

# Barriers in the internationalization of Podlasie SMEs – GoSmart BSR project experience

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## Abstract

There is no unambiguous definition of internationalization although a lot of theories that has made great contribution to enterprise internationalization have been propounded. Internationalization is commonly understood as an extending the company's activity to foreign markets in order to ensure a better competitive position. The company's operation on the local market differs from its operation on foreign markets. Examples of many companies indicate that internationalization processes, even if they enable them to gain new markets, involve the need to overcome various types of barriers. The aim of this paper was to identify barriers of internationalization among SMEs in Podlaskie Voivodeship. External and internal barriers of internationalization have been analysed. Researches indicated, as the most dangerous barrier lack/insufficient financial resources and strong competition on the foreign market; the least dangerous – cultural differences.

## Keywords

internationalization, barriers of internationalization, GoSmart BSR project

## **Introduction**

In the literature on the subject, there is no unambiguous, generally accepted definition of internationalization, which is commonly understood as extending the company's activity to foreign markets in order to ensure a better competitive position. It is based on the assumption that the company's operation on the local market differs from its operation on foreign markets. The main factors strengthening the development of internationalization are the progress of science and technology, the economic development of individual countries and the international market, as well as the growing investment potential of enterprises [Kuraś, 2012, p. 18; Nazarko 2019, p. 342].

Examples of many companies indicate that internationalization processes, even if they enable them to gain new markets, involve the need to overcome various types of barriers. The aim of the paper is therefore to identify key barriers in the internationalization process of small and medium-sized enterprises in the Podlaskie Voivodeship.

## **1. Literature review**

Researchers dealing with internationalization propose different ways of interpreting this phenomenon. Theoretical considerations compile and analyze from several to several dozen definitions of internationalization [Wolniak, 2018, pp. 661-662; Glinkowska, 2016, p. 20; Barłożewski, 2017, pp. 16-18; Limański, Drabik 2016, pp. 323-331; Jędralska, Komańda, Dziubińska 2013, pp. 36-38; Karasiewicz 2013, pp. 32-38]. According to J. Rymarczyk, internationalization and its essence can be understood using three basic approaches [Rymarczyk, 2004, p. 19]:

- process (dynamic approach),
- institutional (static approach),
- behavioral (as a way of behavior)

Internationalization recognized as a process is characterized by a phase arrangement of its forms. These forms reflect the historical course of the internationalization process based on the individual experience of international companies. It is assumed that the achievement of one form to some extent determines the transition to the next one. The first stage of internationalization is a the transition from the national economy, characterized by closed internal activity, to multilocal (multinational) economy. Multilocal activity consists in developing, producing and selling products or services tailored to the local needs of consumers. The conse-

quence of this approach may be the implementation of different strategies in different countries. The most advanced phase of these processes is globalization, which is based on the assumption of similarity of key success factors in most international markets and the standardization of production and services on a global scale [Kuraś, 2012, p. 19]. The process approach is associated with forms such as: export, licensing, franchises, joint ventures, or foreign direct investment [Rymarczyk, 2004, p. 20].

In static approach, internationalization is analyzed as an institutional phenomenon. It means the state of internationalization of the enterprise expressed by specific indicators and measures that inform about the intensity of internationalization of the enterprise [Rymarczyk, 2004, p. 20].

In the behavioral approach, internationalization is analyzed from the perspective of how the company manages it. Internationalization of the enterprise can develop over time as a result of the strategy of the entire company or its creation takes place spontaneously and many people and/or departments of a given company participate in it in an uncoordinated manner [Fonfara, 2009, p. 12. Particular emphasis is placed on relationships with foreign enterprises that depend on the attitudes and behavior of managers of enterprises internationalizing their activities [Rymarczyk, 2004, p. 20].

However, the process of internationalization of organisations, especially in the group of small and medium enterprises, is still not widespread. This condition is associated with the existence of many barriers, which in the simplest way can be divided into internal and external barriers. Barriers conditioned by internal factors include [Winkler, 2007 p. 78]:

- experience gained by the organization in undertaking this type of activity,
- staff competences,
- the type and specificity of the company's organizational culture,
- financial possibilities of the organization.

Lack of experience in a given type of activity can be generally described as an information (knowledge) barrier. Ignorance of procedures, existing connections and mechanisms regulating operation in a given sector and market exposes the organization to making many costly mistakes, increases the burden of legal services and transaction costs incurred by it. It can also lower the assessment of the organization's credibility in the assessment of its potential partners [Winkler, 2007 p. 78].

The appropriate competences of employees are necessary when entering new markets, expanding operations, maintaining contacts with companies from other countries, cultures, or building (joining) in international networks. Therefore, there is a need of the organization for employees' competences not only in terms of sub-

stantive qualifications, but also language competences and predispositions to work in a multicultural environment [Winkler, 2007, p. 78; Moczydłowska, Serafin 2016]. Overcoming this barrier is possible only thanks to solid preparation for the whole process and having staffing reserves. An additional obstacle may also be the lack of integrity of the internationalization process. It may turn out that for some reason its assumptions are not being implemented. Such a state may lead to the cessation of internationalization in accordance with the previously adopted strategy, and uncoordinated and unplanned action will start [Gostkowska-Dźwig and Mrozik, 2016, p. 64].

The culture of the organization determines the way of functioning the entire organization - its ability to change as well as coping with cultural differences.

Internationalization means the necessity of incurring specific investment outlays related to equipping new branches, increasing the employment level, incurring burdens related to expatriation of employees or introducing specific changes in the structure of the organization and management practice necessary from the point of view of its adaptation to new operating conditions. The resources owned by the organization, its self-financing capacity or creditworthiness will not only determine the organization's capabilities in the above-mentioned scope, but will also determine the shape of the organization's competition strategy and its ability to compete [Winkler, 2007 p. 79; Gudanowska, Alonso and Törmänen, 2018, p. 65, Tomaszuk 2017, p. 701].

In the case of externally determined barriers, there are barriers with political and legal conditions and a group of barriers related to the creation of forms of cooperation between enterprises. In the first group, in addition to the unstable political, legal and administrative structure of the state (which may significantly limit the possibility of developing activity on a given market), there are also currency fluctuations, changes in the government's political programs or in legislation. In the second group, in case of creating forms of cooperation (alliances, alliances, mergers) significant barriers to their effective implementation may be: mismatch of partners (in particular in the aspect of organizational cultures), or mutual restrictions in access to information, fear of loss independence [Winkler, 2007 p. 79; Daniluk and Tomaszuk 2016, p. 533, Szydło 2017, p. 263, Szydło and Grześ-Bukłaho, 2020].

In the internationalization process, both internal and external threats can be dangerous for the development and even existence of an enterprise. It is necessary to prepare properly the organization to start this process, to protect against possible barriers, as well as to develop solutions to mitigate their possible effects [Daniluk 2018, p.185; Gostkowska-Dźwig and Mrozik, 2016, p. 66; Wasiluk and Daniluk 2013, p. 20].

## 2. Methodology of research

Internationalization of enterprises is an important aspect in the era of globalization. Therefore, it is important to take actions that contribute to increase in internationalization of economic entities.

This study is a part of a larger research project conducted simultaneously in seven countries (Poland, Lithuania, Latvia, Estonia, Finland, Germany, Denmark) – partners of the GoSmart BSR project – ‘Strengthening smart specialisation by fostering transnational cooperation (GoSmart BSR)’ [<https://gosmartbsr.eu/>].

The project is implemented with the support of the European Regional Development Fund Baltic Sea Region Programme 2014-2020. In the project cooperate eight partners from seven countries – Bialystok University of Technology (Lead Partner, Poland), Podlaska Regional Development Foundation (Poland), Vidzeme Planning Region (Latvia), Valga Municipality Government (Estonia), Public Institution Lithuanian Innovation Centre (Lithuania), Kouvola Innovation Ltd. (Finland), Hamburg Institute of International Economics (HWWI) (Germany), Business Aabenraa (Denmark).

The main aim of GoSmart BSR is to increase capacity of innovation actors (innovation intermediaries, authorities, research institutions, enterprises) to apply smart specialisation approach. Main expected results are a functioning and sustainable Transnational Innovation Brokerage System and SMEs Joint Smart Strategies implemented across partner regions.

The aim of the study conducted in June 2018 among representatives of SMEs and business support institutions from Podlaskie was to identify the needs related to increasing innovativeness of internationalization.

The study was conducted on a group of 31 innovative enterprises and a business support institution. All organisations have their registered office on the territory of Podlaskie Voivodeship. The study group includes enterprises which are already engaged in activities on foreign markets or which plan to engage soon and an institution engaged in, among others, supporting internationalization of entrepreneurs from Podlaskie.

In the quantitative study a CAWI method was used (Computer-Assisted Web Interview), which is a method of quantitative data collection method in which the respondent is asked to fill in the electronic form. 27 entities took part in this study. The questionnaire was composed of 4 closed questions and a metric part with 6 closed or semi-open questions. Moreover, 5 direct partially-structured interviews were conducted, i.e. a method of research which is open and allowing new ideas to be brought up during the interview because of what the interviewee says; the inter-

viewer has a framework of themes to be explored. 4 companies and business support organisation took part in this particular study. The interview scenario in its structured part was composed of 4 closed questions (the same as the survey questionnaire) and had 4 additional open questions. The percentage of responses provided and simple statistical measurements (arithmetic average, mode) were utilised for interpretation of the data collected.

31 micro, small and medium companies and one representative of business support organisation took part in the study. The enterprises represented the following domains: human health and nutrition (26%), manufacturing & industry (58%), ICT (13%) and construction (3%). There were no representatives of the following domains in the study: key enabling technologies, sustainable innovation, and transportation and storage. No prominent industry was observed among the domains represented by the enterprises. Table 1. provides information on dispersion of respondents in relation to their main activity.

**Tab. 1.** The most important information about entities

main activities areas	manufacturing & industry	human health & nutrition	ICT	construction			
	58%	26%	13%	3%			
operation on foreign markets	yes		no				
	74%		26%				
areas of international partnerships	European market	markets of neighbouring countries	Asian countries markets	North American markets			
	78%	70%	26%	22%			
the time of operation on foreign markets	over 5 years	>3-5 years	1-3 years	less than a year			
	35%	26%	26%	13%			
level of interest about establishing in international cooperation	Germany	Finland	Denmark	Estonia	Lithuania	Latvia	
	74%	74%	68%	61%	55%	48%	
level of interest about establishing in international cooperation in Trans S3	manufacturing & industry	human health & nutrition	key enabling technologies	construction	ICT	transp. and storage	sustainable innovation
	55%	48%	26%	23%	19%	16%	13%

Source: own researches.

Only 8 (26%) out of companies studied do not operate on foreign markets – these enterprises informed about their willingness to internationalize and, simultaneously, lack of any further steps in this matter. The remaining companies (74%) are already internationalized (Table 1).

Among companies that declared having business experience gained of foreign markets the most cases refer to cooperation with European markets not border-to-border with Poland – 78%. Moreover, 70% of companies cooperate with neighbouring countries, 26% conduct businesses on Asian markets and 22% on the North America territory. None of the enterprises studied cooperate neither with South America nor with Africa (Table 1).

During analysis of time of operation on foreign markets one may notice that in case of internationalized companies the dominant time period is five years (more than 1/3 of companies studied); 26% of companies declared operation of 1-3 years and the same number of companies of 3-5 years, while 13% of companies operate in an internationalized manner not longer than one year (Table 1).

During the analysis of internationalization needs the respondents were surveyed, among others, about countries with which these companies would like to cooperate. 7 countries from the Baltic Sea Region emerged, and the respondents declared they are interested in foreign cooperation with at least one of the mentioned countries.

The largest percentage of respondents (74%) declared willingness to cooperate with Germany and Finland; considerable interest was expressed in cooperating with Denmark (68%), Estonia (61%) and Lithuania (55%). Less than half of the respondents expressed their interest in cooperation with Latvia (48%) – Table 1.

The entrepreneurs were also asked about which industry representative they would be willing to commence international cooperation (Table 1). The most commonly chosen was manufacturing & industry (55%) and human health and nutrition (48%), which, most probably, is in relations with currently conducted business, yet still the respondents were eager to cooperate with other key sectors.

The studied business support organisation declared that it cooperates with SMEs from manufacturing and industry and construction domains, is in a partnership with institutions from the European markets, operates on these markets for more than 3 years and, in addition, is interested in establishing relations with Estonia and Finland. During the study it turned out that this institution has a potential to cooperate within the following domains: human health and nutrition, key enabling technologies, manufacturing & industry, ICT, sustainable innovation, and construction. Moreover, similarly to most of the studied companies, this institution expressed its interest in participation in transnational system of innovation and internationalization support of SMEs.

### 3. Barriers of internationalization

Crucial issue in terms of enterprises internationalization are the internal and external barriers, i.e. the factors that hinder internationalization processes of enterprises. Companies were presented with a list of such factors and were asked to assess to what extent an elimination or reduction of barriers' presence would increase the company's internationalization level (*in scale from 1 to 5, where one means least important and five – most important*).

It turned out that, among internal barriers, little above half of respondents (51.6%), as of the highest importance, indicated financial barriers, i.e. lack or insufficient financial resources for ventures on foreign markets (Table 2).

**Tab. 2.** Internal and external barriers in the process of internationalization, N=31 (in %)

Barriers		x	1	2	3	4	5
internal	lack / insufficient financial resources	4.19	8.2	0	22.6	22.6	51.6
	insufficient knowledge of legal and financial regulations	3.84	6.5	3.2	25.8	29	35.5
	language barrier	3.74	6.5	6.5	29	22.6	35.5
	insufficient knowledge about the market	3.71	9.7	3.2	25.8	29	32.3
	the level of risk	3.52	6.5	12.9	22.6	38.7	19.4
	inappropriate timing (too late / too early entry into foreign markets)	3.45	9.7	0	45.2	25.8	19.4
	insufficient knowledge about clients	3.32	12.9	16.1	25.8	16.1	29
	lack of experience in internationalization	3.29	19.4	9.7	22.6	19.4	29
	insufficient competences of employees	3.29	12.9	12.9	29	22.6	22.6
insufficient knowledge about the possibilities of cooperation	3.23	9.7	6.5	48.4	22.6	12.9	
external	strong competition on the foreign market	4.00	0	0	32.3	35.5	32.3
	unfavorable legal and financial regulations	3.65	3.2	12.9	35.5	12.9	35.5
	lack / insufficient external support (eg. investors)	3.61	6.5	6.5	32.3	29	25.8
	insufficient promotion of the region on foreign markets	3.52	9.7	9.7	29	22.6	29
	unfavorable political situation in the target foreign market	3.16	12.9	12.9	41.9	9.7	22.6
	lack / insufficient consultancy support	3.10	9.7	9.7	51.6	19.4	9.7
	insufficient coordination between business networks	3.06	12.9	12.9	38.7	25.8	9.7
	cultural differences	2.87	9.7	25.8	41.9	12.9	9.7

Source: own researches.

Subsequent, important barriers are those related to lack of proper knowledge on how to operate on a foreign market, i.e. insufficient knowledge of legal and financial regulations (35.5%), language barrier (35.5%), and insufficient knowledge about the market (32.3%).

The least often mentioned were the unwillingness to cooperate with foreign partners (9.7%), lack of readiness for internationalization (12.9%) and insufficient knowledge about the possibilities of cooperation (12.9%).

When the external barriers are concerned, the respondents have often indicated unfavourable legal and financial regulations on given foreign markets (35.5%) and strong competition on the foreign market (32.3%; Table 2). The respondents have also noticed the importance of insufficient regional promotion on the foreign markets (29%).

The following items are treated as the least troublesome in foreign cooperation: cultural differences (9.7%), insufficient coordination between business networks (9.7%) and lack / insufficient consultancy support (9.7%).

The results show that the most significant barrier is the financial one (4.19). Intensive competition (4.00) is also perceived as a rather difficult obstacle. The subsequent three places were taken by barriers related to insufficient knowledge, i.e. insufficient knowledge of legal and financial regulations (3.84) and about the market (3.71). The companies studied indicated that knowledge of foreign languages (3.74) is also an important barrier. What is interesting, unfavourable legal and financial regulations (3.65) are mentioned by many companies, even though the same companies declare they have insufficient knowledge of these regulations. Therefore, these legal and financial regulations are only a perceived, imaginary barrier, rather than a real one. The respondents often mention the need for proper promotion of the region on international markets (3.52), an action that would support establishing cooperation between entities. The next barrier to be discussed is the level of risk related to internationalization (3.52). Taking into consideration rather conservative approach of entrepreneurs from Podlaskie, it seems that this is a barrier resulting from a general perception of the environment.

## **Conclusion**

The study conducted among enterprises from Podlaskie indicate that internationalization raises interest, but it also generates many problems that entrepreneurs need to deal with. The entrepreneurs that took part in the study indicated a number of barriers that hamper or even make it impossible to establish business activity on foreign markets.

In the opinion of the respondents, the most important barrier in the implementation of projects on foreign markets is the financial barrier. Internationalization-related expenditures (e.g. furnishing new facilities, increasing employment levels, introducing specific changes in the organization's structure) may deter enterprises from international expansion, but also impede the implementation of market strategies and achieving the assumed competitive position [Winkler, 2007 p. 79]. Lack of sufficient financial resources may also extend the planned activities over time, which may ultimately affect their effectiveness.

Another group of internal barriers is the so-called information (knowledge) barriers [Winkler, 2007 p. 78]. According to the surveyed company representatives, they experience a lack of knowledge in the field of legal and financial regulations, about the market and about clients. These knowledge gaps can become a source of market errors and, as a consequence, generate significant additional costs. In addition, insufficient language competences of SME employees are a significant barrier. According to Winkler [2007 p. 78], knowledge of languages combined with openness and predispositions to work in a multicultural environment are necessary for the development of international cooperation and deepening internationalization processes.

Among the external barriers, respondents pointed primarily to strong competition on the foreign market and unfavorable legal and financial regulations. These barriers make the attempts to operate on the international market seem extremely risky. In contrast to internal barriers, which can be realistically estimated, perception of external barriers as subjective and yet significantly inhibits international projects.

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## **Bariery internacjonalizacji w opinii podlaskich przedsiębiorców – doświadczenia projektu GoSmart BSR**

### **Streszczenie**

Chociaż wysunięto wiele teorii, które wniosły istotny wkład w rozwój internacjonalizacji, nie można wskazać jednolitej definicji pojęcia. Powszechnie internacjonalizacja rozumiana jest jako rozszerzenie działalności na rynki zagraniczne w celu poprawy pozycji konkurencyjnej. Wejście na nowe rynki zazwyczaj wiąże się ze zmianą modelu biznesowego. Przykłady wielu firm pokazują, że procesy internacjonalizacji wiążą się z koniecznością pokonywania różnego rodzaju barier. Celem artykułu było zidentyfikowanie barier związanych z internacjonalizacją wśród podlaskich MSP. Na podstawie studiów literaturowych i doświadczeń zebranych w projekcie GoSmart wyodrębniono szereg barier wewnętrznych i zewnętrznych. Przeprowadzone badania wskazały, że do najistotniejszych barier należy zaliczyć brak/niewystarczające zasoby finansowe firm oraz silną konkurencję na rynkach zagranicznych; za bariery najmniej istotne respondenci uznali różnice kulturowe.

### **Keywords**

Internacjonalizacja, bariery internacjonalizacji, project GoSmart BSR