

Europe: "Home" to the Flemish (Belgian) Entrepreneur?

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I. INTRODUCTION

Over the last decade, nations around the world have started to dismantle their geographic and economic borders, as evidenced by the unified European market ("Europe 1992"), the opening of the former East-bloc countries, and the formation of many regional trade zones. This opening up of national frontiers has provided firms with new foreign-market opportunities (see e.g. Julien, Joyal and Deshaies (1994)), and is expected to result in a faster diffusion of new ideas and products across the different countries involved (Mahajan and Muller 1994). Focusing on the unification of the European community, a mega-market has been created which comprises over 350 million people, has a combined GDP of over 7,101 Mrd ECU and comprises almost half of the world's trade. Obviously, this development has created large opportunities (and some will argue, threats) to many firms, and the question emerges to what extent Belgian/Flemish firms have already been able to capitalise on these opportunities.

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Part of the analyses reported in this study are based on the undergraduate dissertation of E. Dhaeze at the Department of Applied Economics, which was awarded the 1997 'CERA Bank Leerstoel Ondernemerschap Prijs'. The text is an invited summary of a talk given on the first 'Dag van het Ondernemerschap' in 1996. The authors are indebted to Export Vlaanderen for making the data available used in sections II.A and II.B and to P. Yeoh for her insights on the link between entrepreneurship and export performance.

Recently, conflicting opinions have been formulated on this issue. On the one hand, several "captains of industry" like to proclaim that within-European borders no longer exist for their businesses, and that "Europe has become their home market"¹. On the other hand, a leading expert on small and medium-sized businesses tends to cast doubt on the generalizability of this statement to the latter businesses (see e.g. Donckels (1989)), an opinion confirmed in discussions the authors had with officials from the Vlaamse Dienst voor Buitenlands Handel (now called Export Vlaanderen). It is the opinion of both Donckels and the export officials that the traditional geographic barriers, which have been well documented in the literature (see e.g. Douglas and Craig (1992); Van Houtum et al. (1996)), still persist even within a "unified and borderless" Europe.

A first objective of this study is therefore to provide some insights in this ongoing debate. Second, "entrepreneurship" has become quite a buzz word. The K.U. Leuven and the CERA Bank have initiated a chair to study "entrepreneurship" (CERA Bank Leerstoel Ondernemerschap), the K.U. Leuven organises a lecture series on "entrepreneurship" (Initiatie tot het Ondernemen), and also the Flemish government sees the creation of a political and economic climate that nurtures entrepreneurship as a major lever for economic growth (see e.g. Van Rompuy (1996)). Still, little empirical research exists that demonstrates in a European context the existence of a firm relationship between entrepreneurship on the one hand, and the use of the many opportunities offered by a unified market on the other hand. We intend to fill that gap by investigating the link between several dimensions of entrepreneurship and both export intensity and export performance.

II. HAS EUROPE BECOME "A HOME" TO THE BELGIAN/FLEMISH ENTREPRENEUR?

A. *Analysis of aggregate export figures*

To get some first insights into the perseverance of geographic barriers to Belgian exporters, we analysed aggregated BLEU export figures. The export figures for Belgium and Luxembourg over the last 15 years to the different member states of the European Union were regressed on a measure of geographic proximity (operationalised as the distance between the respective capitals), the wealth of the target

country (operationalised through their GNP/Capita), the size of the target population, and a dummy variable for the 1992 unification (while also making a correction for late entrants such as Austria, Sweden, etc...). The regression results showed that export to a given country tends to increase as the target market becomes more attractive (larger and wealthier population), but decreases as the physical distance becomes larger. A positive and significant coefficient was obtained for the 1992 unification dummy, which indicates that the 1992 unification has indeed provided a positive impetus to the within-Union exporting behaviour. When adding an interaction effect between the unification dummy and the distance measure, a negative (significant) coefficient was obtained, suggesting that the positive influence of the unification process diminishes for target countries which are further away from the home country. These aggregate findings therefore seem to suggest that, even within a unified Europe, distance remains an important barrier to export.

B. *Firm-size and regional differences*

The above analysis is based on aggregated export data, and does not offer any insights into (1) differences between large and smaller firms in terms of the severity of the perceived distance barriers, nor into (2) potential regional differences *within* Flanders. The former issue is important as the perception of Europe as a firm's home or domestic market may well be valid for some of the larger companies, but not for most small and medium-sized companies (which, however, form the vast majority of the firm population!). The second issue, i.e. whether regional differences exist even within a geographically restricted region as Flanders, would provide quite convincing evidence for the notion that the distance factor still prevails within the European Union.

To that extent, we analysed the export data set from Export Vlaanderen (formerly the VDBH, Vlaamse Dienst voor Buitenlandse Handel), which centralises information concerning more than 6,000 exporting firms. In interpreting our findings, it is important to keep in mind that this data set, while extremely useful for this kind of analyses, has some deficiencies. Specifically, (1) only exporting firms are contained in the data set, which precludes the use of a genuine "null group", (2) there is no formal obligation for exporting firms to report this activity to the VDBH, which may have induced certain biases in the analyses, and (3) only the existence of an exporting activity is reg-

istered, not its extent nor its profitability. However, as our focus will lie on a comparison across certain sub-regions (specifically, the different provinces), we will make the (we think, defensible) assumption that the resulting biases apply to a comparable extent across these sub-regions. Moreover, we will focus on the interpretation of *strong, recurring* patterns, rather than on certain specific findings.

First, we investigated whether the proportion of smaller companies (personnel < 50) exporting to a given country differed from the proportion of larger firms (personnel ≥ 50). For a majority of the target countries that were considered (i.e. for Germany, the UK, Italy, Spain, Austria, Scandinavia²), proportionally more larger companies included that country in their "export set"³. No such difference, however, was found for the Netherlands, Luxembourg and France -- three of the neighbouring countries!). These results indicate that for small and medium firms distance is still more of a barrier than for their larger counterparts. Cultural, fiscal and economic differences, often coming along with this geographic distance, seem to be a hurdle that is hard to overcome, even in what is supposed to be a borderless market.

Even more convincing evidence for the continued existence of a distance barrier is found when considering local biases *within* Flanders. Through a sequence of chi-squared tests, we investigated whether firms (which, remember, all export to at least one country) located in provinces bordering on a given country are more likely to export to that country than firms located in non-bordering provinces. Detailed results are available in Dhaeze (1996), but some striking findings are that (1) a higher proportion of the firms located in Limburg exports to The Netherlands than firms located in "Vlaams Brabant", (2) a higher proportion of the firms located in West Flanders exports to France than firms in any other Flemish province (Limburg, Antwerp, ...), (3) Limburg dominates West- and East Flanders, as well as Vlaams Brabant, in terms of the proportion of its firms exporting to Germany. As such, there is still some striking evidence of a neighbour-effect, even *within* a geographically restricted area like Flanders. Moreover, it is interesting to note that most of the latter findings hold both for small and medium-sized firms as well as for the larger firms. We can therefore summarise by stating that a substantial amount of the Flemish export is still directed towards neighbouring countries, in the most restricted sense of the word, and hence, could be considered to be more inter-regional rather than international in nature.

C. Is this picture expected to change in the near future?

Flemish firms that are looking for addresses of potential importers/distributors for their products and/or services, or who would like to have some information on the likely demand for their products in a foreign market, can ask for advice with Export Vlaanderen. This gathering of market information reflects an interest in that specific market (Van Cleynenbreugel (1996)), and is often seen as a first step in the internationalisation process of the firm (see Dhaeze (1996) for a recent review). Even though there are obviously other sources of market information, and even though the mere gathering of market information does not guarantee exporting behaviour in the near future, the following summary statistics collected by Export Vlaanderen are quite revealing in terms of the likely evolution of the picture given in previous Sections. As indicated in the following Table, the majority of the information requests is still accounted for by the "neighbouring countries" (taken here as France, Germany, the Netherlands, the United Kingdom, and Luxembourg), while the more distant northern and southern regions account for a substantially smaller fraction of all requests. Moreover, the relative proportions are very stable when comparing 1991 and 1995, showing little evidence of an expected change in the near future. On a more positive note, when compared to the observed export shares in 1995, these 'information request' shares provide evidence of a growing interest in the more remote regions of Europe.

	<i>Information requests</i>		<i>Actual Export Shares</i>
	<i>1991</i>	<i>1995</i>	<i>1995</i>
Neighbouring Countries ⁴	1109 (55%)	1544 (57%)	76%
Southern European Countries ⁵	442 (22%)	596 (22%)	17%
Scandinavian Countries ⁶	480 (23%)	584 (21%)	7%
TOTAL	2031 (100%)	2724 (100%)	100%

Source: Van Cleynenbreugel (1996)

III. DOES ENTREPRENEURSHIP MATTER?

International trade is of crucial importance to the Belgian (Flemish) Economy. Still, the total number of firms that export remains limited (approximately 18% -- VEV (1997)), and those who do find a foreign market for their products and/or services tend to focus (often almost exclusively) on the neighbouring countries (cfr. *supra*). This suggests that a vast potential of the mega-market offered by the Unified European Community remains untapped by Belgian (Flemish) firms! An important public-policy question therefore becomes *how* the government can stimulate export participation *and* performance. Several studies have found no or limited empirical evidence of a direct effect of specific export-promotion actions such as information supply, support for market research and start-up financing, on export performance (e.g. Cavusgil (1990); Seringhaus and Bostchen (1991); Yeoh (1994)). This finding is often explained by the fact that especially the more conservative (i.e. less entrepreneurial) companies tend to rely on these incentives (Bodu (1994); Da Rocha and Christensen (1994)). As such, several authors (see Yeoh (1994) for a review) have hypothesised that these governmental actions would be better targeted at more entrepreneurial firms, preferably in an entrepreneur-friendly climate.

To get some first insights into this issue, we investigate in this closing section whether there is indeed a difference in both export participation and performance between entrepreneurial and more conservative firms. If supported, the Flemish governments' policy of creating a more entrepreneur-friendly climate (see e.g. Van Rompuy (1996) for a concise description) could have an (indirect) positive impact on both dimensions.

According to Schumpeter (1942) an entrepreneur is someone who (1) is an *innovator*, who seizes opportunities to introduce a new product or production method, or to enter a new market, (2) should have good abilities to *plan*, *control* and *coordinate* the various factors of production to obtain revenue generating products and (3) should be a *risk taker* who is willing and able to bear the calculated risk of the business (see also Dhaeze (1996) or Yeoh (1994) for more extensive discussions). According to this definition, entrepreneurial behaviour is determined by three dimensions: innovativeness, pro-activeness and risk tolerance (Yeoh (1994)). Based on the work by Yeoh, we applied

a multi-item scale for each of these three dimensions (put in an export-related context) to 100 exporting Flemish firms⁷.

We addressed two issues in this study: (1) Do firms that score better on these three entrepreneurship dimensions export to *more* countries, and (2) Does this also result in a better exporting performance? The latter question was addressed by linking the sum scores on the three entrepreneurship dimensions to two measures of export performance, i.e. the percentage of their *profits* due to exports, and the percentage of their *sales* due to exports (see e.g. Walters and Samiee (1990) or Yeoh (1994) for other studies using similar export performance measures).

A regression analysis with the number of countries exported to as dependent variable revealed a significant relationship with two dimensions of entrepreneurship: firms that are more innovative and proactive tend to export to more countries. Moreover, these two dimensions were also able to discriminate (in a logit analysis) between high ($> 20\%$) and low ($\leq 20\%$) performing firms on both the profits and sales performance measure (at a 0.05 significance level). These results show that an entrepreneurial orientation positively impacts export behaviour and performance, which underscores, at least in this specific context of exporting behaviour, the value of governmental actions that 'nurture' entrepreneurship.

IV. CONCLUSION

In this paper, we investigated (1) the generalizability of an often-heard "slogan" by some captains of the Flemish industry, i.e. that Europe has become the home or domestic market to most, if not all, Flemish managers, and (2) the value of a popular buzz-word, i.e. entrepreneurship, in stimulating both export performance and export behaviour. The following findings emerged from our analyses:

- Geographic distance remains an important barrier to export, even within a unified Europe, as evidenced by both an aggregate analysis of the Belgian export figures, and the existence of regional biases within Flanders.
- As a consequence, a large fraction of the mega-market offered by the European Community remains untapped by Flemish companies.

- Entrepreneurship, sometimes presented as a cure to most economic problems and a major lever for economic growth, indeed has a significant impact on both export behaviour *and* performance.

The government may therefore follow a dual strategy to stimulate export growth. First, they may try to reduce the barrier that still exists to export to physically distant countries, even though previous research has indicated that this may be not be an easy task. Second, they may attempt to create an economic environment which nurtures entrepreneurship, as this has been shown to impact both export intensity and export performance. Much work is still needed, however, before most Flemish (Belgian) firms will truly consider Europe as their "home" market.

NOTES

1. In April-May 1996, this specific statement was made both at a meeting of the steering committee for the first 'Dag van het Ondernemerschap' by one of the Ekonomika-alumni, and by J. Mussche, the keynote speaker at the 'Dag van het Ondernemerschap'.
2. No distinction was made between the different Scandinavian countries.
3. When considering countries outside the European Community, these differences between smaller and larger companies became even more profound.
4. Neighbouring countries: The Netherlands, Germany, Luxembourg, France and UK.
5. Southern European Countries include here Italy, Spain and Portugal.
6. Scandinavian Countries include here Denmark, Finland, Norway and Sweden.
7. The firms' innovativeness, for example, was measured through statements such as "Our company spends a substantial amount of time on new-product development" and "Our product innovations are customer driven". Export pro-activeness by statements such as "Given the speed of change in international markets, we do not feel the need for a formal planning of our export activities", and "Rather than making concrete plans for the future, we follow and adjust to the spur of the moment strategy", and their risk tolerance by statements such as "I think that firms which always try out new things will fail in the end", and "I don't like performing new and unfamiliar tasks". The resulting scales consisted of respectively two (innovativeness and risk tolerance) and four 'pro-active-ness) items, and had good reliability properties, with Cronbach alpha's ranging between 0.66 and 0.75.

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