2. Internationalization and Europeanization of Businesses in the Single European Market

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Abstract

Objective: The aim of this study was to determine internationalization and Europeanization of businesses in the Single European Market (SEM), especially the territorial scope of their international activity.

Research Design & Methods: The following research methods were applied: literature review and the survey conducted among 216 internationalized firms. The study has been carried out at the turn of 2013 and 2014 on the sample of N = 216 enterprises from all 16 Polish regions. The statistical calculations were made by means of the statistical software package “Statistica”. In order to verify the assumed hypothesis the Pearson’s chi-square independence test was applied.

Findings: The research has confirmed the statistical dependence between the size of a firm and territorial scope of its international activity. Statistical dependence between age of a firm and the scope of its internationalization has not been confirmed.

Contribution & Added Value: There was no research done until now that focused on investigated issues on the quite big sample of internationalized businesses from all 16 Polish regions (the whole country).

Key words: internationalization, Europeanization, Single European Market, SMEs

JEL classification: F23

2.1. INTRODUCTION

In this article, internationalization is understood widely as “any economic activities undertaken by a company abroad” (Rymarczyk 2004, p.19). In turn, Europeanization is a process of internationalization of enterprises in the European markets. Thus, internationalization and Europeanization differ by intensity and territorial scope (Wach 2013,

1 The article was prepared within the project no. StG- 21310034 on “Patterns of Business Internationalization in Visegrad Countries – In Search for Regional Specifics” financed by the International Visegrad Fund in the years 2013-2014.
There are many approaches to research on internationalization of enterprises but there is no single theory which has received universal acceptance (Daszkiewicz & Wach 2012, p.63). The oldest internationalization theories go back to Adam Smith’s *Theory of Absolute Advantage* founded in 1776. However, their dynamic development started in mid-1970s and continues today. Among classical, so called “stage theories” the Uppsala Model (U-Model) is the most famous and one of the most cited position (Johanson & Vahlne 1977; Johanson & Wiedersheim 1975). Some elements of the U-model and revised later U-model are adopted in this paper.

The research objective of the paper is to identify the territorial scope and direction of internationalization of Polish businesses. In the course of the study two research hypotheses were assumed.

### 2.2. LITERATURE REVIEW

#### Theoretical Conceptualising of the Internationalization of the Firm

Internationalization may have different dimensions, horizons, perspectives and levels. Thus, it is impossible to give its universal definition. However, in this article internationalization is understood widely as “any economic activities undertaken by a company abroad” (Rymarczyk 2004, p. 19).

The early internationalization theories of the firm have been developing in the mainstream theories of international trade that is, the explanation of international flows of goods and services (e.g. Smith 1954) and the theories of foreign direct investment (FDI). The best known include Dunning Eclectic Theory (OLI Theory), internalization theory (Buckley & Casson 1981) or transaction cost theory (Williamson 1998; Wach 2012; Daszkiewicz & Wach 2013).

The first theories concerning internationalization of small and medium-sized enterprises (SMEs) developed only in the mid-1970s. There are several classical theories, also called “stage theories”, that describe internationalization of firms as an incremental process (Johanson & Wiedersheim 1975; Johanson & Vahlne 1977; Bilkey & Tesar 1977; Cavusgil 1980). Among stage theories the Uppsala Model (U-Model) is the most famous and one of the most cited position (Johanson & Vahlne 1977; Johanson & Wiedersheim 1975). The scholars assume that firms start their international expansion in small steps from close markets to most distant markets. The internationalization started in foreign markets which were close to the domestic market in terms of psychic distance (“psychologically close” - defined as factors that made it difficult to understand foreign environments). Then, the companies would gradually enter other markets which were further away in psychic distance terms (Daszkiewicz & Wach 2012, p.65). In recent years Johanson and Vahlne (2009) and Schweizer, Vahlne and Johanson (2010) updated their U-model two times. They emphasized the role of networks in firm internationalization process and then the entrepreneurial approach.

The late 1970s and 1980s of the twentieth century brought a new approach to the study of internationalization i.e. network approach. Entry into a new (foreign) mar-
2. Internationalization and Europeanization of Businesses in the Single European Markets

Market requires building networks in this market (Johanson & Mattsson 1988; Coviello & Munro 1999). The key characteristics of the network approach is the multiplicity of trends analysis - there is no one, clearly specific paradigm that would precisely define area of research (Gorynia & Jankowska 2007).

Some elements of the U-model and revised U-model are adopted the in this paper. The author claims that:

1. Firms change by learning from their experience in foreign markets.

2. Knowledge is fundamental for firm’s internationalization. Thus, learning by experience results in gradually more differentiated view of foreign markets as well as firm’s capabilities (Johanson & Vahlne 1977).

3. Relationships offer potential for learning and for building commitment. Thus, both are preconditions for internationalization (Johanson & Vahlne 2009).

It should be also explained that during the last decades there has been a growing interest in organizational learning in the internationalization context. Internationalization knowledge includes general internationalization knowledge which reflects firm’s resources and its capabilities but also internationalization knowledge concerning experience in foreign market entry, mode-specific, core business, alliance, acquisition and other specific kinds of internationalisation (Eriksson at al. 1997).

Since Johanson and Vahlne (1977) started their studies much research has been done and many new approaches towards internationalization process of businesses have been proposed.

The new INV theory (International New Ventures) concerned particularly high-techs and high-tech related industries and was based on observations that internationalization of INV SMEs results from opportunity seeking behavior of entrepreneurs (Oviatt & McDougall 1994, p.49). The INV theory states that some SMEs are “international from inception” because entrepreneurs seek growth opportunities in foreign markets. Thus, there are firms that skip stages or not have any stages in all their internationalization process. This observation caused that many scholars started to differentiate two discreet ways that firms internationalize, “international at inception” (Oviatt & McDougall 1994) or “international by stage” (Johanson & Vahlne 1977).

The review of internationalization theories requires a statement on some new approaches that have developed during the last decade. Among them the best known are, the integrative approach (Bell at al. 2003), the strategic management approach as well as international entrepreneurship (Wach 2012). The internationalization of the firm may be driven by entrepreneurs because of their individual characteristics (Zahra 2005; Busenitz & Barney 1997). A business owner, due to his/her industrial and international business experiences, may invest in a foreign market. However, the entrepreneur’s personal nature plays a significant role.
Europeanization

Research on the Europeanization are dated back to the 1970s, although they flourished during the last decade of the 20th century and continues today, as evidenced by bibliometric analysis performed in this field (Daszkiewicz & Wach 2012, p.10). Europeanization refers to a number of phenomena occurring in Europe and is used in a variety of disciplines - law, sociology, geography, political science and economics (Wach 2008; Wach 2012, Wach 2013; Wach 2014b; Riedel et al. 2010]. Europeanization in economic terms is perceived differently. Most authors distinguish three levels of analysis. The Europeanization of business activity is inextricably linked to European integration, in particular the creation of the single European market. Economic integration is the process of combining the economies into a single coherent (internally integrated system) through the elimination of economic borders between them (Baldwin & Wyplosz 2012). Thus, Europeanization in terms of macroeconomic is associated with the wider environment in which businesses operate. The Single European Market (SEM) creates specific operating conditions for businesses. The Europeanization in mesoeconomic sense can be observed in industries as most of them are becoming Pan-European as opposed to being solely national (Wach 2013, p.16) In terms of microeconomic, Europeanization is a process of internationalization of companies on a European scale, especially in the single European market which is “psychologically close” for European businesses.

In this article Europeanization of economic activity (within the meaning of Europeanization microeconomic) is understood as a process of internationalization of companies in the European markets, or expansion and operation of enterprises in the single European market. In this way, the Europeanization is also defined by Ph. Harris and F. McDonald as “internationalization in the context of Europe” (Wach 2012, p.176). Thus, comparing the process of internationalization with the process of Europeanization, they are identical spheres but with a different intensity and different territorial dimensions (Wach 2013, p. 18).

2.3. MATERIAL AND METHODS

The research objective of the paper is to identify the territorial scope and direction of internationalisation of businesses. In the course of the study, the following research hypotheses were assumed:

H1: The territorial scope of firm’s activity is increasing with its size.

H2: The territorial scope of firm’s activity is increasing with its age.

The following research methods were applied in this paper: literature review and the review of results of the last European Commission (2007, 2010) and PARP (2013) studies on SME internationalization as well as the survey (an e-mail or a telephone conversation request followed by an online password protected questionnaire).

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financed by the International Visegrad Fund in the years 2013-2014 by the consortium of five Central European universities leading by Cracow University of Economics².

The survey was conducted among 216 firms between October 2013 and February 2014. The statistical calculations were made by means of the statistical software package “Statistica”. In order to verify the assumed hypothesis the Pearson’s chi-square independence test was applied (Daszkiewicz 2014; Daszkiewicz & Wach 2014; Wach 2014; Wach & Wojciechowski 2014).

2.4. RESULTS AND DISCUSSION

Internationalization of European businesses

The results of the last two EU studies on SME internationalization i.e. Observatory of European SMEs (EC 2007) and Internationalisation of European SMEs 2010 (EC 2010) show substantially different pictures on the degree of internationalization of European SMEs. Analysis of the data show the basic relationship that the smaller the country, the more SMEs are internationalized. There is also negative correlation between size of SME’s home country population and its level of international activity. Moreover SMEs located close to a border show much higher activity rates with their cross border regions. The relationship of each mode of internationalization to size class is supported:

- The share in exporting, importing is at least twice as high form medium-sized enterprises as for microenterprises.
- Medium-sized enterprises are three times more active in technical cooperation than microenterprises.
- For foreign direct investments (FDI) there is a large difference, by size class micro 2%, small 6% and medium-sized 16%.
- Exporting and importing activities increase in intensity by age of enterprise. The
- percentages of SMEs that are exporting gradually increases from just over 15% for enterprises up to 4 years of age to nearly 30% for enterprises that have existed for 25 years or more. Most often SMEs start international activities by importing.

Nowadays, more than 40% of European SMEs are involved in some form of internationalization. The percentages vary from nearly 30% of SMEs that import to only 2% of SMEs having foreign direct investments. Of all enterprises that either import or export, more than 40% are active with both modes.

In Poland, in 2011, the number of all enterprises employing more than 9 persons was 50,519, of which 15,828 companies are exporters. In this group, 13,888 (87.7%) of companies accounted for SMEs (PARP 2013, p 48).

Traditionally, companies belonging to the SME sector are less internationalized than large companies. Propensity to export illustrate two internationalization indica-

tors: participation rate of exporters in the total number of firms and the participation rate of export revenues in total revenues exporters. Data for the first indicator shows the share of exporters in the total number of firms increases with the size of the company. Also, the data for the second indicator illustrate that the larger the company exporting the higher the share of exports in its sales (Table 1). It is worth noting that the actions of Polish enterprises are mainly Eurocentric character and the main trading partners are the European countries (Szkudlarek 2010, p 360) (Fig. 1).

**Figure 1:** Share of individual groups of Polish export markets in 2012

![Pie chart showing distribution of export markets: 76% UE, 10% CIS, 8% Developed, 6% Developing](image)

Source: (MG, 2013, p.37-42)

**Table 1.** Propensity to export Polish companies according to their size in 2011

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Total number of enterprises</th>
<th>Number of exporters</th>
<th>The share of exporters in the total number of enterprises (in%)</th>
<th>The share of revenue from exports in total sales (in%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises in total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(more than 9 persons)</td>
<td>50519</td>
<td>15828</td>
<td>31,3</td>
<td>28,8</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>31616</td>
<td>7099</td>
<td>22,5</td>
<td>21,1</td>
</tr>
<tr>
<td>(10-49 persons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium enterprises</td>
<td>15780</td>
<td>6789</td>
<td>43,0</td>
<td>23,7</td>
</tr>
<tr>
<td>(50-249 persons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprises from SME sector</td>
<td>47396</td>
<td>13888</td>
<td>29,3</td>
<td>23,0</td>
</tr>
<tr>
<td>(10-249 persons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large enterprises</td>
<td>3123</td>
<td>1940</td>
<td>62,1</td>
<td>31,5</td>
</tr>
<tr>
<td>(powyżej 249 osób)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from (PARP 2012, p 61)
2. Internationalization and Europeanization of Businesses in the Single European Markets

The Research Sampling

The study has been carried out at the turn of 2013 and 2014 on the sample of N = 216 internationalized enterprises from all 16 regions of Poland (table 2 and 3).

### Table 2. Size of the firms in the sampling

<table>
<thead>
<tr>
<th>Size</th>
<th>Numbers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>164</td>
<td>76%</td>
</tr>
<tr>
<td>-micro</td>
<td>50</td>
<td>23%</td>
</tr>
<tr>
<td>-small</td>
<td>50</td>
<td>23%</td>
</tr>
<tr>
<td>-medium</td>
<td>64</td>
<td>30%</td>
</tr>
<tr>
<td>-LEs</td>
<td>52</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Own study based on the research results (N=216)

### Table 3. Age of the firms in the sampling

<table>
<thead>
<tr>
<th>Age</th>
<th>No</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;30</td>
<td>39</td>
<td>18%</td>
</tr>
<tr>
<td>1985-1995</td>
<td>70</td>
<td>33%</td>
</tr>
<tr>
<td>1996-2004</td>
<td>57</td>
<td>26%</td>
</tr>
<tr>
<td>2005-2013</td>
<td>50</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Own study based on the research results (N=216)

Selected Survey Results

Statistical analysis leads to the following conclusions:

1. There is statistical dependence between the territorial scope of firm’s activity and its size (chi$^2 = 25.0003$, df = 4, p = 0.00005). Calculated on the basis of Chi-square contingency coefficient C Pearson C = 0.343 shows that between these variables there is a relationship of moderate strength (table 4). Thus, the research findings stay in line with presented above EU and PARP studies on internationalization of businesses.

2. There is no statistical significance between the territorial scope and its age (ch$^2 = 8.233$, df = 6, p = 0.221) (table 5).
Table 4: Cross tabulation concerning size of the firms

<table>
<thead>
<tr>
<th>Size</th>
<th>Only neighbouring countries/cross border countries</th>
<th>Within the EU markets</th>
<th>Within and beyond the EU markets</th>
<th>No answer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>5</td>
<td>26</td>
<td>49</td>
<td>17</td>
<td>97</td>
</tr>
<tr>
<td>Medium</td>
<td>0</td>
<td>9</td>
<td>48</td>
<td>7</td>
<td>64</td>
</tr>
<tr>
<td>Large</td>
<td>1</td>
<td>1</td>
<td>48</td>
<td>5</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>36</td>
<td>145</td>
<td>29</td>
<td>216</td>
</tr>
</tbody>
</table>

Source: Own study based on the research results (N=216)

Table 5: Cross tabulation concerning age of the firms

<table>
<thead>
<tr>
<th>Age of firms</th>
<th>Only neighbouring countries/cross border countries</th>
<th>Within the EU markets</th>
<th>Within and beyond the EU markets</th>
<th>No answer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1985</td>
<td>0</td>
<td>2</td>
<td>35</td>
<td>4</td>
<td>41</td>
</tr>
<tr>
<td>1985-1995</td>
<td>2</td>
<td>15</td>
<td>45</td>
<td>8</td>
<td>70</td>
</tr>
<tr>
<td>1996-2004</td>
<td>2</td>
<td>10</td>
<td>36</td>
<td>10</td>
<td>58</td>
</tr>
<tr>
<td>2005-2013</td>
<td>2</td>
<td>9</td>
<td>29</td>
<td>7</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>36</td>
<td>145</td>
<td>29</td>
<td>216</td>
</tr>
</tbody>
</table>

Source: Own study based on the research results (N=216)

2.5. CONCLUSIONS

Based on the calculations it was possible to accept one hypothesis entirely. In case of the second hypothesis no statistical significance was found. Thus:

**H1**: The territorial scope of firm’s activity is increasing with its size **confirmed**.

**H2**: The territorial scope of firm’s activity is increasing with its age **no significance**.

Concluding the research results, the empirical findings presented in the research paper are as follow:

1. Territorial scope of firm’s internationalization is growing with its size. The bigger the firm the more distant markets it enters.

2. There is no statistical significance between age of the firm and its territorial scope.

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