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Internationalization of enterprise - theory and characteristics

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ABSTRACT

Development of an enterprises is not only of a local or national nature. Increase in profits and the willingness to wind new markets, outside the domestic country is an innovation on the enterprise level. While starting the internationalization process, the company makes various decisions, applies a different policy and management manner, and defines the objectives that it strives to achieve. An important element is the desire to acquire knowledge and experience from other companies. The main purpose of the article is to briefly present some of the theories and features characteristics for entities that enter and operate within foreign markets.

Keywords: internationalization, foreign market, development, company's internationalization

INTRODUCTION

Literature related to internationalization of small and medium-sized enterprises describes numerous factors and influence its character. The internationalization process is different in each enterprise, depending on plenty of various business characteristics. Theories and models presented in primary sources bring diverse manners for development of an enterprises within foreign markets. In the article, we will discuss the stages of actions intended for internalization of an enterprises, as well as a process, where a decision on development outside a domestic country is made.

THEORIES AND MODELS

The main idea of the theory on enterprises internationalization lays in the concepts related to business and development of companies within international markets. The first researchers who attempted to explain the focus of entities on the flow of goods and services were Smith [19], and Ohlina [14]. They highlighted the effects of international cooperation, trading as well as all the interconnected benefits. Also other research areas, such as foreign investments, turned out to be relevant stages while developing the theory [3]. Foreign expansion as a beginning of the whole internationalization system, this transformation of small entities into large enterprises and further into corporations developed several models, theories and stadiums of actions.

J. Johanson and F. Wiedershem-Paul elaborated the best-known example of enterprises internationalization model, so-called Swedish model [7]. This is called the Uppsala model (the name comes from the Swedish city and the university, where its authors carried out their research) that presents gradual intensification of company's activities within foreign transactions. It is characterized with a strong foundation, i.e. a stable position on the local market. Based on the Uppsala model, other researchers developed plenty of approaches adopted by enterprises in terms of development abroad, and elaborated developmental concepts, among others the concept developed by R. Luostarinen, O. Andersen or J. Johanson and J.E. Vahlne [10,1,8]. Some of the research found out that company's entrance into foreign markets and establishment of cooperation with clients from outside the domestic country do not take place gradually. The path for development is shortened and some stages presented in the Uppsala model are omitted numerous times [20].

While analyzing the basic features of internationalization models, we can distinguish four theories and approaches, i.e.: the Uppsala model, an eclectic paradigm, a network and a strategic approach [21]. Those models were focused on explaining the ways and reasons for companies' development within foreign markets. The main cause was that they were willing to get profits, win some competitive advantage and strive for success.

The eclectic paradigm is a relation between a company's behavior and the costs it must incur in foreign transactions, so-called transactional costs [4]. This approach suggests that the decision of entering a foreign market is broadly influenced by the sum of costs and the sum of profits from the transaction. In turn, the network approach puts emphasis on significance of the company cooperation with its surroundings, i.e. purchasers or suppliers, as well as the competition, not only within the local but also foreign market. Such cooperation often allows a company to enter the market and renders it determined to develop. The strategic approach [21] builds its internationalization on effects of the decisions, evaluation of the foreign market and company's resources. A significant factor in this approach is company's management [17] and its operational strategy. The implementation process, management system, financial situation - these are the elements that take part in and indirectly influence the decision on company's development within new markets. There have been plenty of models emerged during the internationalization process, which were divided into two groups by Andersen [1], the Uppsala model and innovative models. The models assuming that internationalization is an innovative step made by an enterprise or entrepreneurship, also lead to the knowledge acquisition process, not only at the stage of entering a foreign market. The beginning of internationalization is the knowledge acquisition to introduce innovations and new management related development.

DECISIONS, PROCESS AND BEHAVIORS OF ENTERPRISES

The decision-making process and functions of decisions differ among enterprises. Business enterprises operated by natural persons, family businesses, large companies or corporations have a certain scheme for decision-making and approval of assumed actions. This process is not always the case in small companies and family businesses, and the final decision is made by the owner. In larger companies, the decision is made together, based on the results of current operations and an analysis of future benefits derived from entering the foreign markets.

This process is frequently omitted in family businesses as the owner is afraid of a loss, and thus disturbing the current existence of the company. [12,13] Family businesses are the least inclined towards foreign expansion. They are perceived as small companies within a local market, and this is how they develop [22], hence internationalization of family businesses consists mainly in trade through on-line sale. A significant role in the internationalization process is also played by the industry's character and specificity [5], the target market and cooperating entities. Behaviors of companies in the described models allow to identify the company's actions. However, literature of the subject fails to offer any direct relationships between a company's behavior and its success. According to the Uppsala model, the companies that enter a foreign market gradually have great chances to become successful. But an inevitable characteristic is the involvement and knowledge on the target market (Figure 1).

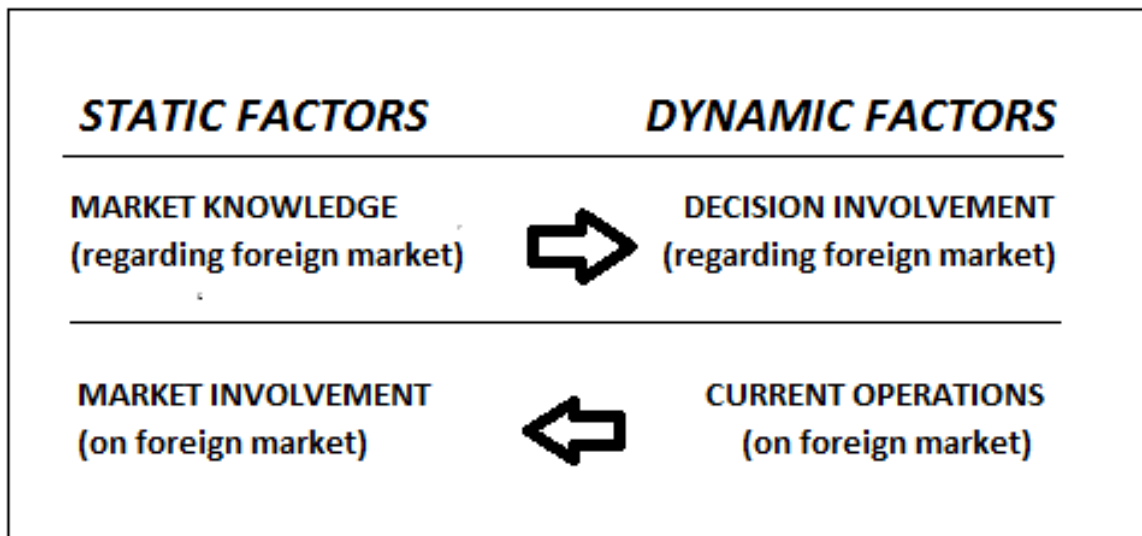


Figure 1. Internationalization process according to the Uppsala model.

Based on J. Johanson, J. E. Vahlne, 1977.

The company's success within the internationalization process is widely discussed. The deliberations on the company's success [18] suggested that its basis is to achieve the competitive advantage. However, this is not the only factors, because the advantage needs involvement of the company's external and internal factors.

The use of human capita, organizational structure of an enterprise or internal cooperation influences the shape of competition, even in terms of the company's organization. These factors, under continuous development and elaboration are intended to clearly contribute to the success.

The company's external factors reach to the history of the economic thought. J. Schumpeter's school argued that success through competition is achieved by introducing changes to the general operations of the company. The beginning of changes is the intent for future change - innovation [16]. Therefore, the thought and reorganization of a company before planning the internationalization process starts the path to success. Expansion of an enterprises is possible through combining the business processes and skills of managing a company [15] and realize the developmental strategy.

The decision-making process and its significance in the enterprise's cooperation cannot exert negative influence on the parent company. Success in winning the foreign market depends on the pace of development, changes in the environment, and the ability to adjust to them. Hence, an important role is played here by the knowledge acquired in the learning process as well as its flow. Enterprise management during the internationalization process also means openness to new relations with the foreign market entities. Development of business networks, common marketing plans or participation on a foreign project improves the chances for the company's success [9]. Development decisions and strategies often assume development within a foreign partnership, not individually. It is an initial phase, after which the company frequently starts its individual development. However, partnership ensures local development, strengthening of opportunities for survival and a better position on the foreign market partner [6].

Partnership cooperation consists in mutual advantages resulting from access to e.g. rare raw material, larger customer base, location or local development strategies. What is more, there is a failure that can be observed in the whole process, resulting from lack of information flow or making use of knowledge in the foreign entity [11]. Summing up, the company's behavior in the internationalization process is characterized with the following features:

- long-standing development of relationships with the foreign environment entities and the selected foreign market, as well as knowledge acquisition
- development of informal contacts with selected entities
- development of internal and organizational structures intended to prepare the initiation of expansion to the area outside the domestic country
- development of cooperation with independent entities
- shaping, developing and creating an official internationalization strategy
- development of partnership and perception of development in the network with environment of other entities
- shaping connections by network leaders

KNOWLEDGE AND INTERNATIONALIZATION

An irreplaceable factor in all actions undertaken by companies is the knowledge held by the entrepreneur/owner or the managing person. Knowledge on the company's internationalization may be divided into two types, general (universal) knowledge and specific knowledge (from experience).

Its acquisition sequence is presented in the Uppsala model, but its creators do not determine the order of actions while starting the expansion. This process often takes place differently than suggested by knowledge and actions taken by entrepreneurs. The first process is situation of a company that has enormous financial resources at its disposal, and the failure related to expansion will not impact the company's operations, position or finances.

Another process is a company that builds its internationalization upon knowledge about a given market, where the conditions are stable, and it is not necessary to get experience, it is enough to start acting.

The next process is the enterprise's entering the market of conditions like that, where it is currently developing. The last process in the discussed model is to resign from the selected development market, lack of expansion of e.g. company's production line [7]. The research carried out by other researchers, such as e.g. Cvusgila, internationalization is divided into three main types. The first one is experimental involvement, the basis of which is export as an alternative for low national sale.

The character of operations is often short-term, unitary and spontaneous. Another type is active involvement, i.e. adjusting elements of the company to foreign activities, thus to its development. Examples here are the company's adjustments in the scope of e.g. marketing that is focused mainly on the foreign customer's requirements, the unused production capacity or human capital. The last phase, the so-called committed involvement, the enterprise becomes mature and starts operating not only in a form of export but strives for business development everywhere. In case of manufacturing companies, it is often related to expansion of e.g. a branch office. Joining a network, cluster or unions, and develop a corporation. However, the most important role when it comes to the company's starting operation on a foreign market is the knowledge and experience.

CONCLUSION

The review of some theories and features that impact development of an enterprises allowed to conclude that the main objective of companies is development. As it turns out, a significant factor is knowledge and experience [2]. The main trend of the Uppsala model assumes that internationalization depends on the company's activity, resources, finances and risky decisions, which is related to winning new markets. Internationalization process must be differentiated in each economic entity, as each one chooses different actions, depending on their size and available resources. Developing enterprises use the knowledge and experience from others, as well as achievements of all internationalization theories.

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