

ENTERPRISE SIZE AND PERCEPTION OF RISK IN SME INTERNATIONALISATION – SELECTED ASPECTS

Witold Kasperkowiak – Joanna Malecka

Abstract

Internationalisation has ceased to be the domain of transnational enterprises and corporations, becoming an opportunity for small and medium-sized enterprises (SMEs) to revive their activity and increase their share in the global market. However, it continues to be a challenge for entrepreneurs and is associated with a variety of risks that do not exist in the domestic market. Unfortunately, in spite of many convenient solutions and schemes to support international entrepreneurship, on average only 25% of SMEs in the European Union (EU) decide to take this step. Larger enterprises usually have better organised structures, knowledge and adequate resources to facilitate internationalisation as well as more efficient risk management processes in place.

The aim of the paper is to present the results of own research on the perception of risk related to the internationalisation of Polish enterprises. The results are based on an analysis of responses received from 400 SME respondents representing various industries and actively operating in 2018. The research focused on the respondents' opinions about the impact of risk on their preferences and attitudes regarding geographic expansion and the importance of the size of the company when choosing an internationalisation model.

Key words: risk taking, internationalisation, directions of internationalisation, SME

JEL Codes: D81, F23, F62

Introduction

Small and medium-sized enterprises are not smaller copies of large companies, hence they should not be directly compared. One of many arguments to confirm this is the existence of varying interactions with the economic environment between companies of different sizes (Shuman & Seeger, 1986, p. 8). This also applies where the scale of operations reaches the same range on foreign markets.

At first, research on the internationalisation process focused mainly on large manufacturing organisations, in spite of the growing importance of services provided by smaller companies (Coviello & Munro, 1997, p. 361). Small and medium-sized enterprises are widely recognised, in global terms, including in the context of internationalisation, to be agile, which manifests itself in rapid responding to changing market conditions. In spite of this, it is extremely rare to see them thrive as global businesses, and the rate of increase in their involvement in the internationalisation process is slow. Most of the studies available in the relevant literature indicate that large enterprises have it easier when it comes to foreign expansion, but there are also voices which emphasise both the agility and flexibility of small and medium-sized enterprises as unique features that are conducive to internationalisation. Magnani and Zucchella (2019, p. 149) indicate that in the process of strategy preparation companies focus on the characteristics of clients more in the case of expansion into foreign markets than they do when conquering local markets.

The aim of the paper is to present the results of own research on the attitudes of entrepreneurs who manage companies of various sizes towards the risks involved in internationalisation and the discrepancies in their perceptions of barriers to this process. The considerations are based on own research against the background of a literature review.

Methodology

The paper presents the results of research carried out in 2018 as part of a series of observations related to the perception of risk in internationalisation. The survey was participated by 400 respondents from Poland with ties to the SME sector – employers, employees, and people planning to start a business. The research concerned issues related to the perception of risk in internationalisation among SME owners, as well as their willingness to take risks.

Choosing anonymous survey as a direct and objective research method enabled eliciting different opinions on the perception of internationalisation and the associated risk. In addition to respondent information, the questionnaire contained qualitative (12) and quantitative (3) questions. These included open-ended (2) and closed-ended (13) questions, allowing the respondents to either choose one of the suggested options or provide their answer on the five-point Likert scale. Not all respondents took a stand on each and every of the issues examined. Hence, the sample size varies depending on the question. To prepare the results for presentation in the paper, statistical analysis tools were used to identify correlations, including the Pearson's test to investigate the independence between variables.

1 Diversification of SME size

For scientific and statistical purposes, as well as in broadly understood business practice, there are many different typologies to systematise the division of enterprises. In SME classification, both qualitative and quantitative criteria are used, with the latter being more frequently employed, which may be due to the fact that they are easier to apply and that indicators expressed as numerical values are more objective in nature. Qualitative criteria, on the other hand, are usually based on hard-to-measure or non-measurable features. In practice, both classifications are sometimes combined for detailed definition and systematisation of business entities. From the beginning of 2005, classification of enterprise size based on Commission Recommendation 2003/361/EC of 6 May 2003 has been in force in the territory of all European Union (EU) Member States. Article 2 of the Annex to this Recommendation introduces a categorisation of SMEs due to staff headcount or net annual turnover or balance sheet total in euros.

The research described in the paper uses the quantitative classification of the size of enterprises recommended by the European Commission, based on the number of persons employed. The criterion of independence of enterprises was omitted as it was not the subject of the research. The reason why the paper pays attention to the issue of enterprise size is that banks and other financial institutions assess both the size of companies and the risks associated with their activities in accordance with a wide range of various criteria, often developed in-house.

2 Importance of enterprise size in international economy

Micro, small and medium-sized enterprises are an important factor in the development of European Union's entrepreneurial policy. The key economic and social importance of SMEs stems from the fact that they account for 99.8% of all enterprises in the 28 EU countries and provide nearly 70% of total labour force employment.

The most frequently used determinant for the division of SMEs is their size. Therefore, many researchers consider the size and the age of companies separately, as independent factors affecting their development. The paper presents the results of research carried out among respondents, which implies analysis of statistical data on the internationalisation of enterprises of this size operating in Poland. In comparison with their European counterparts, micro, small and medium-sized enterprises are characterised by a low degree of internationalisation

(Table 1). To emphasise the contrast between companies of various sizes, the summary also includes data on large enterprises.

Tab. 1: Percentage of importers and exporters in Poland in 2016 [%]

Enterprise size (headcount)		Micro (0-9)	Small (10-49)	Medium-sized (50-249)	Large (≥250)	Total
Import	Goods	5.7	45.0	62.9	89.6	7.6
	Services	0.7	13.7	36.8	73.5	1.5
Export	Goods	3.0	31.5	48.9	66.4	4.4
	Services	0.4	10.0	26.1	56.8	1.0

Source: Own materials based on (PARP, 2018, p. 31)

The small percentage of Polish SMEs which have undertaken internationalisation efforts results from the structure of the sector, where micro enterprises constitute 96.2% of all businesses active on the market. In the initial stages, the entrepreneur's approach to exports is usually informal and often not even contemplated due to lack of appropriate organisational structures and little experience (Leonidou & Katsikaes, 1996, p. 535). Compared with companies from the micro group, small and medium-sized enterprises go international more often, although their share among all companies on the Polish market is relatively small – 2.8% and 0.8%, respectively. The noticeable differences in the internationalisation of enterprises within the SME sector itself and in comparison with large companies lead to the conclusion that micro enterprises will engage in internationalisation only sporadically.

Most studies available in the relevant literature indicate an upward trend in the likelihood of internationalisation, which is accompanied by an increase in the size of enterprises. According to Manolova, Manev & Gyoshev (2010, p. 261), business size is positively correlated and significantly related to foreign market activity, although it depends on the industry in which it operates. The results of research by Ruzzier and Konecnik Ruzzier (2014, p. 61) partly confirmed the existence of a dependence between the degree of internationalisation and the size of the enterprise, however the assumed criterion was sales volume. In terms of the number of full-time employees, this relationship was not significant. Unlike large enterprises, smaller businesses either do not use banking products to support exports or they are too complicated for them, and the offering in general seems too expensive, perhaps even due to price personalisation (Mioducka & Małecka, 2018, p. 72). The choice of financing sources is determined by the relations between financing categories, especially in terms of own resources

– which are the main source for SMEs (Łuczka & Małecka, 2017, p. 376). The results of own research carried out in 2015-2018 among 300 Polish SMEs operating in domestic and foreign markets indicate that as the size of the company increases (by headcount), its willingness to go international grows too (Table 2). To underline the multiplicity of entrepreneurs' attitudes towards SME internationalisation depending on the size of the enterprise, an increased diversification of size categories within the micro and small enterprise groups was applied, resulting mainly from the legal form of their business operations.

Tab. 2: Opinions of entrepreneurs regarding the direction of SME development in terms of market reach [%]

Company size	Headcount [number of employees]	Contemplated market reach				
		Local	Regional	Domestic	International	Global
Micro	0 (self-employed)	8.9	11.1	33.3	24.4	22.2
	1-4	15.2	6.1	24.2	15.2	39.4
	5-9	6.0	8.0	44.0	22.0	20.0
Small	10-24	5.0	20.0	27.5	20.0	27.5
	25-49	1.9	11.5	34.6	17.3	34.6
Medium-sized	50-249	3.8	3.8	20.0	31.3	41.3
Total		6.8	10.1	30.6	21.7	30.8

Source: Own research

Micro enterprises – as previously stated – continue to focus on the domestic market, small entrepreneurs want to be present simultaneously on the domestic and global markets, and medium-sized businesses perceive the global market as their ultimate area of operation.

3 Risks in the internationalisation of various sizes of SMEs

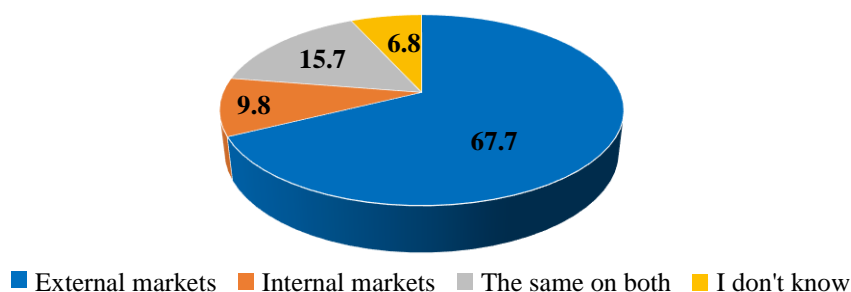
In comparison to the domestic market, going international creates additional development opportunities and the possibility of generating higher revenues, but it also carries the risk of losses, and in extreme cases may contribute to the company's collapse. Those issues, both in the literature on the subject and in empirical research, are addressed to a limited degree, without providing a definitive answer to the question whether the opportunities resulting from these processes are of the same scale as the threats (Kasperkowiak, Małecka & Łuczka, 2017, p. 391). Correct identification of potential threats in the process of internationalisation enables apt risk management. The results of research on SMEs show that an incorrect risk prediction process

when entering foreign markets is one of the most frequent reasons for failure in internationalisation (Kubíčková & Toulová, 2013, p. 2385). International entrepreneurship is considered risky because it may involve loss of profits and assets, mainly as a result of changes in the political, legal, economic and social environment. The results of own research carried out in 2017 among enterprises in Poland showed that among external risks the greatest threat to SMEs making an attempt at internationalisation was political risk, which primarily concerned European economies from outside the EU (Kasperkowiak & Małecka, 2018, p. 818). In the process of geographic expansion, the size of the enterprise is correlated with the number of barriers that generate additional risk as well as the need for the owner's involvement and the possibility of obtaining external support (Kasperkowiak et al., 2017, p. 393). Larger size of the enterprise is a determinant that allows it to survive during weaker economy and supports risk-taking (Ruzzier & Konecnik Ruzzier, 2014, p. 55). Entrepreneurs do not always want to take risks, but in the event of a decision to enter global markets this is inevitable (Wales, Gupta, Marino & Shirokova, 2019, p. 99). In summary, internationalisation creates opportunities for enterprises of all sizes, but effective risk management associated with this process is, however, limited by the size of the business and the knowledge and experience of its owner.

4 Results and discussion

Going international means that enterprises need to face challenges that are not found in their domestic markets (e.g. socio-cultural differences, currency risk, ethnocentrism of consumers) and confront new types of threats. Bearing in mind the possibility of diagnosing additional risks, the respondents were asked about their opinion on the presence of risk in the process of internationalisation in comparison with domestic activity (Figure 1).

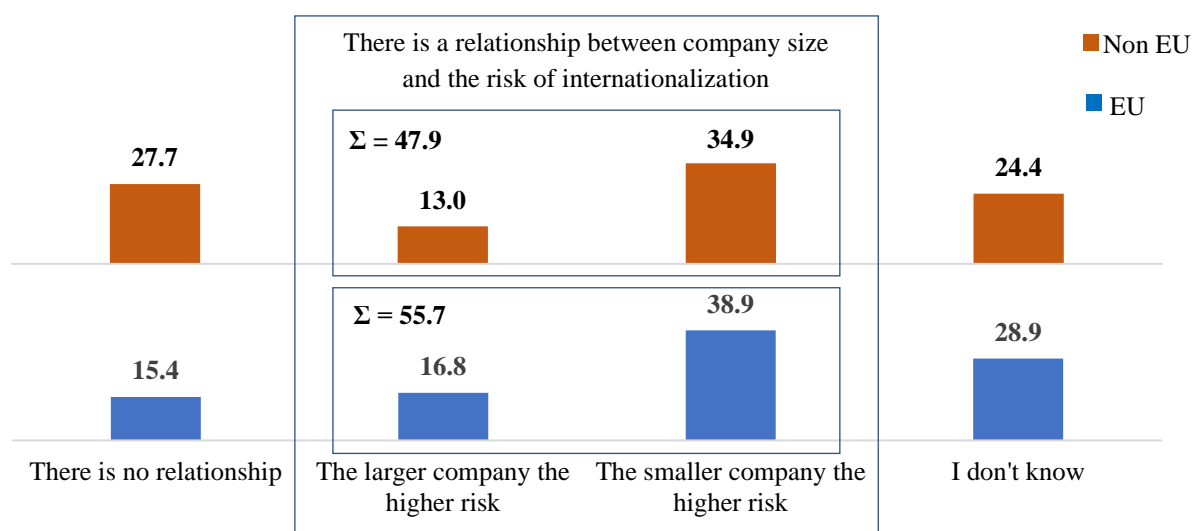
Fig. 1: Concentration of business risk on the internal and external markets [%]



Source: Own research

The majority of the respondents (67.7%) indicated external markets as more difficult and more dangerous to conduct business, and for 9.8% the internal market presented a higher risk. Another group were those who did not think there was any difference in threats in both cases (15.7%). The remaining 6.8% of the respondents felt that they had no opinion on this matter. Next, the respondents were asked about their opinion regarding the relationship between the size of the company and the occurrence of risk in the internationalisation process (Figure 2). The study compared the attitudes of entrepreneurs in the context of EU internal markets and non-EU economies.

Fig. 2: Perception of the relationship between company size and the risks of internationalisation in markets within and outside the EU [%]



Source: Own research

The structure of the respondents' opinions is similar for both areas of economic activity. The value of the Pearson coefficient shows a strong positive correlation in this case (0.69). This means that the change in the dependency profile – between the size of the company and risk – occurs in the same direction, both in the context of EU and non-EU markets. Nearly half of the respondents (55.7% for EU countries and 47.8% for non-EU countries) pointed to a correlation between the size of the enterprise acceding to internationalization and the risk of this process. Among respondents recognized the indicated dependence, opinions prevailed that the risk of internationalization is bigger for smaller companies (38.9% for EU markets and 34.9% for non-EU markets), which is of key importance for companies from the SMEs sector. Over two-thirds of persons (38.9% for EU markets and 34.9% for non-EU markets) were of the opinion that for smaller companies acceding to the internationalization, the risk of the process is bigger.

It should be noted that the number of people pointing to a higher risk of internationalization for large enterprises was nearly three times smaller compared to the number of people indicate a higher risk for small companies (13.0% for EU and 16.8% for non-EU markets). Particularly noteworthy is the clear difference between the number of respondents' opinions for EU and non-EU markets, who indicating that there is no relationship between the size of the company and the risk related to geographical expansion (27.7% and 15.3% respectively). This shows that over 15% of respondents treat EU markets as homogeneous. In the case of non-EU markets, respondents could conclude that geographical expansion there is similarly risky for all companies due, regardless of their size due to bigger amount of threats. The results of this survey seem to be confirmed by the performance of SMEs operating in foreign markets – the directions of their foreign expansion are focused on European Union countries. According to European Commission's surveys conducted in 2012-2015, for SMEs established in the EU, the probability of engaging in economic activity on foreign markets is proportional to the size of the enterprise (European Commission, 2015, pp. 5-6).

Conclusion

First, the results of the research indicated that entrepreneurs are aware of the increased risk associated with presence in foreign markets compared to domestic market. This means that they are also aware of the number of threats occurring on both markets, which makes it easier to manage a risk of internationalization process.

Secondly, in spite of some discrepancies in the respondents' answers related to EU and non-EU market, nearly half of them noticed dependence between the risks of internationalisation and the size of the enterprise for both areas. In general the respondents believed that with the increase in the size of the company, the risk of internationalization is decreasing, which may be due to the increased resources of large companies. This means that for small and medium enterprises, geographical expansion is more challenging, making them more vulnerable. The results of the research can be treated as the justification for statistical data and own research carried out in 2015-2018 among Polish SMEs, indicating an increase in activity abroad with an increase in the size of the company.

These conclusions, indicate the risk, constitute one of the possible reasons in the process of seeking answers to the question why the level of internationalisation of Polish SMEs is so low and why EU markets are selected in the first place. According to the authors, further actions related to the dependence between the degree of risk and the size of the enterprise in the

internationalisation of SMEs should focus on: (1) establishing the economic conditions and the point at which this dependence begins to disappear, (2) identifying the nature of the correlation between the size of the enterprise and the perception of economic stability.

References

- Coviello, N. & Munro, H. (1997). Network Relationships and the Internationalisation Process of Small Software Firms. *International Business Review*, 6(4), 361-386. doi:10.1016/s0883-9026(98)00035-4
- European Commission. (2015). Internationalisation of Small and Medium-sized Enterprises. Flash Eurobarometer 421.
- Kasperkowiak, W., Małecka, J. & Łuczka, T. (2017). Risk Internationalisation of Small and Medium-Sized Enterprises – Chosen Aspects, *Proceedings of the 5th International Conference on Innovation Management, Entrepreneurship and Sustainability*, (390-403). doi:10.18267/pr.2017.svo.2216.6. wos: 000427316100035.
- Kasperkowiak, W. & Małecka, J. (2018). External sources of risk in SME internationalization – selected aspects. *Proceedings Paper The 12th International Day of Statistics and Economics 2018*, (811-822). wos: 000455809400081
- Kubíčková, L. & Toulouva, M. (2013). Risk factors in the internationalization process of SMEs. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, 61(7), 2385-2392. doi: 10.11118/actaun201361072385
- Leonidou, L. C. & Katsikeas, C. S. (1996). The Export Development Process: An Integrative Review of Empirical Models. *Journal of International Business Studies*, 27(3), 517-551. doi: 10.1057/palgrave.jibs.8490846
- Łuczka, T. & Małecka, J. (2017). Selected factors affecting the choice of financial instruments by small and medium-sized enterprises in Poland. In Nalepka, A., Ujwary-Gil, A. (Ed.). *Business and non-profit organizations facing increased competition and growing customers' demands*. Vol. 16, 375-387. wos: 000426798600025
- Magnani, G. & Zucchella, A. (2019). Coping with uncertainty in the internationalisation strategy An exploratory study on entrepreneurial firms. *International Marketing Review* 36(1), 131-163. doi: 10.1108/IMR-02-2017-0042. wos: 000455910300007
- Manolova, T.S., Manev, I.V. & Gyoshev, B.S. (2010). In good company: The role of personal and inter-firm networks for new-venture internationalization in a transition economy. *Journal of World Business* 45, 257–265. doi: 10.1016/j.jwb.2009.09.004

- Mioducka, M. & Małecka, J. (2018). Regional aspects of SMEs in Poland – international risk versus bank security products. *Proceedings of 11th ICEBE & 7th ICIE & PEESA III International Conference on Engineering and Business Education, Innovation and Entrepreneurship, and Capacity Building in Higher Education*, (pp. 64-77).
- PARP (2018, February 2019). Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce. Retrieved from: <https://www.parp.gov.pl/storage/publications/pdf/male%20i%20srednie%20przedsiębiorstwa%20w%20polsce%20w%202018%20r.pdf>
- Ruzzier, M. & Konecnik Ruzzier, M. (2015). On the relationship between firm size, resources, age at entry and internationalization: the case of Slovenian SMEs. *Journal of Business Economics and Management* 16(1), 52-73. doi: 10.3846/16111699.2012.745812
- Shuman, J.C. & Seeger, J.A. (1986). The Theory and Practice of Strategic Management in Smaller Rapid Growth Companies. *American Journal of Small Business*, 11(1), 7-18. doi: 10.1177/104225878601100101
- Wales, W., Gupta, V.K., Marino, L. & Shirokova, G. (2019). Entrepreneurial orientation: International, global and cross-cultural research. *International Small Business Journal - Researching Entrepreneurship* 37(2), 95-104. doi: 10.1177/0266242618813423. wos: 000459870200001

Contact

Witold Kasperkowiak
Poznan University of Technology
Faculty of Engineering Management
Strzelecka 11
60-965 Poznan, Poland
Email: witold.kasperkowiak@doctorate.put.poznan.pl

Joanna Małecka
Poznan University of Technology
Faculty of Engineering Management
Strzelecka 11
60-965 Poznan, Poland
Email: joanna.malecka@put.poznan.pl