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Selected aspects of enterprise internationalization

Abstract: Business environment is constantly evolving and it is getting shrunk as managers acting in the market economy encounter some problems and a great deal of implicated solutions from one country can be applied in others. This situation leads to the rise of market systems where various agreements, which are reached, aim at liberalization of trade and cooperation [Penc J., 2003, pp.126–127]. The speed of forwarding messages, products, services, easiness in making relationships, blurring the time and spatial boundaries, and convergence of customer's tastes or standard unification enable trade and world's production to develop. It also causes the borders to be on the decline at the same time increasing enterprise competition level internationally. The objective of paper is to indicate and describe the selected aspects connected with enterprise internationalization. The analysis and review of national and international literature were provided in the article.
Key words: Internationalization, management, manager, organization

1. The concept of the Uppsala model

N.F. Piercy i P.W. Turnbull define internationalization process as a relocation of company abroad simultaneously identifying internationalization with coming the enterprise into existence in a physical sense outside the native country. This definition was further developed by L.S. Welch i R. Luostarinen. From their point of view internationalization is the process of boosting company's involvement in international business activity through importation, purchase of license, franchising, exportation, foreign direct investments or strategic alliances [Piercy N., F., 1985, p. 45], [Turnbull P., W., 1985, p. 21].

J. Różański states that "Internationalization processes are closely related to economy liberalization of most countries, thanks to which the capital freely flows and as a result, it stimulates these processes and makes them possible. Enterprise expansion outside a native country, (that is where the business activity originally started) as a consequence of which internationalization of its activity takes place, does not occur accidentally" [Różański J., 2010 p. 15].

Amongst the enterprise internationalization concepts the most popular is the Uppsala model developed by J. Johanson and J.E Vahle. The starting point is the statement that in the case of many Swedish companies or coming from other countries but, what's important, having quite small domestic markets, a typical behavior of an enterprise willing to expand onto the foreign market is involvement in the overseas activity gradually. The most crucial thesis of this model is the statement that internationalization is sequential – it suggests justified, non-accidental, at least partly determined course of action, a certain process evolving in the course of time [De Liso N., Leoncini R., 2010, pp. 161–259; Gorynia M., Jankowska B., 2007, p. 22; Przybylska K., 2005, pp. 82–88]. The authors of the model noticed that expansion onto other markets is preceded by the success of this company on the domestic market. It results from the right, pertinent and consistent decisions that are made at different top-management levels referring to pricing policy, HR or products. Geographical or spatial expansion of enterprise usually starts from the countries located to a native country, and is consecutively relocated to more distant places. This situation can be justified by the fact that it is easier to bridge a mental, cultural, language, educational or political gap between neighboring countries (which often have similar patterns) than between the countries with a completely different culture or a political system. It is also meaningful that information flow, transportation, stocking, delivery time etc. are much easier to control and more convenient when a company begins the cooperation with businesses located near the border. An organization just entering a foreign market starts with exportation and decides to take some actions requiring more commitment afterwards [Kuada J., 2009, p. 4].

2. Behavioral attitude and static enterprise internationalization

Another perspective connected with the extent of enterprise internationalization enhances the significance of behavioral factors. The starting point is the way of taking managerial decisions in terms of geographical resource allocation, company's activity on international markets, forms of advertising, promotion, or adapting an offer to local consumers' requirements [Harisson A., 2010, pp. 205–233; Prashantham S., 2008, pp. 1–33; Radomska E., 2010].

There are four behavioral orientations:

- Ethnocentric approach assumes that business activity is oriented to production and sale on the domestic market and exporting activity is quite casual. This kind of approach is characteristic for enterprises with no trading experience on international markets. Any strategic actions are adjusted to self-reference criterion. It means that decisions are determined by norms, values and attitudes deriving from local cultural patterns. External (overseas) consumers' needs are perceived the same as native ones'. Applying this behavioral orientation a business offer, the way of promotion or distribution are identical in all business activity areas of a company.
- Polycentric approach refers to enterprises which are active on many international markets and their strategic, functional, and operational decisions made abroad are diversified. Discrepancy between particular regions is also taken into consideration. There are some efforts made in order to adapt particular constituents of strategy to local specificity, conditionings, and aboriginal purchasers' expectations. Companies individualize marketing programs, adjust procedures, shape production lines which would correspond to respective markets. They also adapt products, brand, and other marketing actions. They conduct their marketing research on their own or have them conducted, independent of each market [Radomska 2010, p. 13].
- In regiocentric approach overseas markets are divided into regions which are quite similar to each other. The same country or nationality features characteristic for a given area are used in regional coordination and adjustment of company management to the markets of the above countries. Business activities are also unified in the fields such as: promotion, training courses, pricing policy, the product range or marketing research which consecutively are identically applied in all countries of a given region.
- Geocentric approach assumes that foreign markets are treated like one global market e.g. covering national segments that are multi-purpose in terms of particular needs. The main goal of a company is creation and implementation of international approach to company's multi-dimensional actions (i.e. in different aspects) on international markets. Coordination of decisions and corporate moves becomes global. The world is treated and perceived as one global market ("global village") and assortment of consumers, procedures and HR policy have a transnational dimension.

Internationalization can also be static. As J. Rymarczyk suggests enterprise internationalization intensity ratios are very useful while analyzing the degree of enterprise internationalization. The most important indicators include:

- the number of overseas markets against the totality of markets being served,

- the share of the company's property book value in the whole company's property,
- the share of fixed assets abroad in the entire book value of company's fixed assets,
- the share of overseas turnover in the whole company's turnover,
- the share of overseas profits in the total company's profit,
- the forms of overseas involvement in terms of value or quantity (e.g. export, sale of licenses, franchising),
- the extent of foreign direct investments (FDI) in relation to the total investment,
- the contribution in overseas markets against total market contribution,
- the share of employed abroad against the global enterprise employment [Rymarczyk J., 2004, p. 24].

There are additional rates constituting a complement for the above list:
- brand recognition abroad against other global brands,
- the level of overseas expenditures in comparison with the total company's expenses.

The evaluation of enterprise internationalization will become more comprehensive and thorough if some indicators are combined. A good example can be the profit rate which belongs to the most important indexes in a company's financial analysis. J. Rymarczyk states that if one takes into account the data such as: relative share of fixed assets abroad, relative turnover abroad, and relative share of employed abroad and divides it by three, one will get enterprise internationalization rate.

$$CIR = \frac{\frac{FAa}{FA} + \frac{Ta}{T} + \frac{Ea}{E}}{3}$$

Where:
CIR – corporate internationalization rate,
FAa – fixed assets abroad,
FA – fixed assets in total,
Ta – turnover abroad,
T – turnover in total,
Ea – employment abroad,
E – total employment [Rymarczyk J., 2004, p. 25].

Analogously to the mentioned rate there is another one used to calculate the level of enterprise internationalization. Its constituents are interchangeable and can depend on the one-sided opinions of people managing organizations in terms of significance of particular factors determined by e.g. willingness to apply evaluation similar to those used by competitors. The constituents also hinge upon complexity or specificity of environment in which an enterprise functions or upon the accessibility of data in overseas subsidiaries.

$$EIR = \frac{\frac{Ea}{E} + \frac{Pa}{P} + \frac{Ba}{B} + \frac{Ia}{I}}{4}$$

Where:
EIR – enterprise internationalization rate,
Ea – enterprises abroad,
E – enterprises in total,
Pa – production abroad,
P – production in total,
Ba – brand recognition abroad[1]
B – recognition of other brands[2]
Ia – number of foreign investments,
I – investments in total.

Source: own work on the basis of J. Rymarczyk ., Internacjonalizacja… op.cit, p. 24

3. Examples of internationalized forms of enterprise cooperation

A consequence of internationalization is the fact that a great deal of organizations start cooperation with other companies shaping various forms of enterprise internationalization. It is determined by many factors amongst which there can be mentioned:

– costs of making a product, market research and investments in fixed assets are shared by co-partners,

[1] Research in the scope of company image recognition can be centered either on the company image and its trade name or on particular products. While evaluating the effectiveness of the subject-matter changes, systematic studies should be carried out taking into account the results indicating the alteration of: the percentage of people favorably disposed towards the brand and/ or product, the percentage of regular purchasers. These indicators are calculated for the target market.

[2] Qualification of market research referring to recognition of other brands looks similar.

– enterprises join together by the rule of complementarity. One enterprise can be in charge of producing one commodity whereas the other company elaborates on marketing plan (forms of sale, target group etc.)
– it is easier to reach a scale effect which reduces the unit cost of a product and enables the company to expand,
– it is possible to gain a partner's protected knowledge. A variety of new solutions and innovations is wider if more entities are involved in cooperation,
– it is possible to access new markets through making alliances with other companies,
– in the era of knowledge and information a very important factor is the fact that thanks to mutual cooperation enterprises have easier access to highly-qualified staff.

Among many forms of internationalized cooperation one can mention non-incidental exportation. Direct export consists in selling manufacturer's own products in other countries with no third party's participation. Indirect export aims to target some particular companies dealing with it and to sell producer's own goods to them. Manufacturer's activity limits oneself to leaving an export commodity available and intermediaries incur any costs and risk connected with its distribution. They are also responsible for gaining clients and arranging transport etc.

Transit trade occurs when trade of goods does not take place directly between an exporter in the home country of commodities and an importer in the receiver's country but the subject-matter trade takes place through a transit company residing in the third nation. I. Zawiślańska indicates that this form of trade is desirable especially when direct trade with the particular country is hampered due to political interests. The reason can also lie in high customs duties or using already existing trading preferences. Another cause can be inaccessibility or ignorance of some foreign markets [Zawiślińska I., 2009].

Improvement trade is also an example of collaboration between various companies. It lies in sending an unfinished product abroad in order to complete some further production stages like processing or finishing. Afterwards the commodity returns to the country of its origin still belonging to the sender. The motive of such cooperation can be the fact that services related to particular stages of assembling are cheaper abroad than in the native country. Besides, a contracting authority may not have enough capacity or particular works require special competence.

As GUS (Central Statistical Office) states "Such transactions are called active improvement trade for that country where processing takes place and passive improvement trade for that nation which sends the commodity abroad to be processed" [Kapsa J., 2009].

Another form of international cooperation is license agreement. J. Kuada believes that it consists in selling the rights for production and introducing products that are marked with reserved brand or using the patented knowledge and technology created in a different country [Kuada J., 2009, p. 9].

Franchising is one of the possible forms of economic cooperation as well. According to Słownik Menedżer (Manager's Dictionary) it is a business method that involves the licensing of trademarks and methods of doing business. Franchising is a long-term agreement between a franchisor and a franchisee in return for direct or indirect salary. A franchisor's salary constitutes license fees and some monthly payment or just a fixed amount of money defined in percentage" [Wiedza Menedżera, *www.findict.pl/slownik/franchising*].

Joint venture is another kind of agreement between enterprises. It is a partnership between two or more enterprises which manage the organization together, pay in the initial capital, bring other resources such as technology or know-how, share profits, losses and the risk connected with running a business activity [Oczkowska R., 2006, p. 130]. The process of enterprise globalization and internationalization that is constantly evolving entails the need of exploring new strategic alternatives by companies. More and more enterprises, especially transnational corporations, are willing to cooperate and make strategic alliances [Szczubiała P., 2009, p. 452]. As J. Kraciuk suggests "Such alliances are made in order to reach a clearly defined strategic goal, as well an economic as a political one, which is mutually beneficial for all partners. Bearing alliances in mind, it is essential that a company should retain its independence, so-called "inviolable autonomy" of every single partner, in spite of a binding agreement. In other words, within strategic alliances partner enterprises join to reach some common goals but they preserve their autonomy and protect their own interests [Kraciuk J., 2005, p. 501].

Setting up an overseas branch is another form of enterprise internationalization. It is a kind of extension of business activity on foreign markets. It is characterized by a high level of independence in terms of operations, although its marketing strategy is subjected to the headquarters.

The last example of enterprise internationalization which is going to be discussed is a company subsidiary that lies in deliberate separating legally independent subsidiaries but subjected to a parent company in terms of economy. This kind of corporate relationship is generally branched and can be extended, e.g: a parent company holds majority of shares in several subsidiaries, which respectively have acquired a majority stake in companies of the lowest management level [3].

[3] Other forms of enterprise internationalization are: direct and indirect import, production facility, manager's contracts, subdelivery contracts, overseas representation.

As J. Różański claims, organizations are forced to choose the way of internationalization of their business activity. Each of the mentioned ways to enter international markets has advantages and drawbacks [Różański J., 2006, p. 164].

4. Basic factors of enterprise internationalization

Political and legal – Multilateral agreements liberalizing international exchange that eradicates customs barriers and lays emphasis on free currency exchange and free movement of intellectual and financial capital are, above all, a result of negotiations conducted by GATT (General Agreement on Tariffs and Trade) which was replaced by WTO (World Trade Organization residing in Geneva) [Oczkowska R., 2006, pp.19-20]. WTO, within its mission, states that it is: „(…) the only global organization which regulates trade law between nations (…)" [Oczkowska R., 2006, pp.19-20 (The quotation taken from WTO's electronic resources [in:] *www.wto.org*]. Under the chairmanship of WTO there were four rounds of negotiations (Geneva, Kennedy's, Tokyo, Uruguay) which led to reduction of average customs tariffs for imported goods. They were reduced from 40% to 3,7% and for agricultural trade the customs tariffs were decreased by 36% in developed countries and by 24% in developing ones (The data taken from Portal Wiedzy PWN Biznes in: *biznes.pwn.pl*]. A significant determinant of enterprise internationalization is the rise of transnational corporations. In many fields they may influence the policy of particular national economies. Corporation's expectations might cause the government to come up with some tax encouragement for foreign investors while investing and further functioning of a given corporation in the region. It also aims to help investors cover basic logistic expenditures and infrastructures connected with business activity: roads, airports, educated staff or creating technological parks. In many respects corporations play the role of the government helping the employees to co-finance social benefits, to arrange the wage-earners' personal and social life (often in accordance with the norms accepted in the home country of a given enterprise) or to cover research-related costs.

Having observed the processes related to development followed by the expansion of global enterprises one can state that their role and impact on governments of different countries will be more and more significant. Collating various macroeconomic rates one can list the world's corporations having the highest income from sales and the most valuable brands.

The Fortune magazine presents classification of the 500 largest companies by annual income. In 2010 the rating looked as follows:

Table 1 Rating of the world's largest corporations in 2010 [Fortune, 2011, p. 56].

No.	Enterprise	Income (bln USD)	Profits (bln USD)
1	Wal-Mart Stores	408,214	14,355
2	Rogal Dutch Schell	208,129	12,518
3	Exxon Mobil	284,650	19,280
4	BP	246,138	15,578
5	Toyota Motor	204,106	2,256
6	Japa Post Holdings	202,196	4,849
7	Sinopec	187,518	5,756
8	StateGrid	184,496	-343
9	AXA	175,257	5,012
10	China Nation Petroleum	165,496	10,272

Source: Fortune, No 531, New York, 2010 p.56

Cost and supply – Managers of every enterprise would like the market for goods and services to be big enough and they make an effort to expand their business activity onto other regions. It is connected with the so-called scale effect in economics, which works as follows: the higher sales figures, the lower the unit cost. Economies of scale can be achieved by a global enterprise in a different field as well. Generating savings takes place when the same functions (R&D, marketing, logistics, supply, sales and others) are combined within one organization. Moreover, the functions are performed together and aim at various actions taken in different countries and target diverse product groups [Brózda J., 2006, p. 18]. Homogenization and functional specialization occur. The results of these processes are implemented on many international markets. Scale effect in economics also contributes to the fact that a given enterprise, as a provider of goods, has more leverage and possibility of giving discounts, thus becoming more competitive on the market.

Market. Enterprise internationalization induced by globalization process can be perceptible from the perspective of market factors. Economic and historical changes caused many countries to open their borders to the movement of products and company services across the world. Global enterprises tend to maximize their shares on the markets they have already covered and are perpetually trying to enter other areas or regions. J. Rymarczyk highlights that "Opening an overseas market or maintaining on it is particularly meaningful when:

- there is a standstill on the domestic market,
- demand on the domestic market for a given product disappears due to its ageing process,
- there is unused capacity,
- there are stronger competitors and domestic market has an oligopolistic structure,
- foreign markets are increasingly growing,
- import restrictions on the hitherto-occupied enterprise markets are introduced or increased,
- there are more integration groups that are going to create their own market" [Rymarczyk J., 2004, p. 61].

A complement of the above list can be the fact that:

- enterprises want to be the first and to lead the field on the hitherto-unused areas,
- international organizations expand onto new markets because a lot of countries are rich in natural mineral resources, raw materials and other resources which can be relatively cheap,
- host countries have well-educated staff. They also have a lot of training centers to educate the potential employees,
- enterprises use functional and competitive benchmarking, through which, according to S. Stapenhurts, "they compare and imitate the market expansion of competitors and other companies, adopting and adapting the best practices of other organizations" [Stapenhurst T., 2009, p. 4].
- enterprises extend the scope of their business activity in order to find a niche on the global market.

Technical and technological. Scientific and technical progress is an essential incentive while internationalizing organizations. It is closely related to innovativeness of enterprise which makes a company more competitive and positively influences its economic growth, which respectively results in expansion onto other markets. Technical and technological factors triggered a great deal of significant alterations in the functioning of contemporary enterprises. They contributed to the advancement e.g. in the field of communication, production and transport [Stapenhurst T., 2009, p. 15]. These determinants heavily impacted the rise of new forms of organizations and modern ways or working methods.

Contemporary IT devices cause the information forwarded to cost less and less. Besides, the data, commands, orders or tasks get to the recipient directly and are not distorted or delayed. In the 21st century a piece of information is a subject of sale, exchange, therefore fast information flow to internal and external clients is so crucial (e.g. in the field of finance, politics or culture).

Nowadays organizations do not wonder if they should apply any IT devices because this kind of equipment and using new technology is a prerequisite for any enterprise to function dexterously on the market [Head T., 2010, p. 16].

Social and cultural. Thanks to free movement, consumers meet new patterns, traditions and cultural tastes and they want to adopt them for their own purposes. It is a challenge for companies which have to face constantly growing demand requirements and provide consumers with desirable products and services.

Migration of population determines enterprise internationalization as well. Openness of borders fosters movement of people to find a better-paid job or to settle down outside a native country. In many countries (e.g. England, the USA, France) there are plenty of racial minorities which paradoxically have become majorities staking out new trends in the given area. Employers have to adjust the functioning of organization to many nations' likings and habits. Firms hiring multinational teams have to meet requirements resulting from diversification of origin, culture or religion of their workers.

Standardization in education fosters migration of population. On the example of the Bologna Declaration, the foundation of unification process is creating a harmonious higher education system in Europe. Thanks to free movement of people, goods, services or information, convergence of lifestyles, needs and tastes ensues. Making alike is understood as the process of limiting economic, social and cultural inequalities between the regions and minimizing the disparities between the countries in terms of growth pace and product level [Marini M., 2004]. Consumers expect to be given similar product offers and wish to use the same goods regardless of the whereabouts. The culture in entity management is important alike as it accounts for a versatile medium in which people work and organizations function [Sułkowski Ł., 2012, p. 7].

Summary

Analyzing enterprise internationalization processes one must notice that in some concepts internationalization is treated like an evolutionary process, which means it does not follow any abrupt changes. Some companies from the very beginning take some steps to expand onto international markets at the same time skipping the first stage, that is organization's involvement in business activity in the native country. Other businesses function on the domestic market to a limited extent or they do not operate at all but they get involved in overseas expansion successfully (e.g. products, company services in a music, film or journalistic field).

A significant aspect is also the fact that organizations operating only on local markets should take internationalization into account due to providing services for international clients. In the countries such as France, England or the USA racial minorities constitute the vast majority of society and in some regions this population considerably exceeds the number of aboriginal residents. Organizations operating in such areas are forced to adjust their products, services or offers to consumers' preferences and tastes, simultaneously taking into consideration the recipient target groups' different origin, culture or religion. This situation is also challenging and demanding for managers being in charge of such entities. Despite the fact that they lead the companies operating only on one market, they have to obtain some practical and theoretical competence related to international entity management in such spheres as: staff guidance, product adjustment or marketing.

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