4. Characteristics of Polish Firms’ Internationalisation Processes

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Abstract

Objective: The objective of the article is to present the characteristics of Polish firms’ internationalisation processes.

Research Design & Methods: The article reviews major research on Polish firms’ internationalisation done in recent years including author’s own to prove the thesis that the degree of internationalisation of Polish firms is still low but in general Polish firms are getting more and more advanced in their processes of internationalisation. The basic limitation of the presented findings is in the effort to compare results of various studies based on different initial assumptions.

Findings: The history of internationalisation of Polish firms is not long as the real internationalisation started with the change into market economy in Poland. Before 1990 all exports and imports had to go through state appointed intermediaries – Foreign Trade Enterprises as the state had a monopoly on international trade. Gradual relaxation of regulations concerning foreign trade eventually allowed individual Polish firms to operate independently on foreign markets however the real surge in internationalisation took place after Poland’s accession to the EU. This change was especially visible in Polish foreign investments growing a lot since then. Twenty years after the transformation has taken place the general level of Polish firms’ internationalisation is still low. It has been indicated by the author’s research as well as by other studies done in Poland. Polish firms on average operate only in a few foreign markets, mostly in Europe. The prevailing mode of operation is exports. Despite the average feeble situation one can identify firms of very high internationalisation, operating on many markets all over the world, whose share of foreign sales in total sales is close to 100%. A close analysis has revealed that some of these firms fall into the category of born globals.

Contribution & Added Value: Original value of the article lies in overall characteristics of Polish firms’ internationalisation processes which will allow authors from other Visegrad countries to look for similarities and differences among internationalisation processes of firms from these countries.

Key words: internationalization, Poland, entry modes, international management

JEL classification: F23
4.1. INTRODUCTION

The history of internationalisation of Polish firms is not long as the real internationalisation started with the change into market economy in Poland. Before 1990 all exports and imports had to go through state appointed intermediaries – Commercial Centres for Foreign Trade and Foreign Trade Enterprises as the state had a monopoly on international trade guaranteed in the Constitution of Republic of Poland. In 1980s there existed 26 Commercial Centres for Foreign Trade and 48 Foreign Trade Enterprises (Jarosiński 2002) which means that the number of Polish entities dealing directly with foreign markets was very limited. The monopoly of the state had been gradually relaxed in the 1980s and eventually abandoned by the Constitution change towards the end of 1989.

Relaxation of regulations concerning foreign trade eventually allowed individual Polish firms to operate independently on foreign markets however the process was slow as Polish firms lacked necessary resources to start internationalisation immediately (e.g. capital, foreign market knowledge, business contacts). Thus many firms continued to export through intermediaries, even the old ones. The two major changes that took place in the 1990s was the redirection of exports from the East to the West and almost continuous growth of Polish exports since 1990.

The real surge in internationalisation took place after Poland’s accession to the EU. This change was visible in exports growth but also in Polish foreign investments growth since then. One could expect that 20 years after the transition to market economy took place the level of internationalisation of Polish firms should be at least moderate which was not the case.

The objective of this paper is to present the characteristics of Polish firms’ internationalisation processes. First a short theoretical framework will be provided, then a review of major research on the internationalisation of Polish firms will be presented and the results of the research will be discussed. The paper will end with a general conclusion on the level of internationalisation of Polish firms and some projections for the future.

4.2. LITERATURE REVIEW

There is quite a variety of definitions of the term “internationalisation”. Rymarczyk (2004, p. 19) defines internationalisation as every business activity undertaken abroad. Pietrasieński (2005, p. 15) indicates that internationalisation is “a process based on product exports and also more and more often transfer of production to other countries”. Johanson and Vahlne (1977, p. 23) define internationalisation as “a process in which the firms gradually increase their international involvement”. Beamish (1997, p. 3) states that “internationalisation is the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries”. Laanti et al. (2007) draw attention to the fact that firms often start their internationalisation with inward operations such as imports of raw materials or other resources necessary for production and only then decide to enter foreign markets.
The author of this paper understands internationalisation as “a process during which a firm establishes relations with other entities in order to sell or buy products on international markets or in order to increase its international competitiveness (Jarosiński 2013b, p. 19). In this paper however the author will concentrate on “outward internationalisation” only meaning the spatial expansion of a firm into international markets.

International Business literature explains the mechanism of internationalisation through a sequential process offering mostly two types of stage models: process models (Johanson and Vahlne 1977, 1990, 2003, 2006, 2009; Johanson and Wiedersheim-Paul 1975) and innovative models (Bilkey and Tesar 1977; Cavusgil 1980; Czinkota 1982; Reid 1981). These models describe internationalisation of a firm as a gradual process of increasing its international commitment through a series of incremental steps taken slowly one after another as a result of further and further adjustments to the international environment. The steps may include entering a foreign market as well as increasing allocation of resources in a particular foreign market. Besides, the theory of sequential development of a firm implies that the international development of a firm is preceded by a long period of development on home market first. In process models it is also assumed that the choice of foreign markets usually depend on the psychic distance to the chosen markets.

International Entrepreneurship literature presents an alternative way of internationalisation of a firm which is called early internationalisation (Oviatt and McDougall 1994; Knight 1997; Madsen and Servais 1997). The model of early internationalisation describe internationalisation of a firm as early started fast development on international markets based on various modes of operation. As opposite to sequential model firms enter foreign markets immediately after or shortly after their establishment and enter several foreign markets at the same time. It is also assumed that the choice of markets to enter does not depend on the psychic distance. Firms undertaking early internationalisation are most often called international new ventures (INVs) or born globals (BGs), the latter name to be used in this paper.

It is worth to note that the two above mentioned models although being the most popular ones do not exhaust the list of existing models of internationalisation. The limited size of this paper does not allow however to discuss all of them.

4.3. MATERIAL AND METHODS

The intension of the author is to present the characteristics of Polish firms’ internationalisation processes. Thus a review of major research on the internationalisation of Polish firms published in recent period (since 2010) will be presented. The choice has been made on the size (over 100 firms) and the characteristics of the sample as a result of which only samples including both medium and large enterprises were taken into account.¹ Only the studies in which at least a major part of research was dedicated to in-

¹ The author also acknowledges the importance of smaller studies and the studies made on samples including only SMEs to the development of knowledge on the internationalisation of Polish firms but the limited
internationalisation were chosen so that one could get a clear description of Polish firms’ internationalisation. This way several studies were identified: Witek-Hajduk (2010), KPMG (2010), Romanowska et al. (2011), Wach (2012) and Jarosiński (2013b). A study by Karaszewski et al. (2013) was also taken into account despite the smaller sample (64 firms only) because of its unique dedication to Polish FDIs.

A sample was described for each of the studies. It was followed by presentation of results of the study pertaining to the characteristics of internationalisation of studied firms. Internationalisation was measured here by the number of foreign markets served, share of foreign sales in total sales, international presence (geographic location of sales) and modes of operation on foreign markets. These data formed the basis for general conclusions on the characteristics of Polish firms’ internationalisation processes.

4.4. RESULTS AND DISCUSSION

Witek-Hajduk (2010) doing the research on internationalisation strategy of Polish enterprises during Poland’s accession to the European Union, investigated 176 medium and 81 large randomly selected Polish internationalised enterprises which were not subsidiaries of foreign firms and represented three industries (chemical industry – 23%, electromechanical industry – 48% and food industry – 29% of firms).

Studied firms mostly operated on up to 10 foreign markets (67%) and only 12% of firms operated on more than 25 markets. They were mostly present on EU-15 markets (74%) and other EU markets (53%). Russian and Ukrainian markets followed (33% and 27% respectively), 24% of firms operated in other countries. Besides, the studied firms indicated their first choice markets as UE-15 markets (58%), the Russian market (19%) and the remaining EU markets (13%). On each of the markets the studied firms mostly exported however the percentage of exporting firms depended on the market. Almost all firms used this mode of operation on the Russian (90%) and the Ukrainian (89%) markets. On EU-15 markets and other EU-markets exports were used by 62% firms and 79% firms respectively. Other modes were used on respective markets only by individual firms. On so called “cheap Asian countries”2 markets only exports were used. In general exports were used by 98% of studied firms while other modes of operation were used by at most 20% of firms (commercial joint ventures) followed by licencing and foreign sales subsidiaries (12% each).

Among the others Witek-Hajduk also found out that the studied firms increased their international engagement between the period before Poland’s accession to the European Union and 2008 when the data was collected.

KPMG (2010) study concentrated on international expansion of Polish production enterprises. Out of 112 firms deliberately selected from 1000 Polish biggest production enterprises size of this paper does not allow to discuss all of them. See for example: K. Przybylska, Born global – nowa generacja małych polskich przedsiębiorstw (Born Global – a New Generation of Small Polish Firms), „Gospodarka Narodowa” 2010, no. 7–8 or R. Śliwiński, Kluczowe czynniki międzynarodowej konkurencyjności polskich przedsiębiorstw (Key Factors of International Competitiveness of Polish Firms), UE, Poznań 2011.

2 Category used by M.K. Witek-Hajduk (2010).
firms with a majority of Polish capital operating in various industries 89% were present on foreign markets.

Studied firms operated mostly in Europe. Only 22% of firms were present in North America and 20% in Asia. Less than 20% of firms were present in other regions of the world. Looking at particular markets all neighbouring markets were present among top 10 export destinations of studied firms. On average studied firms had 38% share of foreign sales in total sales and 56% of firms had less than 50% of sales from abroad.

Almost all firms were engaged in exports (99%) and most firms (62%) were engaged in various forms of cooperation with foreign partners. Only 26% of firms had foreign sales subsidiaries and 20% foreign production subsidiaries. Other modes of operation were used by several per cent of firms and less.

Romanowska et al. (2011) analysed the influence of strategy change on structural changes of corporate groups in Poland in the period 1989–2008 on the basis of deliberately selected 101 Polish biggest corporate groups listed on Warsaw Stock Exchange among which there were 66 corporate groups (65%) operating internationally.

Most of the corporate groups exported to less than 20 countries and only 3 corporate groups were present on more than 50 markets however the studied firms concentrated first of all on neighbouring countries. They exported their products mainly (80%) to Czech Republic, Lithuania, Germany, and Ukraine and when deciding on foreign direct investments they tended to locate their investments in Czech Republic, Ukraine, and Russia. Generally 65% of corporate groups exported only to European markets and 87% located their investments only in Europe. Collected data did not allow to count the share of foreign sales in total sales of all the corporate groups but for those groups that released this information the average index was only 30% in 2008 which was double the number of 2005. Looking at the modes of operation used exports was a dominant form but only 23% of firms limited their foreign operations to exports only as 38% of firms had at least one foreign sales subsidiary and 39% of firms at least one foreign production and sales subsidiary.

Another large study was carried by Wach (2012) who examined 323 randomly selected small, medium and large enterprises from Małopolska voivodeship (including micro enterprises which constituted 57% of the sample). The study indicated that 24% of the firms operated on international markets but more than a half of them (54%) were present only in Europe. One of the aims of the study was to measure a level of globalisation of studied firms. Taking into account all studied firms 1.5% of firms were globalised and 3.7% of firms were fully globalised (according to OECD methodology). Most of the global firms were large enterprises but it appeared that also some micro, small and medium-sized enterprises were globalised.

What is interesting this research indicated that the percentage of firms applying exports as their mode of operation on international markets was lower than the percentage of firms engaged in cooperation with foreign partners (32% and 45% respectively). Deeper analysis of exporting firms indicated that only in case of 19% of exporters the export sales exceeded 50% of total sales. It also appeared that the same percentage of ex-
porters operated not only in EU markets as those being present in EU only (almost 49% in both cases). At the same time 2.5% of exporters operated only outside of the European Union. Deeper analysis of international cooperation of studied firms indicated that all type of firms (including micro enterprises) were engaged in cooperation with foreign partners but one has to underline that not only cooperation with competitors on their local markets was taken into account but also cooperation with suppliers and buyers.

The author of this paper also carried a study on the internationalisation of Polish firms (Jarosiński, 2013b). A study sample consisted of randomly selected 588 medium and large firms coming from various industries out of which 241 (41%) operated on international markets (121 medium and 120 large firms).

On average studied firms operated only on 9 markets (even large firms were present merely on 11 markets). Up to 6 markets were served by 59% of studied firms. At the same time more than 9 markets were served by 25% of firms but only 6% of firms were present on more than 20 markets. Three top firms were serving 100, 80 and 66 markets respectively.

Studied firms operated mostly in Europe (66%) while 34% of firms were present also outside Europe. Only 18% of firms were active in more than two regions. The average number of regions served was merely 1.7 (large firms served on average 2 regions). Firms doing business outside Europe were usually present only on single markets in other regions. Studied firms not only tended to operate in Europe but also concentrated on neighbouring countries. Among top 10 target markets of studied firms there were 6 neighbouring markets with the German market taking the lead where 69% of firms were present. It was followed by Czech, British, Lithuanian and French markets on each of which around 30% of firms were present. The first non-European market – the American market was on the 18th position.

On average studied firms had 45% share of foreign sales in total sales (47% for large firms) and 66% of firms had less than 50% of sales from abroad. Although 11% of firms had more than 90% of sales from abroad as much as 20% of firms indicated foreign sales share in total sales below 10%.

The research indicated that studied firms first of all used direct exports (86%) and indirect exports (50%) as their modes of operation on foreign markets. The remaining modes of operation were applied by a small percentage of firms with foreign sales subsidiary on the top (13%), foreign production and sales subsidiaries (6%) and foreign production subsidiaries (4%), joint ventures (3%), licencing and franchising (2.5% and 2% respectively).

The author’s study also led to determination of firms with a majority of Polish capital that were established after 1987 as a subset of the study sample what allowed for identification and characterization of a group of 32 Polish born globals. Born globals were defined as firms that entered foreign markets within first three years from their establishment and had at least 25% of foreign sales. Born globals identified in the study on average entered foreign markets after 1.5 year and served 1.8 markets in their first year of foreign operations. On average they had 63% of sales from abroad and served 8.6 markets being present in 1.9 regions. Born globals were also compared to the remaining
firms in the sub-sample which led to the conclusion that born globals were not that much internationalised, in comparison to other firms developing on international markets in a traditional way, as it had been expected.

It is also worth to note the research of Karaszewski et al. (2013) concerning foreign direct investments of Polish firms. A study sample consisted of 64 firms undertaking foreign direct investments selected from the list of 2000 largest Polish firms according to “Rzeczpospolita”. Most of the firms had exclusively Polish capital (62%) and 26% of firms had exclusively foreign capital. Almost 70% of firms were established after 1989.

The foreign direct investments of studied firms were made almost exclusively in Europe (97%) with UE-15 markets taking the lead (68% of all EU investments) with Germany, France and Belgium on the top. Still the neighbouring countries were among the most often chosen investment directions.

Most of the firms had less than 30% share of foreign sales in total sales but only 9% of firms had more than 50% of sales from abroad. Comparing to the share of foreign sales, the share of assets abroad and the share of employment abroad was much lower. Merely 2% of firms had the share of assets abroad over 50% of total assets and barely 4% of firms had the share of employment abroad over 50% of total employment. Most of the firms made only greenfield investment (57%) and 21% made only brownfield investments.

4.5. CONCLUSIONS

The short presentation of the above described results of these few selected Polish studies indicates that nowadays quite a lot of Polish firms operate on international markets (41–65% of the research samples) but the level of internationalisation of Polish firms is not high yet. Most of the firms operate on just several foreign markets being limited to merely one region (continent) with a small number of firms being present on several dozen markets in a few regions. The scope of internationalisation of Polish firms is not very broad. Most of the firms concentrate on European markets with particular emphasis on markets of neighbouring countries and Central and Eastern-European markets. There are some Polish firms being present outside Europe but even if they are in other regions they usually serve few markets there. Also the share of foreign sales in total sales of the firms is not high. It is on the average lower than 50% (30–45% depending on a study). The studied firms usually use various entry modes but in all studies exports was a dominant form of operation on foreign markets. The remaining modes were usually applied by several per cent of studied firms only. The only exception was Wach’s study where cooperative modes were more popular than exports.

Presented studies indicate that Polish firms develop incrementally on international markets but there are also some firms that have chosen early internationalisation. Available research on Polish born globals however indicate that these firms do not fully

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1 The only exception was Wach’s study where the share of internationalised firms in a study sample was much lower (24%) but one has to remember that in this case also small enterprises (including micro enterprises) constituted a large part of the sample (Wach 2012).
much the description of born globals in other countries presented in the literature (Jarośiński, 2013b; Morawczyński, 2008). Thus they can be rather described as Apparently Born-Global firms (Jarośiński, 2013a).

Despite the average feeble situation one can identify firms of very high internationalisation, operating on many markets all over the world, whose share of foreign sales in total sales is close to 100%. The earlier and more complex research review done by the author (Jarośiński, 2013b) indicates that generally the level of internationalisation of Polish firms is increasing. So the outlook for the future is optimistic. There is still a big gap between the internationalisation level of Polish firms and the firms originating from more advanced economies but one has to remember that the latter have much longer history of internationalisation than ours. Polish firms (especially newly established) seem to have quite a good potential to close this gap in the coming several years.

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4 This study was not described here for two reasons: the sample consisted of small and medium-sized firms and the research was done in 2004.
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Śliwiński R., 2011, Kluczowe czynniki międzynarodowej konkurencyjności polskich przedsiębiorstw (Key Factors of International Competitiveness of Polish Firms), UE, Poznań.
