shows again the important role of crafts organizations, this time concerning support in starting a co-operation. Apart from one case, the overall assessment of the aid programmes was positive. The average time needed to start a crafts co-operation was seven months, which is a little shorter than the time needed by other sectors of the economy. The difference is due to the various aid programmes, particularly of crafts organizations.

**Chart 7: Support in Starting a Co-operation**

(All co-operation cases, multiple answers possible)



Source: Survey EU-project IVb  
Population: n=20

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## **5. Analysis of Performance**

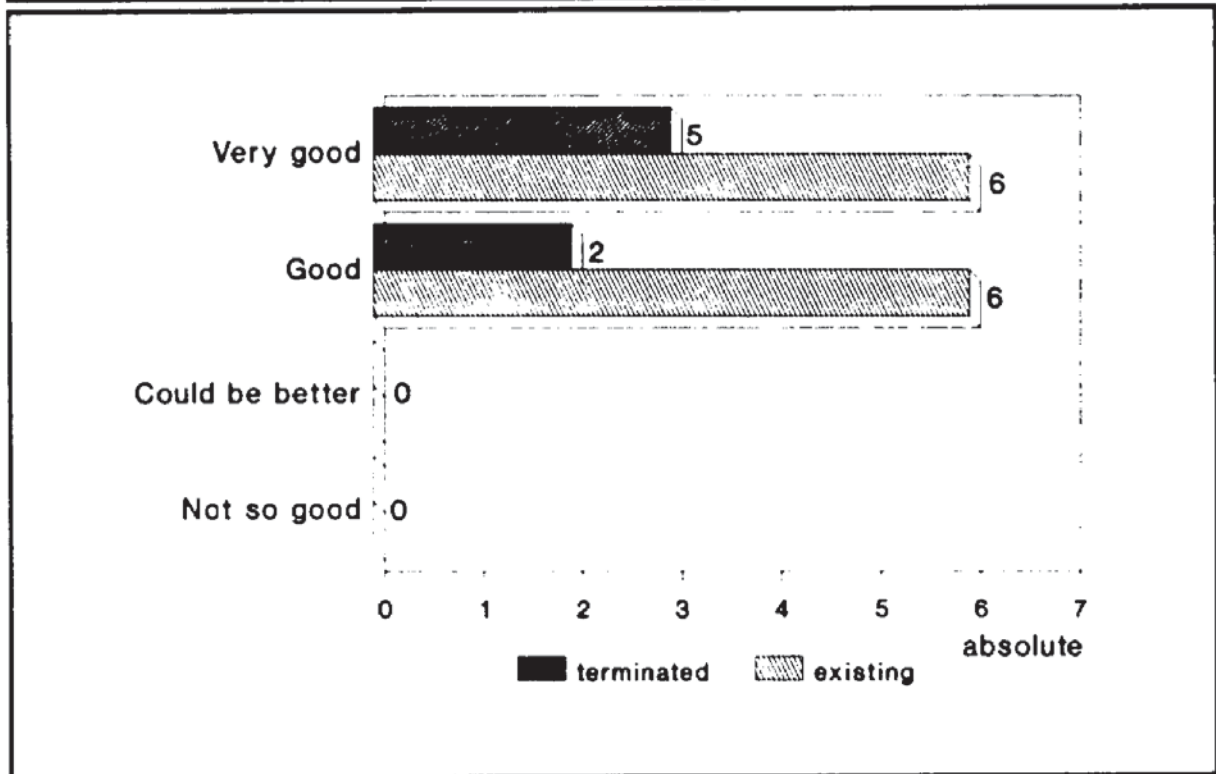
For this survey, a definition of cross-border co-operations based on written contracts would have been too narrow. Indeed, the majority of the examined cases were co-operations constituted by an informal agreement. To draft and impose a written contract is relatively expensive. To use standardized contracts would save costs but would not be adequate for the special requirements of crafts co-operations. Besides, mutual trust among the partners plays an important role in cross-border co-operations of small and medium-sized enterprises.

The enterprises value the economic importance of the co-operations relatively high despite the informal manner in which they materialize. Only three of the enterprises interviewed stated that the collaboration plays a rather minor role. All co-operations were started without time limit, and in 1992, on average 12% of yearly turnover of the partners was done co-operatively. It has to be considered, however, that some co-operations are still in the starting phase, and that the average co-operation turnover will certainly increase gradually. Most enterprises did not mention alternative forms of internationalization, other than co-operations. Therefore, regarding the other options which were already mentioned in this paper, the co-operative internationalization strategy enjoys a special status.

Some of the above mentioned facts were elaborated by asking for factors that stabilize a cross-border co-operation, as shown in chart 8. We see that a good personal relationship between the partners plays the most important role in securing the stability of the cross-border co-operation. Finally, it is remarkable that both similar and, in different technical situations, differing skills of the partners are relatively important, since both reached an equally high score.



**Chart 9: Personal Relationship between the Co-operation Partners**  
(All co-operation cases, multiple answers possible)



Source: Survey EU-project IVb  
Population: n=19

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Finally, the problem analysis, as documented in chart 10, demonstrates that

- no problem is particularly important,
- a lack of trust was only stated by one entrepreneur, and that therefore the personal relationship is not a crucial difficulty of co-operations, as it is often claimed in other studies.



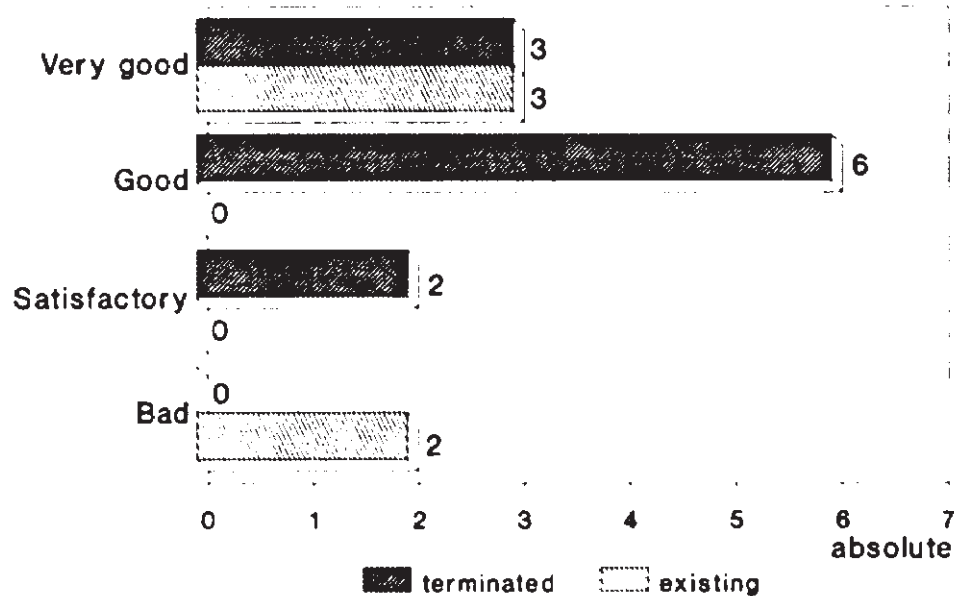
<b>Chart 10: Problems Arising</b> <b>(Existing and terminated co-operations, multiple answers possible)</b>			
<b>Problems</b>	<b>existing co-operations</b>	<b>terminated co-operations</b>	<b>total</b>
Language problems	3	1	4
Lack of trust	-	1	1
Mentality problems	3	2	5
Different business practice	4	1	5
Different market conditions	4	-	4
Problems with foreign business and tax legislation	1	-	1
Problems with labour and social legislation	-	-	-
Border and/or customs problems	3	1	4
Financial standing of the partner	2	1	3
Different economic development of the partners	2	3	5
Problems completing the contract	2	2	4
Lack of qualified personnel for abroad	2	1	3
Own financial difficulties	1	1	2
Costs too high	-	1	1

Source: Survey EU-project IVb  
Population: n=17

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Hence, it is not surprising that generally the co-operations are successful, as the evaluations in chart 11 show, and that the overall expectations, despite some reservations, have been fulfilled. Only four co-operations can be assessed as a complete failure.

**Chart 11: Assessment of the Co-operation Performance**  
(All co-operation cases, multiple answers possible)



Source: Survey EU-project IVb  
Population: n=16

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It became clear, though, that the relatively extensive aid programmes offered by the EU-Commission to promote cross-border co-operations are unknown to many of the enterprises interviewed. Even when they knew about them, the programmes were hardly claimed. The situation changes when a Euro-Info-Centre is affiliated to a crafts chamber.

## 6. Conclusions and Perspectives

The empirical survey of cross-border co-operations in the crafts sector shows that small and medium-sized enterprises rationally plan their internationalization decisions. However, there are considerable differences concerning behaviour and surrounding conditions in comparison with large companies. First of all, the main results shall be presented:

1. Regarding the expected relation between exports and other forms of an international engagement, particularly of co-operations, it has to be concluded that currently crafts enterprises are strongly under-represented in the field of cross-border business co-operations, and that consequently there is a considerable potential in that field. The mobilization of this potential would foremostly tap the existing export-related activities of crafts enterprises. The Seminar für Handwerkswesen an der Universität Göttingen estimates on the basis of several surveys that in Germany 10,000 - 15,000 enterprises would have this potential.
2. The interviewed crafts enterprises with a considerable internationalization potential had firm-specific advantages particularly in the field of product design and self-reliant adaptation of production processes. This is the crafts-typical technical progress, which leads to competitive advantages through considerable product differentiation.
3. Most co-operations were started with partners from neighbouring and other EU-countries but the geographical distance and the related distance costs, in most cases, did not play a decisive role in initiating a cross-border business co-operation.
4. The decision for a co-operation was endogenous and aimed at exploiting firm-specific advantages in the international realm. At the same time, crafts organizations played an important supporting role.
5. The importance of crafts organizations is emphasized by the fact that they play an essential role in finding a partner. That is at the same time an expression of trust of the crafts enterprises in their umbrella organizations.
6. Market motives like sales-related objectives are the main reasons for cross-border co-operations. Many crafts enterprises want to use the special skills of their partners, too.
7. The cross-border collaboration in the crafts sector is mainly based on informal agreements. This fact is usually reflected by a trustful relationship between the partners.
8. Cross-border co-operations are usually very important for the business activities of the interviewed enterprises. In some cases, a considerable share of turnover is due to the collaboration. The entrepreneurs are usually satisfied with the chosen form of internationalization, and the overall result of the co-operation is generally positive.
9. The personal behaviour of the co-operation partners towards each other is by far the most important factor for the stability of the co-operation. Other factors supporting stability can be both similar as well as different skills of the partners, an agreement on the objectives, and an equal share of influence in decisions-making for all partners. Indeed, the personal relationship between the partners is always assessed positively, and proves to be essential for the co-operation success. Additionally, the partners generally think that their enterprises technically match well.
10. The problems named by the interviewees concern different areas without any single problem standing out, and can be regarded as normally structured.

The empirical survey proves the important role of firm-specific advantages concerning the ability to internationalize. Normally, the argument is that these advantages arise from market failures and that they are more or less systematically included in the enterprises' strategies. In the crafts sector, however, the application of firm-specific advantages has more of an ad hoc character, without particularly considering the competitive situation in certain markets. Furthermore, economies of scale, governmental interventions, and possibilities of raising capital do not play a role in evaluating the advantages of an internationalization for crafts enterprises. Rather, advantages in product differentiation and particularly special skills are important in such situations which are not always systematically planned or aimed at.

To be sure, crafts enterprises, too, will consider transaction costs and internalization potential when deciding in which way to take advantage of firm-specific advantages, in this case by cross-border co-operations. The transactions costs of the market are normally related to bounded rationality, opportunistic behaviour, uncertainty and complexity, as well as a small number of potential transaction partners. However, very specific points arise for the crafts sector in this context. First, the small number of potential co-operation partners does not play a role as an incentive for a co-operation. More important is that bounded rationality, and in this context particularly an information deficit, can be avoided by relying on crafts organizations. These organizations gain an extraordinary importance in initiating co-operations, even though the decision-making processes of crafts enterprises are basically autonomous. Secondly, when establishing a co-operation, small and medium-sized enterprises do not pay attention to the possibility of opportunistic behaviour, which normally plays a considerable role in internationalization decisions, especially concerning the choice of the form of internationalization. Mutual trust exists; therefore, it does not need to be secured by a written contract.

Considering these crafts-specific results, it has to be taken into account that the internationalization of small and medium-sized enterprises, apart from market-related forms, is still at an early stage, and that some of the relatively few co-operation cases were initiated by chance. Nevertheless, studying the internationalization of enterprises, the typical behaviour of crafts entrepreneurs and the special role of the institutional framework of crafts organizations have to be taken into account.

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## **General Information**

### **Institute of Small Business**

The Institute of Small Business at the University of Goettingen does research on microeconomic and macroeconomic issues concerning the development and growth of small and medium sized companies. There are close institutional links to the German small business community and its organizations. The two Directors of the Institute are professors of the Economics Department of the University of Goettingen.

The International Department of the Institute focusses on export behavior and other forms of internationalization of German small units. Research is also carried out on questions raised by the European Common Market and other international developments with an impact on the competitiveness of small and medium sized companies. Furthermore, the Institute is involved in projects of small business promotion in Third World countries.

### **Purpose of the Series**

The Series intends to promote the critical analysis and discussion of current issues concerning international small business developments. Topics relate to impacts stemming from global and regional economic expansion and to problems of entrepreneurship in developing economies.

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