

# INTERNATIONALIZATION OF MICRO AND SMALL ENTERPRISES AS THE IMPACT OF THE GLOBALISATION PROCESS ON THEIR ACTIVITIES

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## Abstract

The purpose of this paper is to analyse the conditions of the internationalization process of micro- and small enterprises, which are often condemned to failure by many authors. This is mainly because such enterprises do not have sufficient resources to overcome high competition on the global market. The internationalization of micro and small enterprises will be measured using the most popular indicators: the ratio of export revenues to total revenues and the import index, expressed in expenses incurred for the purchase of goods abroad. Due to the fact that these indicators have been proven to be very low, the following barriers limiting the internationalization process of the studied entities are analysed: access to sources of financing, lack of knowledge, investment expenditures, risk of starting business on the international market.

**Key words:** globalization, internationalization, SME

**JEL Code:** F60, F61, F62, F64

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## Introduction

The process of internationalisation, a symptom of globalisation, is one of the fundamental processes in the contemporary market which has become the subject of interest to many researches worldwide. Studies and analyses focus on: external environment, geographical directions of expansion, risk analysis, evaluation and measurement of the degree of internationalisation, mental distance between markets, success factors, forms and strategies of internationalisation.

Despite the volume of publications, a gap remains unexplored. Prevailing majority of published results and analyses concern large and medium-sized enterprises. Small firms are seldom addressed, while micro-enterprises are virtually ignored. Many authors believe that they are doomed to failure due to shortages of HR, financial, and knowledge resources.

Therefore, the purpose of this paper is to measure the internationalisation of micro- and small enterprises as well as to analyse factors which interfere with this process. Until now, two research questions have been formulated.

Q1: Does lack of knowledge have substantial impact on low internationalisation of SMEs?

Q2: Is risk a factor severely restricting internationalisation of SMEs?

The remaining paper has been divided into four chapters. The first one presents a review of international research on the internationalization of SMEs. The second chapter describes the results of the research showing Polish SMEs compared against selected EU countries whereas, the third chapter presents the results of author's own empirical research carried out among micro and small enterprises in the Malopolska Region of Poland. The research sample consisted of 352 micro and small enterprises, including 82% micro and 18% of small firms.

## **1 Enterprises in conditions of globalisation – literature review**

Globalisation is linked with the process of internationalisation and plays an important part in functioning and development of enterprises, providing opportunities for and threats to their efficient operation. Globalisation, particularly its economic aspect, means not only access to broader markets but also to new business partners, inaccessible resources and economies of scale, which help to cut costs and improve competitiveness in the market. In addition, globalisation accelerates transfer of development factors, thus improving innovativeness and propagating knowledge (Marakova et al., 2016, p. 1297).

With reference to enterprises, it is commonly defined as a process whereby firms gradually step up their commitment to foreign markets (Johanson et al., 1977, p. 23).

Removal of the barriers related to cultural, institutional and geographic distance was indicated in (Vahlne et al., 2016, pp. 57-70) as a key factor to the globalization success of companies in Sweden. In turn, the impact of other factors such as knowledge, cooperation and innovation on their internationalization strategy was studied (Braga et al., 2018, pp. 359–377)

The sector of small and medium-sized enterprises was totally ignored by globalisation studies in the 1970s. In line with economic development and emergence of the Common European Market, the role and significance of the MSMS sector in all developed economies continued to rise, which translated into methods of measuring ratios of enterprise internationalisation as well. In time, increasing attention was paid not only to market indicators but above all to financial ratios. Financial ratios like: the share of revenue from foreign markets in total revenue and spending to purchase goods and services in foreign markets are primarily employed in this paper to measure internationalisation.

A variety of indicators and measures of enterprise internationalisation are offered in specialist literature. Numbers of foreign markets supported is a frequent measure of internationalisation.

Some authors determined specific numbers of countries where an enterprise should operate, varying between 4 and 5 (Froehlich, 1974, p. 21) whereas others believe operation in six markets is the criterion of internationalisation (Vaupel et al., 1974, p. 2).

In turn in (Emeterio et al., 2018, pp. XXX) the performance indicator was built on firms' export volumes, number of years operating in the export market, geographic areas targeted for export and the time the export began to each a particular area.

Internationalisation is here assumed to denote the process whereby an enterprise enters business out of its native country. Internationalised enterprises are understood as those taking advantage of simple forms of internationalisation, such as: import, export, franchising, outsourcing, and other methods of cooperation in the international market. A minimum threshold of foreign sales, ranging from 10% to 75%, is a major criterion of business internationalisation. Its levels depend on the size of a native market and are assumed to be lower for large markets and higher for smaller markets (Kandasaami et al. 2000, p. 5).

## 2 Internationalisation of Polish SMEs in comparison to selected countries

Exports and imports are the most common measures of enterprise internationalisation. The percentage of Polish importers is low – a little more than 7% of all enterprises. The first factor responsible for such a result is weak commitment of microenterprises in the international market. There are between 5.4% and 6% of importers in this group of entities. This ratio tends to increase a little, yet remains at the low mark of 6%. Notably, numbers of importers clearly rise as company size expands.

The same is true for exporters. They are even scarcer than importers, ranging from 3.9% to 4.4%. The numbers tend to rise a little, too, yet remain low. Like in the case of imports, microenterprises are the least active at exporting their products.

The poor activity of Polish SMEs in the international market produces a low rate of internationalisation as measured with the share of exports in total revenue. This indicator is minimum in reference to the smallest enterprises. It tends to grow slightly for micro and small enterprises in the entire period analysed, yet is below 4.2% (micro) or 9.7% (small). The growth trend is a result of economic recovery in the EU. In the beginning of 2013, GNP in the EU rose a little (after declining in 2011 and 2012), while Polish exports and imports are heavily dependent on the EU's economic situation (Table 1).

**Tab. 1: Share of exports in revenue from sales of products and materials by enterprise groups classified according to staff numbers in 2011–2015**

Year	Total	Micro	Small	Medium
2011	15.2%	3.1%	8.0%	12.3%

2012	16.0%	3.9%	8.7%	13.4%
2013	17.1%	4.1%	9.6%	14.5%
2014	17.7%	4.2%	9.6%	14.5%
2015	18.4%	4.2%	9.7%	14.5%

Source: Own study based on: the Raport PARP, 2017 p. 43

Despite the overall growth of commitment of Polish SMEs to the international market, their standing is very poor compared to European leaders. This is demonstrated by the data in Table 2: in absolute terms, the most exporters operate in Italy (199,600), followed by France, with distinctly fewer exporting SMEs (82,200), though. Poland ranks last but one with its 28,200 SME exporters. The Netherlands comes at bottom, however, it is a far smaller country than Poland and boasts of considerably fewer active businesses. As far as the absolute value of exports is concerned, Germany is the leader (€ 118.6bn), followed by Italy with a markedly lower value (€ 80.2bn). Poland ranks last in this respect. Value of exports by all SMEs was a little above € 8bn. Falling exports out of the EU are one of the reasons for such low internationalisation indicators of Polish SMEs. Although exports to the EU tend to increase, exports out of the EU exhibited negative dynamics, which resulted in the final balance of exports. In addition, Polish entrepreneurs point to a range of other barriers to internationalisation, such as: costs of labour, lack of knowledge, absence of foreign partners, legislation, capital shortages, etc. Impediments to expansion of Polish SMEs are analysed in more detail in section 5 below.

**Tab. 2: Number of exporting SMEs and value of Polish exports compared to European leaders, '000s.**

Countries	The number of enterprises	Number of exporting SMEs	The value of SME export [mld EUR]
Italy	3715	199.6	80.2
France	3188	82.2	54.8
Spain	2498	72.7	31.7
Germany	2377	72.3	118.6
Great Britain	1842	61.7	49.6
Netherlands	996	20.6	40.8
Poland	1549	28.3	8.1

Source: EUROSTAT 2015 <http://internacjonalizacja.pl/frontpage-article/eksport-polskich-mmsp-ue/> (Retrieved 20.04.2018)

### 3 Measurement and internationalisation of Polish MSEs in the Malopolska Region of Poland – results of the author's research

In order to achieve the objective, internationalisation of MSMEs from the Malopolska region of Poland was measured by means of two most popular indicators:

1. Exports indicator (percentage rate of export revenue to total revenue) and
2. Imports indicator (expressed as spending to purchase goods abroad).

The figures in Table 3 suggest the exports indicator is low. For an overwhelming majority of the entities surveyed, the share of export revenue in total sales revenue was below 25%. The data also imply the percentage of firms active solely in the international market rises (by 7 pp), whereas the proportion of those with minimum internationalisation indicators shrinks. This springs from the improving economic situation in the EU, since a great majority of SMEs export their products to the EU countries.

**Table 3. Share of export revenue in total revenue of SMEs in Małopolska Region 2011 - 2014**

Share of export revenue in total revenue	2011	2012	2013	2014	2012/2011	2013/2012	2014/2013
	The percentage of SMEs				Y/Y dynamics for SMEs		
Up to 100%	26.7	25.0	23.9	33.3	-6.4	-4.4	39.3
Up to 50 %	13.3	18.8	19.0	7.4	41.4	1.1	-61.1
Up to 25%	60.0	56.2	57.1	59.3	-6.3	1.6	3.9
	The percentage of micro ent.				Y/Y dynamics for micro enterprises		
Up to 100	30.0	30.0	28.6	42.1	0.0	-4.7	47.2
Up to 50	10.0	20.0	21.4	10.5	100.0	7.0	-50.9
Up to 25%	60.0	50.0	50.0	47.4	-16.7	0.0	-5.2
	The percentage of small ent.				Y/Y dynamics for small enterprises		
Up to 100	20.0	16.7	14.3	12.5	-16.5	-14.4	-12.6
Up to 50	20.0	16.7	14.3	0.0	-16.5	-14.4	-100.0
Up to 25%	60.0	66.6	71.4	87.5	11.0	7.2	22.5

Source: Own research

As far as size categories of the enterprises are concerned, the percentage of micro-enterprises with export revenue below 25% of total revenue has steadily diminished (in 2011 – 60% of the respondents, in 2014 – 47%). The proportion of micro-enterprises whose export revenue constitutes 100% of total revenue has risen, on the other hand (in 2011 – 30%, in 2014 – 42%).

The internationalisation indicator measured with exports is low for small firms, just like in the case of micro-enterprises. However, the number of enterprises whose export revenue compared to overall revenue is below 25% rises, while the percentage of those whose total export revenue constitutes 100% of all revenue diminishes in the entire period under analysis. This trend is the reverse of what is the case in micro-enterprises.

Entrepreneurs whose internationalisation indicator measured with exports was between 0% and 25% were requested to calculate the indicator precisely. It turned out that export revenue constituted a mere 5% of total revenue in most cases. It was true for 50% and 60% respondents in 2011-2012, respectively, and 8% and 44% of the entities studied in 2013 – 2014. This indicator shows that the overall internationalisation indicator of Polish MSMEs is very low in

spite of the general growth trend, mainly due to micro-enterprises operating in the domestic market in their overwhelming majority. In order to determine causes of this poor internationalisation, barriers to internationalisation cited by the entrepreneurs surveyed are presented below (Table 4).

High change in dynamics can be observed, which points to clear fluctuations both among micro-enterprises exporting little of their product ranges and active exclusively in the international market. No distinct tendency can be captured here. On the one hand, this can be a possible proof of the unstable position of micro-enterprises in the international exports area, but on the other it may reflect their flexible responding to changes not only in the Polish but also in the EU market. Change in dynamics of export revenue for small enterprises are only clearly visible in the lowest ranges of up to 5% and 10%. The tendency is persistently negative in the remaining cases, which might signify bankruptcies of these firms.

As proven above, the percentage of exporters in the Lesser Polish MSE sector is low. The entrepreneurs pointed to a number of barriers preventing the process, among which the most frequently indicated are: ignorance of the target market (ca. 43%), ignorance of export regulations and legislation in the target market (29%), ignorance of languages (25%), high costs of transport (21%), heavy competition in the international market (16%), and administrative barriers (13%). Less important limitations included: lack of brand (5%), currency fluctuations (4%) or lack of adequate marketing (5%).

Ignorance of the market and customer needs (45% micro and more than 47% small enterprises) and of legislation (27.5% micro and above 42% of small enterprises) were the key barriers for both micro- and small enterprises. All the limitations, except ignorance of languages (micro ca. 29%, small approx. 10%) are greater for small than for micro-enterprises, which can be explained by greater exporting activities of the former (Table 4).

**Tab. 4: Barriers to export activities of micro- and small enterprises from Malopolska Region of Poland**

Barriers	The percentage of enterprises	
	micro	small
Ignorance of the market	45.0	47.4
High competition	15.0	15.8
Ignorance of foreign languages	28.8	10.5
Ignorance of the rules	27.5	42.1
Lack of marketing	5.0	5.3
Administrative barriers	12.5	15.8
Transport costs	18.8	26.3
Currency fluctuations	3.8	0.0
Lack of well-known brand	5.0	5.3

Source: Own research

The foregoing data suggest a positive answer to the research question Q1: Does lack of knowledge have substantial impact on low internationalisation of SME?

The import indicator, expressed with spending to purchase goods abroad in a given year, is the other internationalisation indicator of MSEs from Malopolska Region of Poland.

The analysis of collected data implies the distinction of two major groups of importers. One comprises entrepreneurs who spend little (up to 50,000 PLN) to acquire goods in the international market, the other entrepreneurs who earmarked between 50,000 up to 100,000 PLN to imports.

Five smaller groups of importers have been identified exhibiting high change dynamics. For instance, around 12% of entrepreneurs set values of their imports at between PLN 100,000 and 200,000 (in 2011, it was 10% and in 2014, more than 22% of the study population). The share of MSEs from Malopolska Region of Poland with growing value of exports has distinctly increased.

The group of enterprises surveyed encompasses some with values of imports in excess of PLN 300,000. This is a rather large group of importers exhibiting a dynamic growth: they accounted for 10% enterprises in 2011 and 23 pp more in 2014 (more than 33%) Table 5.

**Tab. 5: Value of imports by MSMEs from Malopolska Region of Poland in 2011 – 2014**

The value of the import [PLN]	2011	2012	2013	2014	2012/2011	2013/2012	2014/2013
	The percentage of micro and small enterprises				Y/Y dynamics		
up to 10 000	10	0	15	0	-100.0	-	-100.0
up to 25 000	10	8	0	11	-20.0	-100.0	-
up to 50 000	30	34	23	11	13.3	-32.4	-52.2
up to 100 000	20	17	15	22	-15.0	-11.8	46.7
up to 200 000	10	8	8	22	-20.0	0.0	175.0
up to 300 000	10	8	8	0	-20.0	0.0	-100.0
above 300 000	10	25	31	34	150.0	24.0	9.7

Source: Own research.

The imports market is in its emerging phase for MSEs. This is confirmed by the very high change dynamics of import values. Percentages of enterprises in the individual value ranges vary by as much as 100 pp across years, e.g. in 2012, 10% respondents imported for PLN 10,000, whereas none completed any imports in 2012. Such fluctuations (by 100 pp) occur in all the range values with the exception of (PLN 26,000–50,000). The percentage of enterprises varied a lot within this range as well. This means that the position of MSEs from Malopolska Region of Poland is highly variable, unstable, and dependent on exports.

No dependency holds between firm size and value of imports realised. The import indicators for both micro and small enterprises are very low. This means the Polish MSE sector is only beginning its operations in the international market of both exports and imports. Entrepreneurs do not have appropriate experience of the international market, sufficient knowledge or business partners, which results in their highly unstable standing in international markets.

Import expenditure by half micro and small entrepreneurs constituted 50% and 25% of all spending in 2011. Beginning with 2012, though, import spending markedly shrank. A majority (more than 70%) of the entrepreneurs surveyed spend less than 25% of their overall expenditure to purchase goods abroad. This corroborates the earlier observations of weak activities of these firms in the import market (Table 6.).

**Tab. 6: Rate of resources acquired by Lesser Polish MSEs abroad (import) to total commercial turnover in 2011–2014**

Rate of import	The percentage of micro and small enterprises			
	2011	2012	2013	2014
up to 25%	50	72	72	78
up to 50%	50	18	18	22
up to 100 %	0	9	9	0

Source: Own research

In search of an answer to the research question Q2 (Is risk a factor severely restricting internationalisation of MSEs?) entrepreneurs were requested to assess the risk of doing business in the international market. The survey implies 38% respondents claim it involves a greater business risk, 32% have no opinion on the subject, and 30% believe the risk is the same as in the Polish market. This signifies an enhanced business risk in the international market is not a reason for the low extent of internationalisation. Regardless of the firm size (micro, small), similar proportions of entrepreneurs (a third of each) claim the risk is greater or lower and another 1/3 have no views. The research question Q2 requires a negative answer, therefore.

## Conclusion

The analysis of the available studies on internalisation of MSEs and own research carried out by the author allow to draw the following conclusions:

- The internationalisation indicator measured with exports is low and ranges from 5% to 10% in a great majority (approximately 60%) of enterprises;
- The percentage of MSEs from Malopolska Region of Poland for which the indicator rose from 5% to 10% increased significantly in 2013–2014;



- Huge change dynamics can be noted in 2011–2014 among the micro-enterprises whose internationalisation indicator measured with exports is below 25%. This may be evidence of an unstable position of these firms in the exports market on one hand and of their highly flexible responses to changes in the market, on the other. In the group of small enterprises, the change dynamics are considerably slower than among micro-enterprises.
- The internationalisation indicator measured with spending to purchase goods abroad is very low too. A great majority of SMEs acquire their resources exclusively from the internal market. Standing of importers from Malopolska Region of Poland in the international market is as unstable as that of exporters. Their international activities display very high change dynamics.
- Exports of Polish SMEs are strongly dependent on the economic situation in the EU, therefore, fluctuations of GNP values in the Union countries heavily affected the dramatic change dynamics among exporting SMEs.
- Imports of Polish SMEs depend on exports and demand in the internal market, which have experienced wide fluctuations in recent years. It may have considerable impact on the high change dynamics of Polish importing SMEs.
- The entrepreneurs queried pointed to the following major limitations to their internationalisation: ignorance of foreign markets, languages, and legislation, followed by high cost of transport, administrative barriers and strong competition in the EU market. Analysis of the results concerning barriers to internationalisation implies three key limitations to the process of internationalisation are associated with lack of knowledge. This provides an affirmative answer to Q1: Does lack of knowledge have substantial impact on low internationalisation of SMEs?
- Q2: “Is risk a factor severely restricting internationalisation of MSEs?” requires a negative answer. 1/3 of the respondents said the business risk in the international market is greater, 1/3 that is it is lower, and 1/3 have no opinion.

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