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When the storm comes – run! How the ‘turbulent’ environment affects the internationalisation processes of the Polish small-medium enterprises

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1. Introduction

A characteristic feature of the modern world economy is progressing internationalization and globalization processes of economic activity. These phenomena influence the environment of market players, creating unprecedented conditions for the behaviour of these entities. The companies have a broad choice of options: they can take the initiative with respect to the environment, seek new sources of competitive advantage and to distance competition, or adapt to the realities and challenges of the environment. Currently, one of the biggest challenges faced by the company, is the globalization of the economy. Despite numerous market barriers, the companies often recognize development opportunities in the internationalization of business, defined broadly as a process of increasing involvement of enterprises in international markets trying to compete effectively in international markets. It applies not only to large companies aspiring to play the role of international players, but also small and medium-sized enterprises (SMEs), which became important participants in the internationalization and globalization processes.

In European Commission report (2016) it is highlighted that SMEs creates 60% of the EU28 GDP and 69% of the employment, among which Poland has around 4 million registered SMEs. Additionally, SMEs make 99.9% of all economic entities in the country, employing almost 6.7 million people, what constitutes 70% of the active labour force (CSO, 2011). Companies which started basic exporting and investing abroad noted significant turnover growth. For instance, more than 50% of SMEs which start international activities reporting increasing turnover (Accaglobal.com., 2018).

The 1990s brought a key change for the business situated in the Central and Eastern Europe, bringing to them new opportunities to grow (Meyer and Gelbuda, 2006). At this time, entrepreneurship needed to face chaos on the market due to lack of basic institutional framework such as reliable infrastructure and lack of trade agreements (Johannisson, 1995). Recently, scholars (Meyer and Gelbuda 2006) highlight, companies are obliged to manage activities and face dramatic institutional change and immense uncertainty. Recent shift in political system will not provide better future for the companies, as independent media suggest (e.g. The Economist, 2017).

Rapid increase in international economic exchanges have made national economies very open to the world economy. Many economic analyses have been devoted to exploring the effects of internationalization on macroeconomic policy options and national competitiveness. Since economy and politics are linked, there is reason to expect the impact of domestic politics, which influence

national economies, on the world economy. Nonetheless, in the literature scholars identified gaps concerning internationalisation of SMEs in the turbulent environment (e.g. Davis and Meunier, 2011; Bevan and Estrin, 2004). Many of them are connected with the political risk as recent change of government in Poland or major disruptions such as the exit by the United Kingdom from the European Union (Brexit¹). Therefore, it can be stated turbulent environment understood as a sudden change in the environment, even if shift in economic situation (Oviatt and McDougall, 2004), is still difficult to quantify (Jermier, 1982).

2. Research aims & methodology

The main purpose of the article is to investigate whether and how recent political change in Poland caused uncertainty among entrepreneurs and influence their willingness to internationalise. The companies search for new sources of revenues and ways for mitigate risk related to the legal and economic uncertainty created by successive changing government teams.

1. **Why** Polish small and medium-sized enterprises decides to increase their involvement in international markets after the change of the government party? What factors influence their decision in that context?
2. **How** Polish enterprises internationalise? What are the main trends and the sources of knowledge about foreign market and possibilities to diversify SMEs operations?
3. **What** is the role of the Polish government (and its specifically designed bodies) in the internationalisation assistance.

Qualitative method will be used in order to understand how entrepreneurs are pursuing internationalisation process. The emergent theory approach (grounded theory design) is used in this document (Bryant and Charmaz, 2007). It consists in the saturation sampling model – in order to generalize it is important to explore unknown area. Emergent theory focus on replicability, reliability and validity to ensure that data coverage is fulfilled (Bernard, 2011; Johnson, 1991; Morse et al., 2002).

Taking into consideration complexity of the aims and interactions between entrepreneurs and environment qualitative method is pointed by Flick (2014), where the purpose is to discover a new phenomenon. In doing this research, respondents who owns their businesses will be able to introduce critical factors of internationalisation and how they affect with the environment. Uncertainty

¹ The United Kingdom referendum which took place on 23 June, 2016. Referendum resulted in an overall vote to leave EU by Great Britain (Wheeler and Hunt, 2016).

caused by turbulent environment in business area is a broad topic. That is why study will focus on 8 companies from different sectors (high-tech, IT, hospitality, manufacturing) in order to gain understanding how those disruptions affect them.

3. Turbulent environment – the case of Poland

In the late 2015 the right-wing party Law and Justice (PiS) won the government elections. They prioritized expensive social spending that were crucial to win. It is the first time of post-communist Poland that a single political party secured a parliamentary majority, winning 235 seats in the 460-member Sejm (powerful lower chamber of parliament). Therefore, it can be said that PiS can enforce almost every act they want to [precisely – they do not have a constitutional majority and thus are limited by the Constitution]. Their promises are much more expensive (for example reduced retirement age which will come into force very soon) than previous ruling party so they want to impose additional taxes on the companies (such as SMEs, foreign investors and banks) as well as citizens (Ash, 2015). This situation caused anxiety among the entrepreneurs. One of the best indicators highlighting turbulence of the environment is stock exchange capital outflow. Since the election (October) to December, Poland's main stock exchange index has fallen 17.5%, as well as price of its 10-year debt (GPW, 2018). Investors fear that new administration will squeeze business to fund expensive election promises (Forster, 2018). The importance and legitimacy were noticed by the European Commission which announced that they will start monitoring of the government (Crisp and Day, 2017). At this time (January 2016), Polish currency achieved 4-year low versus euro (Reuters, 2016). At the end, EU top court orders Poland to stop logging in Białowieża forest, but Polish government is ignoring the order and at the same time gives the possibility (The Guardian, 2017).

Above mentioned disruptions may affect the environment of SMEs. This issue is still ongoing and there is no research how this turbulence in environment affects Polish SMEs, whereas those companies produces almost 50% of the national GDP (PARP, [http](http://)).

4. Internationalisation strategies

Firstly, it is important to say, that world is expecting an unprecedented intensification of economic connection. It is created by globalization phenomenon, and yet, scholars put different concepts about this topic (e.g. Held, Glodbrat and Perration, 1999). International free trade agreements and bodies such as NAFTA

facilitate internationalisation of the SMEs². Entrepreneurs are aware of the opportunities given by the free market and they are actively involved in market scanning (Mainela and Puhakka, 2008).

Internationalisation can be defined as a process in which firms increase their activities in international operations (Welch and Loustrainen, 1988). While foreign markets seem to be attractive for companies, they are also present in competitive challenges (Doz and Prahalad, 1987). Companies have different internationalisation strategies – the most popular: Uppsala and Born Global, will be examined.

The Uppsala model is a concept created by Johanson and Wiedersheim-Paul (1975). This model is based on different steps that describe firm's level of internationalisation. Firstly, company initiate process by direct exporting to foreign country. The next step involves establishment of the sales subsidiaries in a foreign country and in the last stage, firm creates a manufacturing facility abroad. The common pattern shows, when company successfully internationalize to one country (in the Uppsala model it is neighbour country with similar economy) enterprise is willing to internationalize to similar country again to avoid risk in local environment.

Several reasons are in favour of internationalisation beginning by the exporting. This way of entry mode is the cheapest, simplest and quickest way (Leonidou et al., 2010). At the same time, export is a risky activity, because company needs to operate in an uncertain environment.

According to the research, most of the Polish SMEs are starting internationalisation process through exporting – the first stage of Uppsala model. SMEs want to start from the exporting activities because it requires small investments and exit costs are also low (Leonidou et al., 2010). It could be confirmed by the several citations of executives below:

I know what Uppsala model is, and yes, it might be confirmed by the activities of my competition. I can be a great example too! After commencement of the cooperation with UK universities and motels, we started similar cooperation with Germans and now we are planning the same with Spanish ones.

CEO A

Surprisingly, one of the respondents used more advanced form of internationalisation, a joint – venture with the UK company. In the broadcasting sector clients have to trust service providers because of the fact that this is

² SMEs represent 99% of all business in the EU. Descriptive definition is attached in the Appendix 1.

mostly a live streaming. As Doz and Prahalad (1987) suggested, apart from the lucrative benefits, companies in the process of internationalisation need to face difficult competition. CEO G could avoid this failure by using external knowledge sources of experts who operates in particular industry in UK.

We started from our contacts but it comes out that despite being a leader in our home market we are Poles and British entrepreneurs don't want to trust us.

For this reason, we have created JV with Brits only because of the trust issues.

CEO G

Decision was imposed by the market and culture issues whereas Brits are more willing to trust local managers than expats (Banai and Reisel, 1999). CEO G mentioned, that they finally started being noticed by customers.

Uppsala model was challenged by Autio, Sapienza and Almeida (2000) – who found that SMEs can accelerate internationalisation process than model suggests. Companies which develop their activities faster are called “Born Global” – term used for the first time by Welch and Luostarinen (1988). Bell et al. (2003), suggests that enterprises are oriented internationally since their establishment and are managed to achieve high internationalisation degree within 6 years. Oviat and Mc Dougall (2005, p. 540) defines born global as: “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”.

SMEs need assistance in management, financing and aid with transformation from small family business into more structured firm. While there is a clear need for assistance within SME sector, there is indication that limited assistance is provided (Grabowski, 2003; Mazurek-Kucharska, 2008). As it comes out, conducted research confirms other studies that just a few entrepreneurs applied and received financial aid from government. There might be several reasons of that. The accessibility could be measured in actual use of programs – 6.5% of respondents in Klonowski (2010) survey admitted to have any experience with government support programmers. This creates complex problem of trust and development of the entrepreneurship. Government needs to change its policy to overcome them.

There are a few programs, but it is constantly changing. I know it from TV or advertisements in newspaper. I have to admit that I am not familiar which institution could help me with what. I think, Poland should take as a role model UK, whereas Companies House works just perfect with information.

CEO C

In addition, CEO A has used business incubator established by Polish Ministry of Development. Main ideas of this institution might be helpful for young enterprises – there is no monthly (obligatory) insurance costs, lack of income tax CIT etc.

I used incubator in my home town, rural areas, and they wanted me to pay a few hundreds PLN every month. It is a nonsense, because I could use another commercial and professional incubator for the same price with much more potential and perspectives. At the end we resigned from their services and then moved our business to Warsaw to work on our own. They are using EU grants but this money goes somewhere else...

CEO A

Generally speaking, because of the negative experiences, entrepreneurs are aware that governmental bodies are not helpful and therefore they prefer not to lose time by cooperating with those institutions. Lack of incompetence of PARP (Polish Entrepreneurship Agency) staff also surprised most of the executives. Polish government created hundreds of independent and dependent agencies and in the same time have not provided sufficient information about these bodies. Entrepreneurs would like to cooperate with them, but others' experiences spreaded by word of mouth successfully scare away from prospective cooperation. This is another important issue to collaborate on.

5. Internationalisation motives of Polish entrepreneurs

There is an assumption that SMEs has different motives for internationalisation than large companies. Hollensen (2008) divided motives into proactive and reactive. Proactive are those based on internal decisions based on perceiving and chasing market opportunities, therefore competitive advantage could be gained by integration of company's resources (Stewart and McAuley, 1999). Reactive motives come from passive behaviour of the company which is connected to the pressure or turbulence in country of origin or foreign markets (Hollensen, 2008).

The most common among proactive motives are: managerial initiatives, technology patents, uniqueness of the resources, market opportunities, economy of scale, tax benefits and market information. On the other hand, domestic market creates tension to internationalize as well, for instance high competitive pressure, small domestic market, excess capacity or overproduction (Hollensen, 2008).

Only 6% of Polish SMEs engaged in international trade with non-EU countries in 2016 (Eurostat, 2016). The proportion of SMEs involved in intra-EU

exports was 29% lower than EU average (European Commission Report, 2017). One of the reasons is single-market directives wait for translation about the standardization of EU market which is 50% higher in comparison to EU average (European Commission Report, 2015). This is another issue which should be noticed by the Polish government.

Answers can be divided into external and internal motives in terms of the countries. A very similar themes could be observed in respondents' answers. People were enthusiastic about the internationalisation. External motives are concerning two main aspects: money and new market. Respondents were indicating additional sources of revenue as an important factor. Entrepreneurs believe that they can earn and learn much more abroad which confirms Cool and Schendel (1988) hypothesis. By using Polish, highly skilled workforce, they can take order from different country and add a margin. This can be seen especially in high-tech industry (CEO H).

Imagine this: my employee is working for 150PLN/h for client in Poland.

By searching the internet, we found an interesting and quiet easy project.

For the same thing in Poland we would charge about 400 PLN and in Switzerland they gave us 400 CHF which is four times more, and my employee is still charging 150PLN.

CEO H

6. International environment and its turbulent subcategory

The definition of the business environment is “the international context in which firms are embedded” (Adler, 1997, p. 397). Scholars also add interrelated dimensions for example economic and political aspects (Guisinger, 2010). As Scott, Corman and Cheney (2006 p. 21) points out: “Every organisation exists in a specific physical, cultural and social environment to which it must adapt. No organisation is self-sufficient: “all depend for survival on the types of relations they establish with the larger systems of which they are a part.”

Covin and Slevin (1991) indicated that contextual factors can affect success of the entrepreneurial activities. Environmental disruptions can affect the entrepreneurship – performance relationship (Zahra 1993), but the most important are conditions in home market. Kogut (1983) argued, that international diversification brings economy of scale as well as economy of scope and learning. Korbin (1982), continues that successful companies which operate in the multinational environment are able to standardized products and coordinate crucial resources (such as R&D) are achieving high efficiency to further development.

Generally speaking, global market is following punctuated pattern, by changing through small steps is occasionally interrupted by a dominant event. “Globalization 3.0” could be a proper example here. Integration of the market was at slow pace, when, suddenly internet emerged and completely revolutionized access to the technology and information (Tushman and Romanelli 1985). Tushman and Romanelli (1985) classified disruptive changes as a process of incremental change and reorientation of the system’s structures and control mechanisms. Therefore, using this distinction, Li and Tallman (2011, p. 1120) for instance recognize European Union as a “disruptive changes with convergent effects on globalization, because these events further accelerated the existing globalization process”.

Sudden change in the environment such as changes in labour market, shift in economic situation, terrorist acts require special adaptive responses as a part of company’s strategy. Structure of the industry in which firms operates is important on the international operations of the new venture – companies either become international or find competition in their home market (Oviatt and McDougall, 2004). Industry complexity and market turbulence has impact on managerial decisions. Zahra and Bogner (2000) pointed out heterogeneity (segments differentiation), industry complexity, dynamism (uncertainty and rate of change) and hostility (unfavourable business climate as well as immense competitive intensity) are significant for external environment and are components to market turbulence. Some of the respondents were deeply concerned about the issues connected with business environment in Poland.

*I am aware that Polish government is making fun of us.
I was scared at the beginning, but now I am ready that one day I woke up
and ruling party will change law effecting my bankruptcy*
CEO B

Turbulence has a wide definition. Turbulent environment produces outcomes which are not entirely quantifiable and generates many qualitative changes, often impossible to assess (Jermier, 1982; Osborn, 1982). There is also important insight from Ramirez and Selsky (2016) – companies are leaving the country in effect of eradicating turbulent environment. What is interesting, in case of Polish market it also happens to entrepreneurs who has problems by searching a new employee.

*It’s difficult now to find employees who might work in my factory.
Most of simple guys ran to UK or Germany. On the other hand, we have flood*

of Ukrainians who barely speak Polish, and I cannot trust them. If I won't find a new employee in my hometown [Warsaw] I will relocate business abroad.
CEO E

It needs to be highlighted, that entrepreneurs are perceiving environment as an unstable and, more importantly, hostile for their future operations. Some of them want to relocate core business abroad because of the conducted (emigration but not only) policy. This confirms hypothesis from previous researches. For example, when a management board consider home environment as a turbulent they are likely to increase exporting activities and improve its performance (Zahra et al., 1997). As respondents mentioned, the market is undergoing a constant and unpredictable change.

Since PiS rules, two of my colleagues bankrupted. Staff at government bodies changed and there is a big mess and disorder in those institutions. Its obvious for us that it is government's fault, but its pointless to start a dispute, because you will not win with this institutions, or dispute will last 10 years.
CEO C

7. Why Polish enterprises are considering internationalisation in the turbulent environment created by the political shift? What are the critical factors?

Polish society is divided in two businessman's profiles. Younger generation born in 80' are open and willing to trust. On the contrary, older businessman tend to be more reserved and influenced by the Soviet-style regime (Ryan, 2006). The most important issue for all of the respondents is DSO – days sales outstanding. It means that company needs to wait a long time (even 4 months) to receive money. This is important especially for small SMEs, whereas liquidity and cash flow is important to survive. According to Atradius (2016, p. 3), 85% of respondents in Poland reported late payments in B2B sectors in 2015. As survey shows, DSO average is at the level of 71 days whereas record in Eastern Europe is 57 days. This is a dangerous issue for small start-ups

I don't understand why people are not paying us in time. As a start-up we need money to survive and its difficult in this situation. Most of our contracts are within 1000–3000 PLN which is not much, but every penny matters. I won't claim this money and count aggregated interest rates, because you need

to wait 2 years for court hearing. I believe there is a “payment chain” that starts from big company and its contractors in delays ad it goes and on and on.

CEO H

H continues that there are also positive sides of business environment in Poland. As SBU (2015) report indicate Poland is performing very well in the access to finance by SMEs and made progress in comparison to other countries within the Europe. Survey shows that there might be two reasons of late payment – liquidity issues of customers and financial advantage of contractors in B2B deals, as mentioned above (Atradius, 2016).

“Thankfully, financial institutions in Poland are happy to help SMEs like we. We have possibility to receive credit up to 20 000 PLN so I can pay for everything else, while we are waiting for money from finished projects.”

CEO H

Previous findings confirm respondents’ answers. In addition to his fact, turbulent environment is creating more problems than delay in payments.

We are trying to cooperate with our clients, but recently we needed to hire a law firm. Clients are creating newer and more complicated agreements than ever before. That’s creating delays again. Political swift introduce to us, businessman era of uncertainty. Because of that, companies want to use law firms and complex agreements as a safeguards.

CEO E

8. Conclusions

The first question shows that respondents found many ways how internationalisation and turbulent environment is perceived by entrepreneurs. The main motivation of internationalisation is better revenues for the same work. Respondents indicated that they gained a new knowledge which they used in home market. An interesting theme is mentioned by the majority of entrepreneurs which was not clearly stated in literature, despite using most reliable and objective sources. Respondents mentioned business culture as a big issue which is considered as one of the reason to find foreign clients.

Second question confirmed most of the literature findings – Polish SMEs starts its internationalisation activities mostly from using their personal network,

word of mouth and development of export (Uppsala model). SMEs does not want to invest heavily at the beginning in such activities, so in any emergency situation it can exit without larger damage of the resources. For example, CEO of hi-tech company found the way to enter Swiss market using internet and well-known webpages which gathers freelancers, and therefore he contacted Swiss Chamber of Commerce. Only one respondent created joint venture with a British company, but it was motivated by the specifics of the sector.

Third question correlation between internationalisation of SMEs and Polish government (assistance programs) were investigated. Study shows there is more than few hundreds of fragmented governmental bodies (or independent, related to government), despite this fact, most of the respondents have not used (or received) government help (despite – failed – attempts). The assistance is too fragmented and entrepreneurs has difficulties with access to the information. Only one entrepreneur used financial aid and basic business advisory given by the government. Respondents were critical in description of their experiences.

9. Managerial recommendations

Increase awareness about support programmes – SMEs which are specialising in one subject should research for body which is created to help them. Companies are ready to cooperate but are not informed yet whom they should ask.

Entrepreneurs should pursue analysis before entering new markets – prior any investment, entrepreneurs should research potential clients and business partners to estimate demand and mitigate risk. Therefore, SMEs might be encouraged to invest more and pursue new export activities.

Entrepreneurs should widen legalese knowledge – properly stated contracts (both domestic and international) may create confidence in entrepreneurs' perception of internationalisation. Contracts are more popular, as well as mediation. Internet offers a range of free and credible knowledge about the international trade or commercial law. Also, governments³ provide legal advisory.

Expanding network activities – as literature review highlights and respondents confirms – network in the potential country is important. If entrepreneur has no knowledge about the foreign market, and no network at all, contacts with the Chamber of Commerce is proposed. For example BPCC⁴ is an independent body which is successfully connecting companies from UK and Poland.

³ For example, in the United Kingdom – Intellectual Property Office gives a range of free legal advisory for entrepreneurs.

⁴ British Polish Chamber of Commerce, based in London and Gdańsk.

10. Limitations and further research

The world limit is the major limitation in dissertation. Since topic is broad and depth of analysis it should go further, especially in the critically reviews of Polish institutions and recent changes. Additionally, during the creation of this dissertation new event – Brexit took place and its impact on Polish SMEs is not yet studied. The time frame limited study only to 10 interviews, that is why more representative sample could generalize and confirm findings, however, methodological approach was to overcome biases and provide most reliable information.

Business environment consist of more than just a few players. Every sector has its own specifics (as study highlighted) and deeper investigation how sectors reacts to a turbulent environment and how different members helps each other to manage it. Additional research is needed to explore how SMEs as well as new entrants creates value based on Polish workforce.

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