

## SELECTED ELEMENTS OF THE INTERNATIONALIZATION OF SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract: In this paper the author tried to analyze some aspects of the process of internationalization of small and medium-sized enterprises. It contains the essence and definitions related to the process of internationalization, the theoretical analysis of the skills and attributes necessary for the modern entrepreneur / manager, wishing to enter foreign markets. The author also concluded the analysis of theoretical and practical statistics compiled by the Polish Ministry of Finance on the process of internationalization of Polish enterprises.

Keywords: internationalization, multiculturalism, small and medium-sized enterprises, SME.

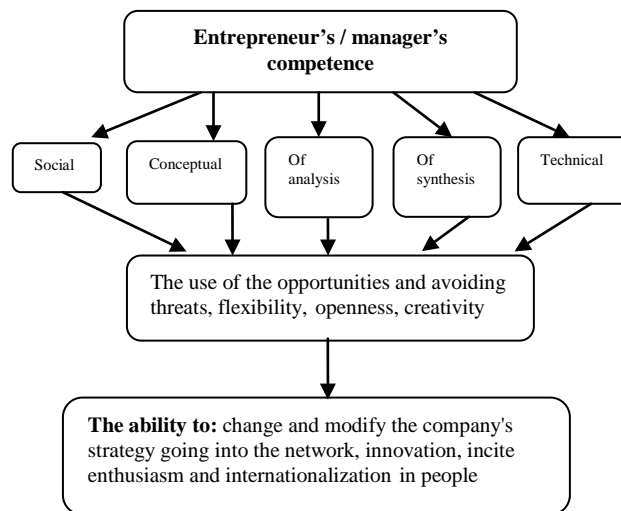
### 1 The process of internationalization- essence and definitions

Analyzing the literature in the topic of enterprises internationalization, differences in terminology are noticeable. According to Swedish researchers, J. Johanson and JR Vahlne internationalization process refers to any activity undertaken abroad by the organization. Globalization is seen as a higher stage of internationalization<sup>1</sup>. This view is shared by Pole J. Rymarczyk, who deems that the essence of the process of internationalization is "any kind of business activity undertaken abroad by the company"<sup>2</sup>. The internationalization in German literature, is seen not only as a process, but also as a way of acting and statistical phenomenon<sup>3</sup>. A. Minguzzi, R. Passaro (Italian literature) emphasize that having a conceptual and application knowledge is a key to gain a competitive advantage in the internationalization process<sup>4</sup>. This view is shared by J. Schumpeter, who says that internationalization is a innovation process<sup>5</sup>. Returning to the study of Polish researchers, the fastest internationalization can be observed in those organizations, which have advanced technologies (or use them B.G.), also those, owners (directors, managers B.G.) of which have the highest competence<sup>6</sup>. Learning and adapting to the culture of a country is a challenge for today's manager, regardless of whether it is business manager for-profit or non-profit organization. In the process of internationalization manager's social and conceptual competence are of greater importance than technical skills.

### 2 Challenges for contemporary "Internationalized" entrepreneurs/managers

The impact of the above competencies (social, conceptual, technical) to use the opportunities and avoid risks in the global environment is obvious, as it is the entrepreneur and manager are all advocates of change and initiated the formulation of a strategy for the company. The modern entrepreneur / manager operates in a global environment that is far from the stability characteristics. This forces the need to have and develop new

skills, which are highly related to the ability to enter new markets, and the management of multi-cultural organization. The connection between entrepreneur's and manager's competence with the ability to internationalize is shown in author's figure No 1.



Source: own work

In Figure 1 author firstly submits social skills closely related to cross-cultural management. Conceptual thinking and action are needed to perceive the organization as a whole. Technical skills in this particular case will be moved to the last place. This means that the importance moves to the perception of the organization as a whole in a global world. The importance of leading process rises. There is an important difference between being formal and formal head of the leader. The leader is a charismatic man, chosen and recognized by the group. In this situation, it is easier to develop a new organizational culture.

Key competence of entrepreneurs and managers translate into ability to make use of opportunities and avoid threats in the environment, they affect their flexibility, creativity, openness. This fact is important for the organization's ability to change and modify its strategy. It is not insignificant for the internationalization process to be able to incite enthusiasm in the people, to enter into a variety of relationships and interactions in a global environment. It certainly may accelerate the process of internationalization. Not every company is able to exist in a foreign market. This ability is closely related to owners' / managers' charisma, personality traits and skills. If these are timid people, afraid of challenges and risks, lacking vision and creativity, the chances to start international cooperation are slim, unless it is a coincidence, or a one-off transaction. Many modern scientists and researchers emphasize the role of management and entrepreneurship competence in creating the culture of an international organization. Expectations of participants in terms of their organization and functioning are also changing.

In the "new" conditions we need an entrepreneur / manager having authority, having "credit of trust" closely associated with the recognition, trust, objectivity, truthfulness, or rational and emotional intelligence. Among other qualities and skills characterized by the entrepreneur / manager who joins the internationalization process we can distinguish:

- having certain characteristics psychophysical
- having the ability to communicate,
- having the skills to trigger enthusiasm, stimulating creativity and initiatives
- having the skills to continuously respect standards and ethical behaviour.

<sup>1</sup> J. Johanson, J.E. Vahlne *The Internationalization Process of the firm- A Model of Knowledge Development and Increasing Commitments*, Journal of International Business Studies 8, 1977

<sup>2</sup> J. Rymarczyk, *Internacjonalizacja i globalizacja przedsiębiorstwa*, PWE S.A., Warszawa, 2004, p. 19

<sup>3</sup> E.A. Dörnberg, *Die Internationalisierung mittelständischer Industrieunternehmen- Auswirkungen auf Organisationsstruktur und Führungsstil*, Göttingen, Vandenhoeck, Ruprecht, 1982, p. 93

<sup>4</sup> A. Minguzzi, R. Passaro, *Entrepreneurship Behaviour and International Market Activi: Some Empirical Findings from a cross-Sector Analysis*, Research Institute on Service Activities, National Research Council, Naples, 1993

<sup>5</sup> J. Schumpeter, *Teoria rozwoju gospodarczego*, PWN Warszawa, 1960

<sup>6</sup> B. Nogalski, N. Daszkiewicz, *Internacjonalizacja polskich małych i średnich przedsiębiorstw- przymus czy swobodny wybór [w:] Strategie korporacji działających w skali ponadnarodowej*, Komitet Nauk Organizacji i Zarządzania PAN, Tychy 3-4 November, 2005

In large enterprises there must be a system of division of roles, directly resulting from the strength of the authority of the entrepreneur / manager. In such a situation, you can either talk about the authority granted by the organizational hierarchy<sup>7</sup>, or the one resulting from the reference power (admiration, appreciation for the knowledge, skills, values, etc.). Concentration on the problem and the ability to communicate with employees, who are participants in the organization, leading to learn from their knowledge and experience, seems to reinforce the authority of the head and leads to optimal organizational efficiency. According to P. Hersey K.H. Blanchard the choice of governance depends on the managers' personality and knowledge, personality and competence of their subordinates, as well as the situation in which the superior is<sup>8</sup>. This means that there is no one model management style good for each organization and each situation. The "new" style of management should include the ability to adjust the manager to diverse circumstances in which organizations are located.

### 3 The process of enterprise internationalization-theoretical basis

Checking the degree of internationalization of the company requires the use of certain indicators. These indicators inform about the independence of enterprise internationalization implementation of the strategy, or about the intensity of the process. Among the most important indicators applicable to conduct the study of the intensity of the process, according to J. Rymarczyk we can distinguish:

- The number of foreign markets served,
- The share of accounting value of assets abroad to company's assets total
- Share of profit coming from abroad to the total company's profit
- The scale of foreign direct investment,
- Participation in foreign markets,
- The share of workers employed abroad to total employment<sup>9</sup>.

The organization may internationalize alone, with others or by other organizations. The degree of independence in the process of internationalization of the company is shown in Table 1.

Tab. 1 The degree of enterprise's independence

Internationalization strategy alone	Internationalization strategy by other organizations	Internationalization strategy with others
<b>Function transfer style</b>	<b>Market-partnership style</b>	<b>Participatory style</b>
-market policy (supply / sell) - organization / administration - production / location - other functions	- export / import - license transfer - know-how transfer - franchising	- participation - takeover - merger - joint venture - consortium - cooperation

Source: based on J. Rymarczyk, *Internacjonalizacja i globalizacja przedsiębiorstwa, PWE, Warsaw 2004, p 29 [a:] WG Dittmar, C.W. Mezera, W. Hoyer, Die Expansion international Planen und durchfuhren, moderne industries Verlag, Munich 1979, p 94*

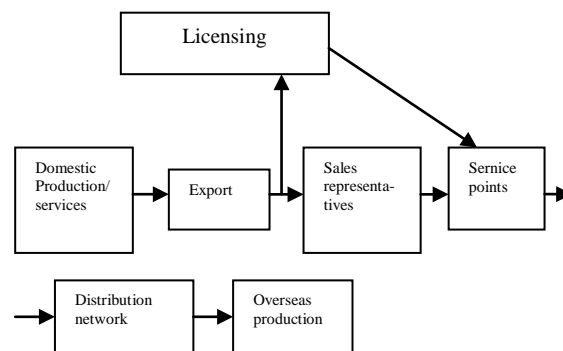
In the process of internationalization, micro and small businesses face many more obstacles than large enterprises<sup>10</sup>. The reason for this situation are mainly small companies' financial resources and lack of mobility. Such companies should

pursue internationalization strategies with others, or at least by other organizations. Themselves, they have little chance of rapid internationalization process, unless it is a coincidence. The process of internationalization may be carried out in different ways. Among the most popular routes we can distinguish:

- sequential model of internationalization,
- a holistic model of internationalization (Finnish),
- internationalization of Born Globals type,
- internationalization through networking.<sup>11</sup>

The essence of the *sequential model* is a gradual, stepwise internationalization process, from exports, through creating its own retail chain, entering into contracts, to taking up production abroad<sup>12</sup>. This way of "entering foreign markets" is relatively risky and usually characteristic of small entities. The beginning of the chain sequence, i.e. export is a process from which you can withdraw at any time a fairly quick way. Sequential model is shown in Figure 2.

Fig. 2 Sequential model of the enterprises' internationalization process



Source: A. Buckley, *Inwestycje zagraniczne. Składniki, wartości i ocena, PWN, Warszawa 2002, p. 97*

Sequential model shows how a national company, entering into foreign markets, usually begins with the first export organized occasionally, and then usually in a continuous manner. Then there is the need to create in the markets their dealerships for service. Mastering foreign distribution system is another step in the process of internationalization. Now, there is only one step to their own overseas production. Selling licenses to foreign companies is a step that can substitute the creation of dealerships. The above is a very simplified model. It is necessary to be aware of the cause-effect relationships between successive stages, as well as the existence of feedback.<sup>13</sup>

*Holistic model* of internationalization, so called. Finnish model, is based on the theory of growth of the company and its internationalization. The process of internationalization is here to make imported goods, resources, technology, resulting in domestic companies to learn and gather experience, which is very useful for making exports by these companies and the effect on foreign markets<sup>14</sup>. Thus, the holistic model preserves the principle of sequential development, however, companies can avoid some steps of sequential model<sup>15</sup>, or enter directly into strategic alliances, and various forms of cooperation.

*The Born Globals* internationalization is different from the sequential process. T.G. Madsen points out that sometimes newly created company immediately head to the international markets<sup>16</sup>. According to J. Kwiatkowska, Z. Wysokiński these

<sup>11</sup> J. Witkowska, Z. Wysokińska, *Umiejdzynarodowienie... op. cit.*, p. 7- 16

<sup>12</sup> A. Buckley, *Inwestycje zagraniczne. Składniki, wartości i ocena*, Wyd. PWN, Warszawa 2002, p. 96-100

<sup>13</sup> A. Buckley, *Inwestycje... op. cit.*, p. 98-99

<sup>14</sup> J. Witkowska, Z. Wysokińska, *Umiejdzynarodowienie... op. cit.*, p. 10

<sup>15</sup> T. Vissak, *The Internationalization of Foreign-Owned Firms in Estonia: a Case Study* [w:] Proceedings of 7<sup>th</sup> Vaasa Conference on International Business, August 24-26 2003, University of Vaasa, Finland 2003 [w:] [http://www.comparative.uni.lodz.pl/attachments/article/11/07\\_full.pdf](http://www.comparative.uni.lodz.pl/attachments/article/11/07_full.pdf) [access: 15 XI 2012]

<sup>16</sup> T.G. Madsen, P. Servais, *The Internationalization of Born Globals: an Evolutionary Process?*. "International Business Review", 1997, Vol. 6, p. 562

<sup>7</sup> A.K. Koźmiński, W. Piotrowski, *Zarządzanie- teoria i praktyka*, PWN Warszawa 2010, p. 59

<sup>8</sup> P. Hersey, K.H. Blanchard, *Management of Organizational Behavior*, Englewood Cliffs, ed. Brinig, 2002, p. 47

<sup>9</sup> J. Rymarczyk, *Internacjonalizacja... op. cit.*, p. 24

<sup>10</sup> J. Witkowska, Z. Wysokińska, *Umiejdzynarodowienie małych i średnich przedsiębiorstw a procesy integracji europejskiej. Aspekty teoretyczne i empiryczne*, Ed. UŁ 2006, p. 7

are companies that "were created after 1976 and which have reached the 25% share of foreign sales in total sales and the export began in the three years since the founding of the company."<sup>17</sup> The internationalization of Born Globals type runs without clichés, i.e. the companies instead of using a fairly typical cooperation with neighbouring countries, seek opportunities around the world, by using, for example, personal contacts, and market niches. These are usually young companies with small capital.

*The internationalization of companies through networking* (network approach) is a typical example of entering international markets through the use of existing and potential relationships abroad home country. The essence of this type of process is to use the multilateral relations of companies creating a network of different entities, with which they are related. It is a process characteristic of the corporation, where an important role is played by the parent company, as well as culture of the country where the subsidiary (branches) is located.

The fact which model a company chooses to exist in global markets depends on many factors. Among them crucial are: owner's and managers' entrepreneurship and charisma, financial and human resources, personal contacts and relationships (primarily with entities abroad), type of production or services, economic situation of the country, etc.

#### 4 Statistics showing the condition of export/import of Polish and some European entrepreneurs

Polish Ministry of Economy published a report on the state of international activities of Polish enterprises and enterprises in selected European countries. These are estimates, but they give a fairly clear picture of reality associated with the process of internationalization (Table 2).

Tab. 2 Polish trade turnover by continents in the period January-December 2011 and the base 2010 (in millions of euros)

Country	2011		2010		Share in:	
	Export	Import	Export	Import	Export	Import
Poland	135754,4	150 456,3	120 373,1	134188,4	100,00	100,00
Europe	121 454,9	114 612,8	108 210,2	99 124,5	89,47	76,18
Asia	7 910,8	27 588,5	6 503,6	27 116,9	5,83	18,34
Africa	1 315,7	1 187,4	1 357,8	1 040,5	0,97	0,79
North America	3 251,0	3 652,8	2 892,0	3 800,6	2,39	2,43
South America	1 322,7	2 596,5	972,0	2 233,7	0,97	1,73
Australia and Oceania	419,9	356,4	369,0	369,6	0,31	0,24

Source: own studies based on data from the Ministry [w] [http://www.mg.gov.pl/files/upload/8437/Syntetyczna\\_inf\\_rok\\_2011\\_wstepna\\_inf.pdf](http://www.mg.gov.pl/files/upload/8437/Syntetyczna_inf_rok_2011_wstepna_inf.pdf) [access 15 XI 2012]

The analysis of the data in the table shows that both export and import in 2011 compared to 2010 showed volume growth. This could mean an increase in international activity of Polish entrepreneurs. Still, looking globally, we import more (150 456.3 million) than we export (135 754.4 million). A similar tendency was in 2010. The largest Polish international enterprises activity took place on the European continent. The analysis of the data on the percentage of Polish exports in Europe shows that it is 89, 47% compared to other continents, while the share of imports is 76, 18%. The smallest percentage of exports and imports was recorded in 2011 in Australia and Oceania (the same: 0.31% and 0.24%), but it is worth noting that in Africa, North America, Australia and Oceania trade in goods related to exports and imports is fairly compensated. The largest

disproportions can be observed in trade transactions carried out in Asia. The ratio of exports to imports was clear and was negative in 2011, minus (-) 19 677.7 million in favour of imports over exports. This could mean difficulty in finding markets for those products / services or a lack of domestic market niches, or appropriate links. This could also indicate the difficulties of legal regulations, and many other causes of an objective.

Interesting may seem the data concerning Polish trade in goods in 2011 and 2010 by product groups (Table 3).

Tab. 3 Polish trade turnover by product groups in 2011 and the base 2010 (in millions of euros)

Name of product group	2011		2010		Share in: (%)	
	Export	Import	Export	Import	Export	Import
Agri-food products	15 097,7	12 481,1	13 507,2	10 921,1	11,12	8,30
Mineral products	6 890,4	20 609,2	5 153,8	15 533,3	5,08	13,70
Chemical products	18 723,3	26 381,9	15 724,4	23 310,7	13,79	17,53
Leather	525,7	842,7	484,7	734,1	0,39	0,56
Other products of wood and paper	6 832,3	5 371,2	6 253,4	4 866,5	5,03	3,57
Products of light industry	4 881,2	7 433,3	4 438,1	6 830,4	3,60	4,94
Ceramic products	3 848,2	2 158,2	2 986,7	2 007,0	2,83	1,43
Metallurgical	16 031,6	16 280,7	13 491,9	13 936,6	11,81	10,82
Electrical industry products	55 223,8	52 544,5	51 513,6	50 855,8	40,68	34,92
Various	7 628,0	2 624,1	6 772,7	2 362,0	5,62	1,74
<b>Total:</b>	<b>135 754</b>	<b>150456</b>	<b>120373</b>	<b>134188</b>	<b>100</b>	<b>100</b>

Source: own studies based on data from the Ministry [w:] [http://www.mg.gov.pl/files/upload/8437/Syntetyczna\\_inf\\_rok\\_2011\\_wstepna\\_inf.pdf](http://www.mg.gov.pl/files/upload/8437/Syntetyczna_inf_rok_2011_wstepna_inf.pdf) [access 15 XI 2012]

The analysis of the data in Table 2 shows a positive percentage of exports of agree- food products over imports (11,2% export compared to 8.30% - imports). A similar trend occurs in groups of commodities such as industry products, wood and paper, ceramics and so called. miscellaneous items. The opposite applies to mineral products, industrial goods: chemical, leather and light industry products, where import dominates over export. Aligned situation can be observed in the group of metallurgical goods, where exports are aligned with imports. In comparison to 2010 the highest growth rate in favour of export can be characterized by a group of "ceramic". We most import and export electrical machinery (appropriately: 52 544.5 million to 55 223.8 million), and the minimum of leather products (842.7 million euros to 525.7 million euros).

However, the most important is the fact that the index of exports and imports in all product groups increased compared to 2010.

#### Conclusion

Summarizing the above consideration it should be emphasized that it is not possible to draw far-reaching conclusions from these examples and analysis made. The article is only an approximation of the problems associated with the processes discussed above. However, you can make a synthesis, namely the internationalization process in 2011, reflected by an increase in exports and imports compared to year 2010 was significantly intensified. The analysis of the data shows that in terms of exports there is much to be done in Asia. It is a relatively pristine area in relation to the scale of imports. The process of internationalization of Polish companies shows positive dynamics. The observations of economic practice shows that more and more small businesses internationalize \_ using various links and personal contacts throughout the world. As for

<sup>17</sup> J. Witkowska, Z. Wysocka, *Umiejętności... op. cit.*, s. 11

management, we are moving from the "normal" management through: planning, organizing, motivating, deciding and organizing towards management defined as: leadership. This of course requires the formation of new entrepreneur's/ manager's attitudes and these attitudes continue to evolve.

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**Primary Paper Section: A**

**Secondary Paper Section: AH, BC**