

## THE EVOLUTIONARY CHARACTER OF SUPPORTING THE INTERNATIONALISATION PROCESSES– RECOMMENDED SYSTEM SOLUTIONS

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**Abstract:** Small and medium enterprises are starting their international expansion more and more often, however they have still many problems to solve in their functioning abroad. The paper presents governmental programs encouraging and supporting enterprises in their internationalisation processes. The author shows recommended system solutions regarding to determined enterprises groups. Finally the effect of introduced supporting solutions of small and medium enterprises internationalisation have been discussed

**Keywords:** internationalization, small and medium enterprises

### **The evolutionary character of the internationalisation of enterprises vs. phases of governmental support**

Marketing support programmes aim at presenting export as an opportunity of growth and market expansion of enterprises, reducing or eliminating obstacles hindering the development of the export activity as well as developing promotional programmes and diverse forms of aiding exporters [1].

The governmental programmes are targeted at both potential exporters and enterprises which are already involved in the export activity which want to internationalise their activity to a greater extent, that is, to increase turnovers obtained on foreign markets in relation to the overall turnovers of the company. As a result, it may be necessary to support also the methods of entering international markets other than export.

When governments develop the marketing programmes supporting export but also the more advanced forms of enterprise internationalisation, such as licensing, franchising, *joint ventures*, or setting up foreign subsidiaries, they may diversify them in terms of the degree of business activity internationalisation of a target group of these programmes.

Aid provided by the governments should be diversified and correspond to a multi-phased progress of the internationalisation processes of enterprises. Thus individual segments of recipients of such support may consist of:

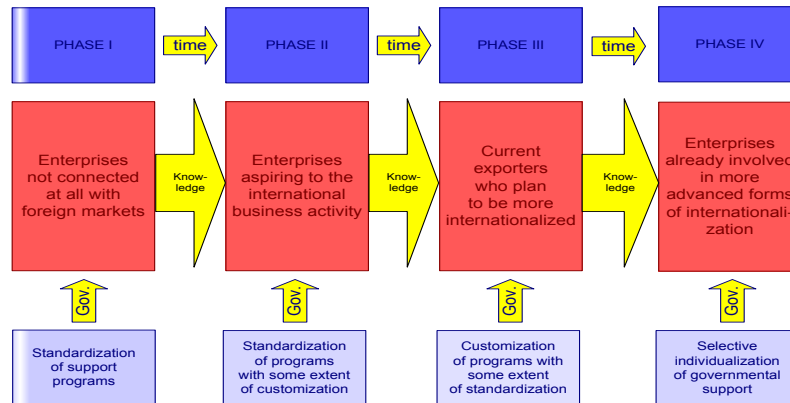
- enterprises not connected at all with foreign market and usually not aware of opportunities resulting from exporting products and/or services;
- companies aspiring to the international business activity, that is those which have not dealt with export yet but which are aware of the chances resulting from expansion abroad (usually, these enterprises already have suppliers from abroad);

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- current exporters who plan to further develop the internationalisation of their business activity;
- enterprises which have already been involved in more advanced forms of internationalisation which require specific extent of cooperation with foreign partners, and which do not exclude or even have already had plans of increasing their involvement in host countries, for instance, forming subsidiaries.

*Benefits* resulting from the evolutionary progress of the internationalisation processes in developing support programmes for enterprises are depicted in Figure 1.



**Figure 1. Concepts of governmental support programs in different phases of companies' internationalization**

*Source: author's concept*

In the case of the first group of enterprises which have not had international business contacts yet and are often not aware of the benefits of internationalisation, the role of the governmental programmes involves, above all, promotion of export as a chance of increasing sale. This group involves programmes aimed at decreasing the risks connected with carrying out international transactions which are perceived by the enterprises as high. The process is mainly based on making available standardized information related to the specific features of foreign markets, both in the sense of geography and sector division, as well as offering trainings and courses related to the general knowledge on starting export activity.

Most of the European small and medium-sized companies (63%) belong to the group of entities which do not internationalise at all. An in-depth analysis of the European research[2] proves that export is more frequently combined with cooperation with international suppliers (namely, importers) than as an independent form of enterprise internationalisation. Only 6% of enterprises run their business activity based solely on export, while as much as 10% of them undergo the internationalisation process in two directions simultaneously: to the inside, through

cooperation with international suppliers, and to the outside, through export and other forms of involvement in foreign markets[3].

The assumption that most enterprises which plan to begin export activity already have contacts with suppliers from foreign countries has empirical bases. It is also an important piece of knowledge for countries which develop programmes devoted to increasing the share of exporters in the total number of domestic enterprises and, what is more, it shows that the majority group of potential exporters – that is, entities which only plan to enter foreign markets with their offer – consists of present importers.

The second target group of support programmes comprises enterprises which are aware of the benefits resulting from offering products and/or services abroad but which have not carried out export activity yet. This group includes entities which already have contacts with foreign suppliers so those that carry out some forms of the import activity.

In the case of this group, programmes prepared by governments base on both encouraging enterprises to begin export activity and presenting specific methods of entering international markets. Providing standardized information on foreign markets is, in this phase, accompanied with a specific scope of individualization of provided support in respect of needs expressed by individual companies. Such individualization may take the form of aid provided to enterprises which plan to begin export activity and granted by foreign diplomatic missions of a given country specialised in these activities, for instance, Trade and Investment Promotion Sections of the Embassies and Consulates of the Republic of Poland.

Programmes aimed at supporting enterprises which have already carried out export activity are more individual than the ones which are targeted at potential exporters. This is a consequence of a significant diversification of needs of companies which go through this phase of internationalisation. Some of them carry out activity based on a simpler form of export, namely, indirect exporting, involving the participation of domestic intermediaries between the enterprise and foreign purchasers, which significantly reduces the possibility of producers' exerting impact on marketing strategies of their products being traded on foreign markets. The more advanced forms of export involve cooperative exporting based on cooperation with a foreign intermediary, as well as direct exporting, namely, offering products and/or services through own channels of sale in a host country. The last case, which requires a specific level of investment on foreign markets, should be reflected in a more individualized approach to support programmes, referring not only to an informative function but, more importantly, a consulting one, connected with consultancy on promotional issues (e.g. consultancy on the selection and supporting participation in specialised fairs), as well as providing direct aid to companies in host countries (legal counselling, arranging business relations, identification of distribution channels, etc.).

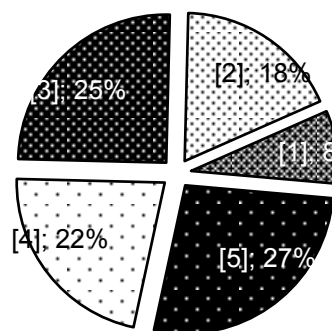
The last – fourth – target group of governmental support should consist of enterprises which plan to or have already carried out international expansion, and

implement also other – apart from export – forms of business internationalisation. The advanced forms of internationalisation, such as licensing, franchising, *joint venture*, and in some cases also setting up subsidiaries in host countries by acquisition of foreign companies or green field investments, impose on governments an individualized approach to support provided to companies. It is a result of both specific conditions of enterprises which – apart from transferring products abroad – also transfer production processes, which engages significant resources of the enterprise outside the exporting country, as well as combining several methods of entering foreign markets by internationalising companies.

#### Assessment of support programmes and recommended systems solutions

Among 978 surveyed small and medium-sized enterprises having their registered offices in the OECD member countries, 33.8% of them have benefited from the governmental programmes supporting the internationalisation of their activity[4]. Figure 2 presents their assessment of the usefulness of these programmes.

Taking into consideration that half of the internationalising enterprises assessed the usefulness of the governmental programmes as good or very good and only a quarter of them as poor or very poor, it would be possible to think that the results of the presented research are, generally speaking, favourable for countries which offer such programmes. However, the major problem lies in a low percentage of these programmes being implemented by enterprises which enter foreign markets. As only one third of them has implemented the governmental support programmes, it may mean that, on the one hand, the awareness among enterprises of such programmes is very low, or on the other, that the informative and promotion campaign of governments among the target group involving internationalising companies is ineffective.



**Figure 2. Usefulness of government support programmes as perceived by SMEs\*.**

\* Likert scale was used to rank usefulness of the programmes from [1] „not useful” to [5] “extremely useful”.

Source: OECD Member Economy Policymaker Survey and SME Survey, 2006 after OECD, *Removing Barriers to SME Access to International Markets*, Paris, 2008., p. 51.

The research carried out by Boston Consulting Group[5] leads to a conclusion that governments should focus on the most valuable support programmes which involve – according to BCG – individualized programmes adjusted to the needs of specific segments of recipients, that is, groups of enterprises selected according to specific criteria. Enforcing this recommendation requires both coordinating activities of all governmental institutions aimed at supporting the export activity of enterprises, and familiarising the target group of their recipients with providing such services (Table 1).

An example of a formal mechanism recommended by Boston Consulting Group which allows for frequent and close contacts between the public and private sector as part of activities connected with e.g. promoting export as a way out of the economic crisis is reflected by the appointment in 2009 by President Barack Obama of a non-governmental board of experts – *President's Economic Recovery Advisory Board*. The structure comprising 15 members involves, above all, heads of large enterprises known as the most innovative, such as General Electric (Jeffrey Immelt, CEO), Caterpillar (James W. Owens, Head), and Oracle (Charles E. Phillips, President).

Critical decisions	Observed best practice
Relationship to government	An external government agency with an independent Board drawn largely from the private sector. It should preferably have extensive (at least export) experience.
Co-ordination of export promotion activities across government	A single agency with clear lead responsibility that also heads a whole-of-government committee.
Interaction of offshore and onshore activities	Integration of offshore and onshore activities through a single agency
Provision of services at the central or local level	Delivery of services close to the user – but segmented according to the user needs.
Interaction between trade promotion organisations and the private sector	Formal mechanism to allow frequent and close interactions between the private and public sectors.

**Table 1. Critical decisions and observed best practise**

*Source: Boston Consulting Group, Critical decisions and observed best practice, USA, 2004 after OECD*

*Removing to SME Access to International Markets, Paris, 2008, p. 31*

Practice which BCG also recommends consists in entrusting a specialised external governmental agency with fulfilling tasks of providing support to exporters as well as appointing a governmental committee for grouping ministers who deal with problems of international trade. It usually refers to the ministers of economy, finance, agriculture and foreign affairs as well as ministers responsible for regional issues (in Poland – the Minister of Regional Development). Yet such a solution may cause problems concerning the division of competences between the

governmental committee which coordinates the state policy towards internationalising enterprises and the specialised agency appointed by the government for implementing this policy. Therefore, the solution of this problem proposed by BCG, consisting in taking the lead over the committee by the head of the agency, raises serious doubts. The main problem concerns lack of clarity as to the scope of the agency's activity as the agency should deal more with implementing the pro-export policy than developing it. That is because the last activity falls within the scope of competence of the government.

It transpires from the author's observations that developing the strategies of coordinating, at the governmental level, the initiatives and activities undertaken by public institutions in order to develop the internationalisation of enterprises becomes more and more popular in the OECD countries, including the United States which are currently implementing the National Export Initiative.

As a rule, governments perceive export as this type of the international activity which is most profitable for national economies and positively influences, for instance, an increase in the GDP and domestic labour market. The benefits make exporters the most frequently selected target group of support programmes offered by governments of exporting countries.

It has to be emphasised, though, that export is only one of the forms of internationalisation of enterprises which – if consistently followed by – systematically increases the participation of resources, both in-cash and in-kind, on foreign markets. If one of the economic priorities of a country is increasing the competitiveness of domestic enterprises, what is worth considering is involving also such forms of internationalisation as licensing, franchising, or *joint venture* in governmental support programmes and, in some cases, also foreign acquisitions and green field investments, in particular those which aim at acquiring advanced technologies and at the same time increasing competitiveness of domestic companies on the world market.

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#### EWOLUCYJNY CHARAKTER WSPIERANIA UMIĘDZYNARODOWIENIA PRZEDSIĘBIORSTW - REKOMENDOWANE ROZWIĄZANIA SYSTEMOWE

**Streszczenie:** Małe i średnie przedsiębiorstwa coraz częściej rozpoczynają międzynarodową ekspansję, jednak ciągle mają jeszcze wiele problemów do rozwiązania w obszarze funkcjonowania za granicą. W pracy przedstawiono rządowe programy zachęcania i wspierania przedsiębiorstw w procesach internacjonalizacji. Autor pokazuje zalecane rozwiązania systemowe dotyczące zdeterminowanych grup przedsiębiorstw. Wreszcie wskazuje efekty wprowadzonych rozwiązań wspierających małe i średnie przedsiębiorstwa w ich dążeniach do internacjonalizacji.

#### 支持國際化的進程建議的系統解決方案不斷演變的特點

中小企业的国际化扩张越来越频繁，但在解决国内外运作上，它们仍存在不少问题。本

文介绍了鼓励和支持企业国际化进程的政府方案。笔者提出企业集团的系统解决方案。最

后讨论中小企业国际化解决方案的效果。