

KEY PROBLEMS FOR EXPORT TENDENCY AMONG ENTERPRISES FROM THE REGION OF PŁOCK

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Експортна діяльність є важливою формою внутрішньої інтернаціоналізації підприємства. У секторі малого та середнього бізнесу виникає концентрація продажів на ринках ЄС. Існує сильна взаємозалежність між розміром господарюючого суб'єкта та його експортного потенціалу.

Дослідження, проведені на підприємствах Плоцька, показали, що первинні стимули, які заохочують підприємців у конкретному регіоні шукати ринки за кордоном, включають у себе бажання вийти за рамки поняття «регіональної компанії». Виділено необхідність пошуку споживачів для збільшення виробничих потужностей, що, в свою чергу, пропонує кореляцію потенціалу зростання підприємства з розширенням міжнародних продажів. Вигідні ціни на міжнародних ринках і задовільний рівень обмінного курсу в значній мірі впливають на фінансові аспекти експортних угод.

Ключові слова: інтернаціоналізація, експорт, СМС сектор, Плоцький регіон.

Introduction. It is widely held that enterprises' export activities provide opportunities for business entities to generate increased revenues, attain higher profitability and enjoy cutting-edge technological advances. Enterprises that begin export activities are perceived as ambitious entities pursuing possibilities for raising its value through their operations on international markets. Export activities are one of the modes of internationalization of the enterprise which, alongside the imports, mostly determines the degree of economic openness. The Polish economy ranks low among internationalised countries, though it continually enhances its position among exporting and importing countries across the globe. Equally important, the foreign trade to GDP rate also grows. In 1990 this rate equalled 45.9%, whereas in 2010 it stood at 83.9% [1] (for comparison: Germany attained the level of 86.9%, Spain 54.7%, Hungary 165.6%). The causes underlying this phenomenon tend to be extremely complex, they may be analysed on the macro- and microeconomic ground, and they go beyond the frameworks of this paper. A propelling force behind soaring volume in foreign trade include, among others, a consistently growing number of foreign companies on our domestic market where membership in the EU cannot be overstated. Statistical data shows a strong concentration of our export and import with EU countries. Though it should be underlined that Polish enterprises become involved in exports to a small degree. According to the estimates provided by the Central Statistical Office of Poland merely 3.9% of companies carried out their sale operations abroad in 2012 (this result significantly understates exports by micro-companies). For imports, the size and correlations prove to be similar. The percentage of enterprises running export activities stood accounted for 7.1% of business entities in total. Therefore, the objective of the paper is to define the role of drivers affecting export activity of companies in the SMEs sector. In this context the findings from pilot surveys conducted in the group of companies across the sub-region of Płock will be presented.

The essence behind internationalization of the companies. A basic issue in inquiries with respect to surveys on internationalisation of enterprises and strategy in this area is to determine whether there is a correlation between a company's size, experience gathered, share in trade-over with foreign partners and the manner for entering into foreign

markets. Initially, that is in the 1960s, inquiries in the literature revolved around macroeconomic aspect of the internationalization process. Thus, we may talk about the internationalisation of the economic life, however, this phenomenon is tremendously complex and may concern: markets, side effects of social and economic progress, institutions, organizations and instruments of economic policy [2]. Though, in recent decades, numerous publications brought focus on internationalisation of enterprises. The multitude of approaches and interpretation of the term “internationalisation of the enterprise” principally results from the wide variety of theories and models illuminating this phenomenon. Basically, the definitions link internationalisation of an enterprise with expanding its operations on foreign markets and they refer to characteristics depicting the forms of relationships with business partners. According to J. Rymarczyk, internationalization means every type of business operations to be conducted abroad by enterprises [3]. While, for another researcher, M. Goryń, internationalization occurs when at least one product of the enterprise is connected with a foreign market [4]. Meanwhile, according to the process approach to internationalization as represented by K. Przybylska, it is viewed as a process of transformation of the national enterprise into the international company whose intensity, extent and forms rely on the strategy adopted by the company [5]. Many definitions of the phenomenon are related to another approach to management, even to the network interpretation of internationalisation which complements a process approach by a resource perspective. Significance is also given to the trend in the discussion illustrating these issues in the context of internationalization of selected elements of the company’s value chain. Thus, in an attempt to present an universal definition it is required to cite a so-called eclectic definition of internationalization of the enterprise which posits that a company expands its geographical extent of markets, products and forms of operations while developing. In essence, there are three levels where the phenomenon of internationalization may be identified. First, it may be regarded as a process comprising few phases. Second, whole moving to the problem from the statistical perspective, the focus should be placed on measuring involvement intensity of the international enterprise, that is a degree of its internationalization. Accordingly, various measurements may be used, e.g. TNI (Transnationality Index) used in publications by UNCTAD since 1995 which is an arithmetic average of three components:

$$TNI = (ITA + ITS + ITZ) / 3$$

ITA – assets transnationality index (value of foreign assets/total assets of the corporation) × 100%

ITS – sales transnationality index (value of foreign sales/total sales in the corporation) × 100%

ITZ – employment transnationality index (foreign employment/ total employment in the corporation) × 100%

Third, the behavioural perspective centres on the analysis of management staff’s behaviour across enterprises operating in the international environment.

While investigating the phenomenon of internationalization, the reference literature provides a division into internal and external internationalization or passive and active internalisation, which is particularly adequate in the context of the issues addressed in this paper. Thus, internal internationalization applies to the increase in import of the enterprise, whereas external internationalization is associated with export and expansion into foreign markets. Polish researchers involved in exploring the phenomenon such as M. Goryń or M. Rozkwitalska refer to the passive and active internationalization [6]. Passive internalisation involves establishing diverse bonds with foreign entities, though it prevents

running operations abroad. It may come up in the form of imports, licence purchase, joining the network orchestrated by a foreign entity as a franchisee. Regarding active internationalization, a domestic enterprise competes on foreign markets, e.g. exporting or undertaking other forms of operations.

The role of exports by small and medium-sized enterprises (SMEs) in the exports by Polish companies. It may be recognized that exports as well as imports are a primary form of internationalisation of enterprises. Typically, involvement of the company in international operations leads to an increase in its size. It also gives opportunities for moving forward smoothly when facing shifts in the economic cycles on the domestic market, yet it is also a channel for transmitting crisis into the domestic economy. Exports may become a source for soaring profits, specifically when a domestic currency is undervalued in relation to other currencies. Exporters may also expect enhanced effectiveness of capacity utilization due to the economy of scale. Foreign markets frequently allow for extending a product life cycle, particularly when products are sent to less technologically advanced countries. An urge to build competitiveness proves to be an important impetus inducing exports. Expansion into international markets enables enterprises to confront foreign competitiveness, thereby driving modification of their own products and quest for cost reductions. It often happens that exporters may expect exemptions and tax reliefs arising from dispatching products abroad. Moreover, government agencies, ministry of economy design various programmes aimed to support potential exporters.

Export activities, however, entail numerous extra efforts within an enterprise as well as extra risk for the operations concentrated on the local market. Key risks include the following: currency risk, extended time for completing transactions, market and client risks and risk related to winning funds for financing exports.

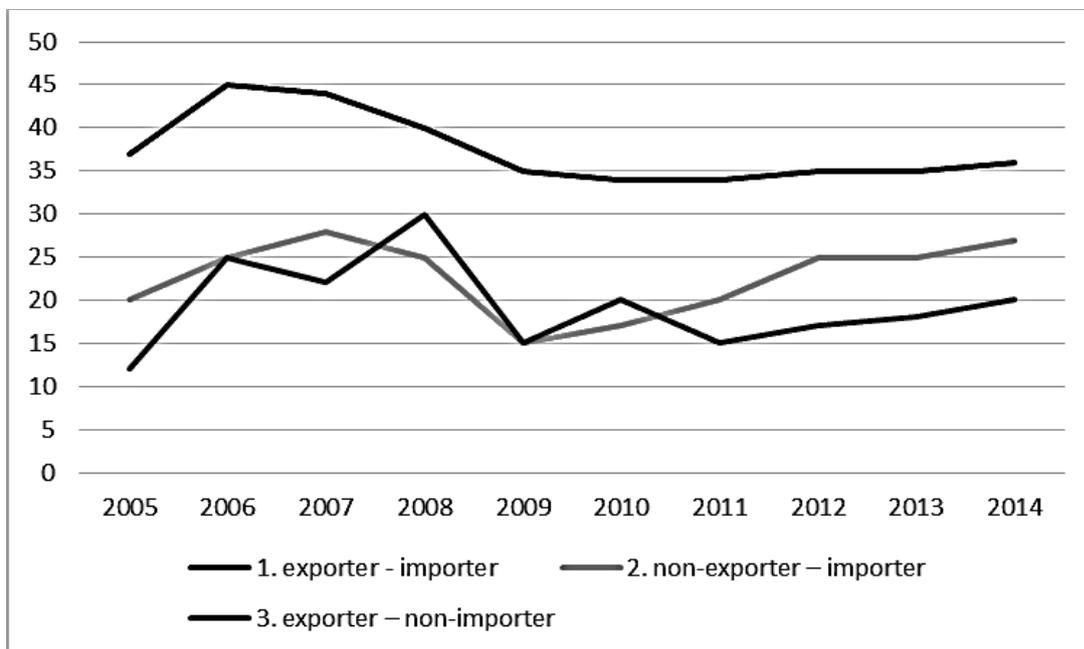


Diagram 1 Percentage of enterprises securing against the currency risk

Source: Quick monitoring of the National Bank of Poland Information on the standing of the enterprise sector with a particular emphasis placed on the economic cycle in Q1 2014 and outlooks for Q2 2014, Office of enterprises, households and markets, Institute of Economy, Warsaw 2014

Currency risk is principally connected with currency fluctuation. Inexperienced

exporters frequently attempt to increase their profits through speculation on currency rates. Yet, it should be kept in mind that a shift in the “undesired” direction may bring huge losses rather than expected gains. Therefore, it is recommended to use hedging securities, not necessarily for the whole transaction value, but in part at least so as to avoid losses likely to jeopardize the enterprise.

The risk of extended time for completing the transaction refers to both operational activities as well as payment time-limits. While seeking for cost reductions (strong competitiveness on foreign markets) an exporter often makes use of products, raw materials and subcontractors from various countries. As a result, the schedule for timely supplies is prolonged, and thereby mounting uncertainty. Then, a finished product has to reach a foreign recipient, and payment time-limit typically starts from that moment. In general, foreign invoices are paid within a period of 2 – 6 months. This period results from banking procedures, correction of mistakes in documents or other reasons attributable to the recipient. If time-limits are prolonged, extra costs may be generated for the exporter in the form of transaction refinancing costs.

A foreign country and business partner requires tremendous diligence with regard to verification of their macroeconomic stability and reliability. Political transformations across the country and region, financial crises heighten the risk for transaction failure. Verification of foreign clients’ solvency and potential recovery of receivables may also decrease profitability of the enterprise.

1. Tendency for export among SMEs as compared to the entities in total over 2009 – 2011

Specification	Number of companies in total			Number of exporters			Share of exporters in the number of companies in total (w%)			Share of export in revenues in%		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Entities in total (above 9 persons)	50828	49054	50519	17079	15719	15828	33,6	32,0	31,3	26,5	28,5	28,8
Small entities (10 – 49 persons)	31269	30089	31616	7615	6035	7099	24,4	23,0	22,5	18,4	21,3	21,1
Medium entities (50 – 249 persons)	16512	155871	15780	7563	6863	6789	45,8	43,2	43,0	22,6	24,2	23,7
Entities in the SME sector (10 – 249 persons)	47781	45960	47396	15178	13798	1388	31,8	30,0	29,3	24,0	23,5	23,0
Large entities (above 249 persons)	3047	3094	312	1901	1921	1940	62,4	62,1	62,1	29,0	30,8	31,5

Source: Own compilation based on: Report on the standing of the SMEs sector in Poland, PARP, Warszawa 2011 str.32, Report on the standing of the SMEs sector in Poland, PARP, Warszawa 2012, p.35

Taking a decision about exports should be a result of well-informed decision keeping in mind long-term consequences, and not a short-lived addition to internal demand. Export requires extra expenditures, and an enterprise, as mentioned above, is under the pressure to

pursue possibilities for cutting down costs. These expenditures relate to fees for securing payments, yet they also stem from the necessity of paying transport costs, international shipping and marketing surveys. In-house personnel or hired ones need to learn the legal regulations, customs accompanying transactions performed. No matter whether it is direct or indirect export, it is essential to establish contacts and databases about business partners as well as competitors which are not necessarily the same as on the local market.

The level of internationalization of the economy depends, to a large extent, on the export and import value of enterprises. According to surveys provided by the Central Statistical Office of Poland, a scant 4% (3.9%) conducted exports in 2012. Based on the reports F-01 (referring to companies employing over 9 persons) it may be noticed that small and medium-sized enterprises account for about 94% of all entities. Export activities in 2011 were declared by 15,828 enterprises and it was one of the lowest rates, below the pre-crisis 2007. The share of companies from the sector analysed accounted for scant 88% of population of enterprises surveyed by the Central Statistical Office of Poland [7].

Involvement of companies is, however, substantially diversified due to their size. The examination of the level of internationalization of the enterprise as well as tendency for export corroborate that the larger the size of the entity, the tendency for export becomes more conspicuous.

Figures reveal that the relative number of SME exporters as well as the share of export proceeds in their revenues are notably lower than for large enterprises.

Presentation of the number of entities involved in the export process alone fails to reflect the significance of the sector in our export of goods.

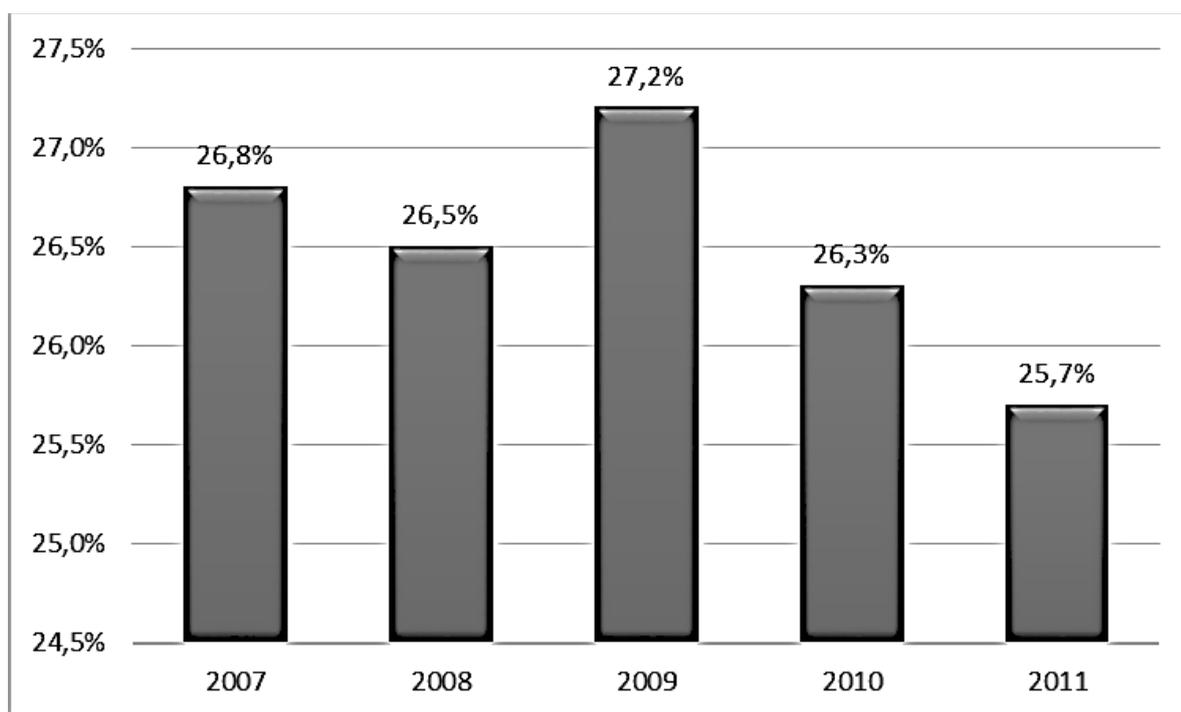


Diagram 2 Share of the SMEs sector in Polish export

Source: Report on the standing of the SMEs sector op. cit, p. 42

The decline in the share of the sector analysed in the total export value has been evident since 2006. In 2009 when the effects of the downturn were most acutely suffered, the significance of small and medium-sized enterprises grew, which may suggest a slower rate of decline in their exports as compared to large enterprises. In this context, their

slightly stabilizing function and larger resilience to economic fluctuations come into limelight. This thesis is also corroborated by a new plunge in the share of these companies from 27.3% down to 26.3% observed in 2010, which implies that in the phase of recovery and stabilization the export value did not show such high dynamics compared to large enterprises.

A key role in the export of SMEs is played by medium-sized enterprises which account for around 77% of the whole sector. Traditionally, while analysing the business activities by the Polish Classification of Business Activities sections, we may talk about the prevailing role of the processing industry which represents 59.6% of export value.

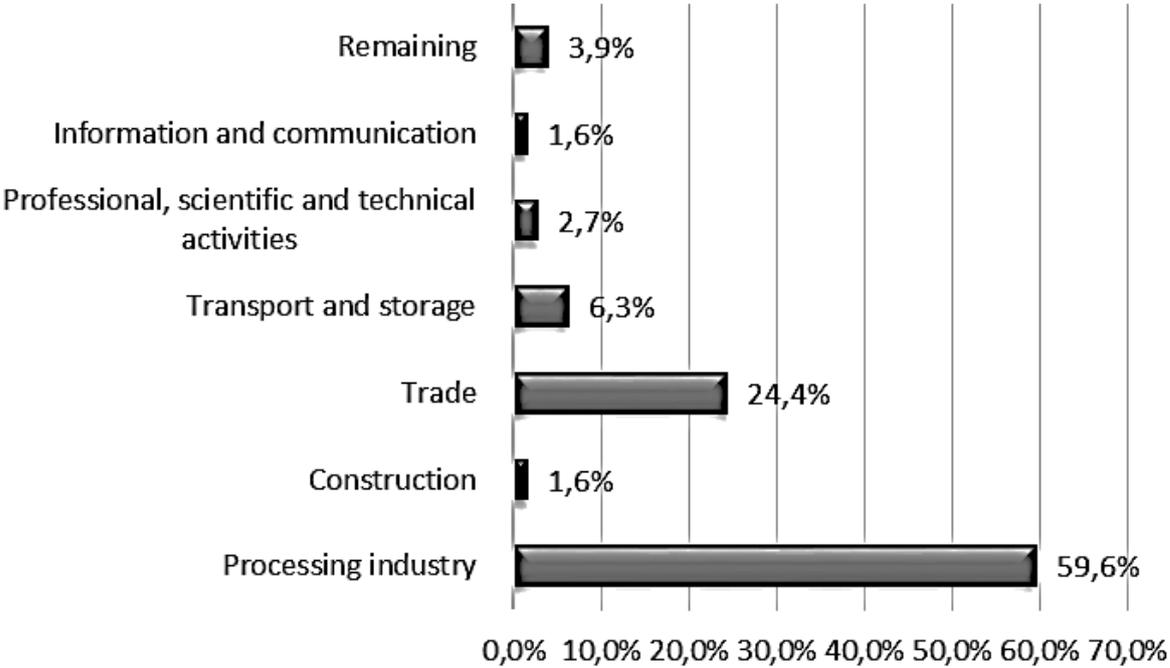


Diagram 3 Structure of export by SMEs by the Polish Classification of Business Activities in 2011

Source: Report on the standing of the SMEs sector op. Cit, p. 43

Within the processing industry activity the largest value of exports in 2011 were generated by entities from sections: manufacture of foodstuffs, manufacture of finished metal products, excluding machines and equipment, manufacture of rubber and plastic products as well as manufacture of machines and equipment not classified elsewhere. This section of processing industry also includes industries where involvement in exports is particularly high. In essence, there are 4 sectors likely to be identified where revenues from exports account for over 40% of total revenues from manufacture:

- Manufacture of furniture – 50.1%
- Manufacture of wood and cork products, excluding furniture – 44.2%
- Manufacture of clothes – 43.8%
- Manufacture of computers, electronic and optical equipment – 43%

Recent years have seen an interesting phenomenon which is SMEs’ exports growing at a quicker pace with a share of foreign capital than without it. Underlying causes may be attributed to possibly better examination of the foreign markets by these entities or ownership transformations in the form of fusions and takeovers. It can be seen from the statistical data and surveys that entities with foreign share dominate among Polish exporters. They are better equipped in capital, tend to be more productive and they often

have access to international networks set up by their parent company [8]. When confronting them, companies from the SME sector have little export potential to join top exporters. Their quick surge in trade-over and employment is chiefly targeted at the domestic market.

Export activities of enterprises across Mazovia Province. Mazovia Province is most economically advanced region across Poland. The distinctive attribute of the province is geographical diversity of economic growth between the metropolitan region hub (OMW – Metropolitan Area Warsaw) and its peripheries, mostly rural in their character. GDP value per capita in 2010 in Warsaw was as many as three times higher than the country's average. The following sub-regions also ranked above average – Warsaw western sub-region – 123.8% and sub-region of Ciechanów and Płock – 117.1% [9]. Moreover, there is a relatively higher export activity of larger entities across the province. Over 2005 – 2011 export value of enterprises employing over 9 employees rose by 71.6%.

2. Export dynamics in Mazovia Province over 2005 – 11

Rate	2005	2006	2007	2008	2009	2010	2011
Export mln PLN	53 119	71 772	83 488	92 024	90 407	105 122	124 742
Nominal dynamics previous year = 100	105,8	135,1	116,3	110,2	98,2	116,3	118,7
Share in sale revenue%	10,3	12,4	12,8	12,6	12,1	13,4	14,1

Source: Own study based on J. Duda, Próba oceny międzynarodowej działalności polskich i małopolskich MSP, *Ekonomia Menedżerska* 2011, No. 103

Growing engagement of enterprises across Mazovia Province in the internationalization process is evidenced by an increasing percentage of revenues generated by foreign sales in total revenues (from 10.3% in 2005 up to 14.1% in 2011). Mazovia Province, analysed in terms of total foreign trade-over, is marked by a systematically climbing deficit. In 2005 it totalled PLN 46 million, whereas in 2011 it attained PLN 101 million. Primarily, this is caused by imports of fuel and components for their production. Companies operating mainly in Płock and Warsaw are importers of these products. When examining the product structure of export across the province, the spotlight turns to the prevailing share of products from machinery and electromechanical industries, which is also characteristic for the product structure of the whole Polish export. Having disaggregated export product sections, it becomes evident that the highest share is represented by the products such as: screens and projectors (9.3%), oils from petroleum and oils from bituminous materials (3.35%), chocolate and foodstuff products containing cocoa (2.9%). A geographical breakdown of exports across Mazovia Province shows that key recipients include: Germany, Great Britain, Russia, France, Czech Republic and Italy. These countries receive 70% of exported products [10]. All in all, it may be stated that EU states absorb 75% of exports from the province, and a further 16% of products is exported to other countries within Europe, 5% to Asia, whereas only about 3% to both Americas. The cities which exported products with the highest value include Warsaw and Płock. On top of that, districts such as: Mława, Pruszków, Nowy Dwór, Piaseczno, Garwolin and Żyrardów contributed the most to the export value across the whole province. Having analysed the city of Płock, it appears that 39% of exports from the city relies on the products from the chemical industry, while given the bigger area of the whole district of Płock, the export volume of petroleum industry products stood at 53% [11].

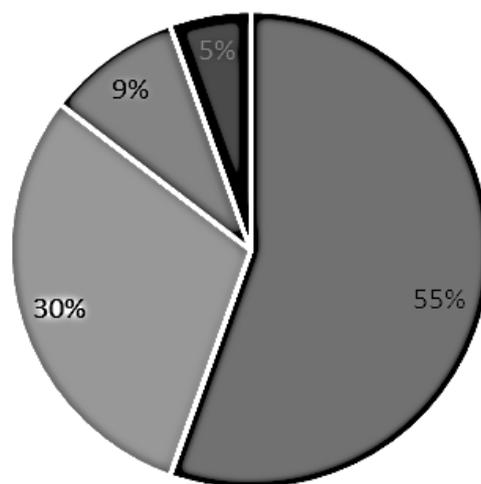
Determinants driving export for enterprises across the region of Płock in light

of the surveys. Small and medium-sized enterprises in the surveys conducted by the EIM Business & Policy Research commissioned by the European Commission Enterprise and Industry reveal numerous barriers impeding expansion of the internationalization process where export constitutes a significant component. These barriers may be typified as internal and external. Overall, enterprises assign internal barriers to difficulties resulting from: price and quality of products likely to be offered by the company, high costs of internationalization, shortage of qualified personnel, language barriers. Meanwhile, as regards external barriers, the primary drivers hindering internationalization are: shortages in accessing capital, insufficient adequate public support and access to information, high costs for handling complicated documentation in international transport, different legal regulations on foreign markets, customs and trade barriers, cultural differences as well as customs and formal barriers within the country [12]. In the case of small and medium-sized enterprises export may be regarded as potential leverage for accelerated growth. International surveys indicate that there is a close relationship between innovativeness and internationalization where trade is its simplest form. For instance 26% of companies from the SME sector standing out as internationally active introduced a new product or service on the internal market in its sector, whereas this percentage attained merely 8% among companies with low international activity.

Methodological assumptions behind surveys on enterprises from the region of Płock. In the last quarter of 2012 on the territory of the following districts: Płock, Gostyniń, Sierpc the questionnaire surveys were carried out with the goal of analysing the financial standing in enterprises while considering the effects produced by export operations. The survey was aimed at enterprises operating on the territory of districts listed above.

The questionnaire survey was selected as a survey tool, and it contained an ordered list of closed-ended and open-ended questions. Closed-ended questions may be answered with either single or few response variants provided in the questionnaire. Open-ended questions gave leeway to formulate own answers.

The questionnaire surveys were sent to enterprises in an electronic form. Completed questionnaires were dispatched by 110 entrepreneurs.



■ >10 person ■ 10-49 persons ■ 50-249 persons ■ < 250 person

Diagram 4 Structure of enterprises surveys by their size

When examining entities from the sub-region of Płock, it transpires that almost 70% did not undertake export operations in recent years. Other companies, if they indicated such a sales form, mostly search for potential markets across EU countries.

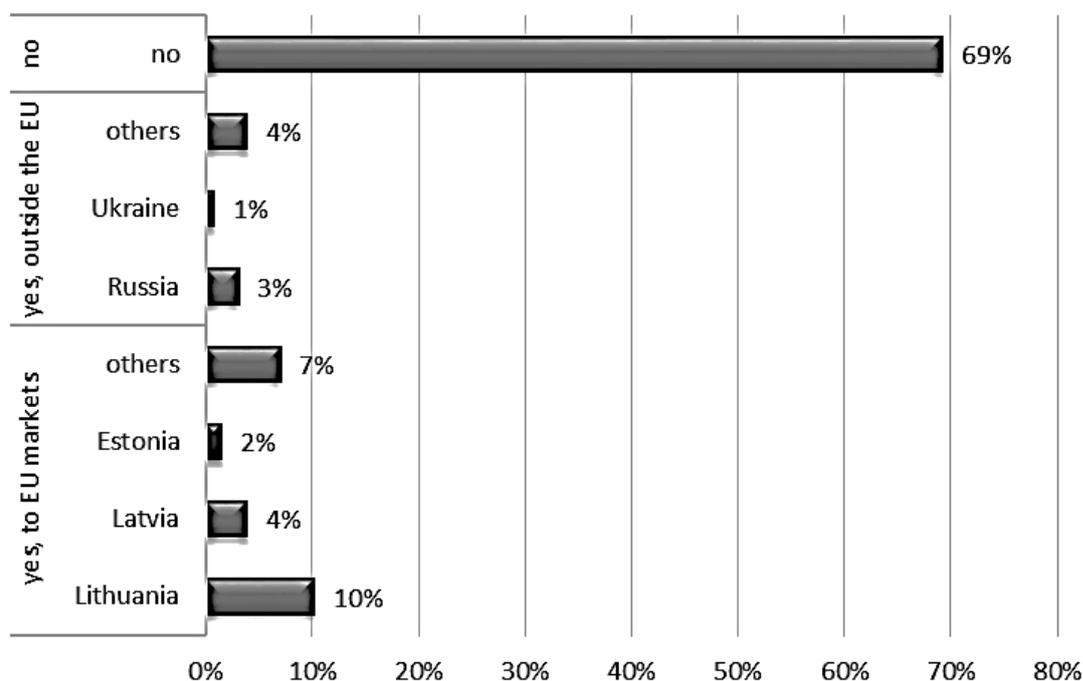


Diagram 5 **Geographical directions for export among enterprises from the sub-region of Płock**

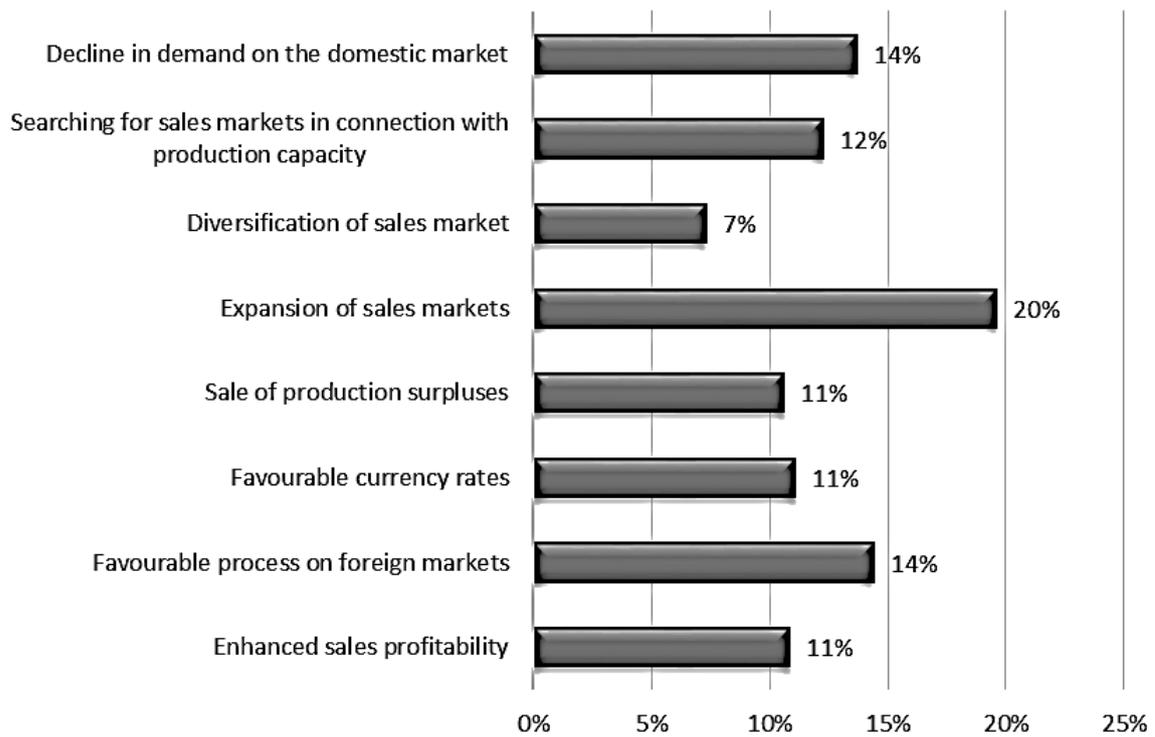
Source: study based on author's surveys.

70% of exporters declared sales concentration on the markets across the EU. This index proves to be similar for the whole country based on data compiled by PARP and for Mazovia Province.

Whilst inquiring the issue of the capacity of undertaking export, with the national data showing a close correspondence with an enterprise size, a similar tendency emerges among the population of entities analysed.

The survey attempted to address a remarkably interesting problem, namely identification of major incentives inducing entrepreneurs from the specific region to seek for potential markets abroad.

57% of respondents ascribed the causes to determinants related to the search for sales markets. Principally, it is about the desire to expand the sales, leaving the position of the "regional company" (20%). Yet, the importance is also attached to the need for looking for recipients for larger production capacity (12% of answers), thereby suggesting reliance of enterprise's growth potentials on sales expansion abroad. On the other hand, occurring production surpluses and collapses on the domestic market are crucial factors encouraging export activities. The remaining 43% of responses should be connected with assessment of financial results of enterprises. Favourable prices on foreign markets and satisfactory level of currency rate mostly determine the financial aspect of export transactions. On the whole, diversification of sales markets may testify to the strategic maturity of enterprises. In the survey conducted, fewer than one in ten entities took this argument into consideration.



Diagrams 6 In your opinion what are the primary reasons for running export activities

Source: study based on author's surveys.

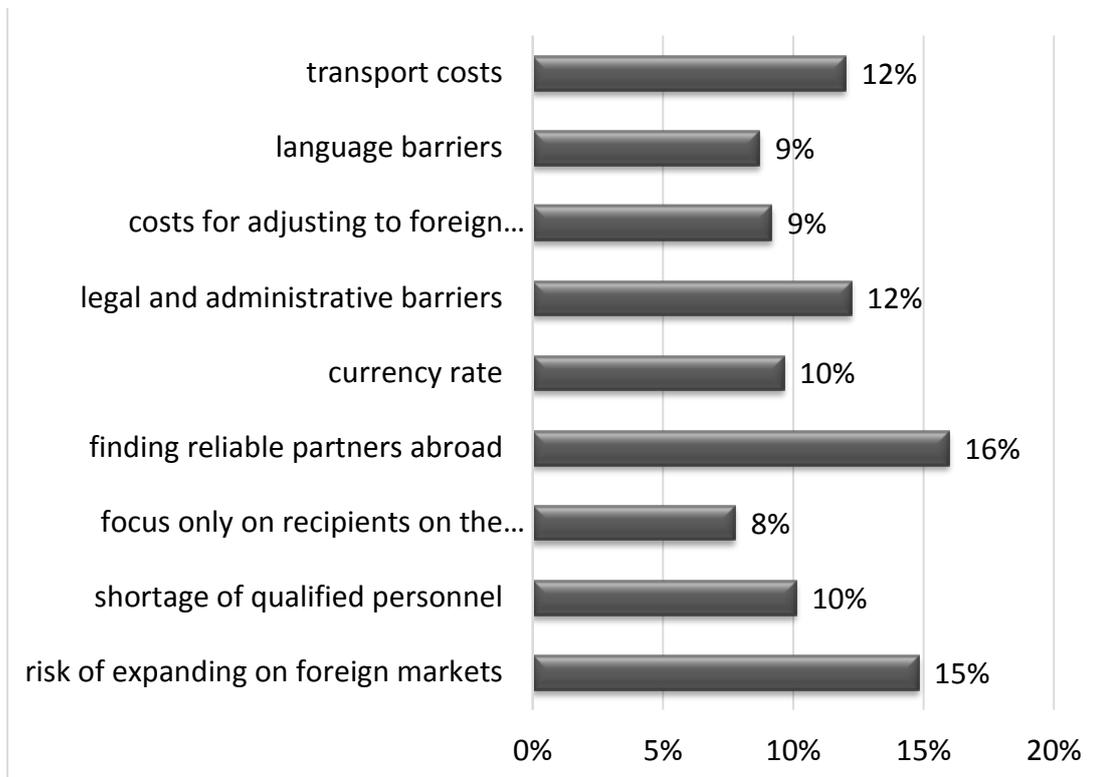


Diagram 7 In your opinion what are the major difficulties to undertaking export activities

Source: study based on author's surveys.

Initiation of export activities may be seen as the first phase of internationalization of the enterprise which brings new legal, organizational and financial challenges to the company. The biggest anxieties refer to the element of uncertainty triggered when expanding in a foreign market. First, companies surveyed reported difficulties concerned with establishing constructive trade contacts and a general risk posed by operations on a foreign market, specifically the risk of fluctuations in currency rate was critical. Second, another group of reasons hindering export activities may be labelled as cost-organizational reasons. Enterprises often raised the aspect of rising transport costs (12% of answers) as well as the necessity to learn and plough through legal and administrative barriers. Similar ratings were given to personnel shortages and language barriers as factors impeding sales.

Turning now to the exporters' economic situation on the wide-nation scale, based on the research completed by the National Bank of Poland, it may be stated that in recent quarters the price competitiveness for foreign sales, settled in Euro and American dollar, maintained on a high level. The barrier of currency rate hit all-time low in the history of quick surveys by the central bank. General outlooks formulated by exporters, despite diversified shifts in rates surveyed, enable to formulate an expected high surge in export attained mainly through increasing value of export contracts, and, to a lesser extent, number of transactions concluded [13].

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Аннотация

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ГЛАВНЫЕ ПРОБЛЕМЫ ЭКСПОРТНЫХ ТЕНДЕНЦИЙ СРЕДИ КОМПАНИЙ ПЛОЦКОГО РЕГИОНА

Экспортная деятельность является важной формой внутренней интернационализации предприятия. В секторе малого и среднего бизнеса возникает концентрация продаж на рынках ЕС. Существует сильная взаимосвязь между размером хозяйствующего субъекта и его экспортного потенциала. Исследования, проведенные на предприятиях Плоцка, показали, что первичные стимулы, которые поощряют предпринимателей в конкретном регионе искать рынки за рубежом, включают в себя желание выйти за рамки понятия «региональная компания». Выделено необходимость поиска потребителей для увеличения производственных мощностей, что в свою очередь, предлагает корреляцию потенциала роста предприятия с расширением международных продаж. Цены на международных рынках и удовлетворительный уровень обменного курса в значительной степени влияют на финансовые аспекты экспортных сделок.

Ключевые слова: интернационализация, экспорт, СМС сектор, Плоцкий регион.

Annotation

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KEY PROBLEMS FOR EXPORT TENDENCY AMONG ENTERPRISES FROM THE REGION OF PŁOCK

Export activities are a significant form of internal internationalization of the enterprise. In the sector of small and medium-sized enterprises the concentration of sales on the EU markets emerges which is also noticeable in the region of Mazovia as well as sub-region of Płock. There is also a strong interdependence between an entity's size and its export tendency. Essentially, medium-sized enterprises prevail.

The surveys conducted in enterprises in Płock revealed that primary incentives encouraging entrepreneurs in the specific region to seek for markets abroad included an urge to go beyond the position of a "regional company". Prominence is also given to the need to search for recipients for a larger production capacity which thus suggests correlating growth potentials of the enterprise with international sales expansion. Favourable prices on international markets and satisfactory level of the exchange rate largely driving the financial aspects of export transactions were also indicated as a key argument for launching exports.

Key words: Internationalization, export, SMS sector, region of Płock.