

MOTIVATION BEHIND THE FOREIGN EXPANSION OF ŁÓDŹ VOIVODESHIP COMPANIES

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ABSTRACT

The aim of the article is to present the motivation behind foreign expansion of small and medium-sized enterprises (SMEs) based in Łódź Voivodeship. In order to carry out the project the researchers analysed the literature on the subject and conducted primary research on the sample of the selected companies with the use of survey and interview questionnaires that the managers of the companies surveyed responded to in 2017 and 2018. The decisions to enter foreign markets also resulted from the fact that companies wanted to increase their turnover and profits and in some cases, as the research proved, they were also motivated by factors concerning the companies productivity. Companies perceive foreign market expansion as an opportunity to expand their product offer, enter new markets, implement innovative solutions or achieve the previously set strategic goals, which is referred to as the so called strategic motivation.

Key words: internationalization, motivation factors for foreign market expansion

JEL codes: M31

INTRODUCTION

In today's times we are witnessing intensive development of internationalization processes concerning all companies regardless of their size, sector and operating territory. The presented paper refers to the internationalization processes of Polish enterprises, which develop rapidly these days and concern all kinds of enterprises regardless of their size, the industry they represent and the territorial scope of their operations. The aim of the article is to present the motivation behind foreign expansion of small and medium sized enterprises (SMEs) based in Łódź Voivodeship. In order to carry out the project the researchers analysed the literature on the subject and conducted primary research on the sample of the selected companies with the use of survey and interview questionnaires that the managers of the companies surveyed responded to in the years 2017–2018.

FOREIGN EXPANSION MOTIVATION FACTORS

The main motivation factors for companies to expand into foreign markets are:

- market factors,
- cost factors,
- provision factors,
- political factors. [Dunning 1993, Yip 1996, Ry-marczyk 2004].

Market motivation factors result from the market situation in the producer's country. The company decides to enter foreign markets if the following conditions (one of them, some of them jointly or all at the same time) are fulfilled :

- the product on the domestic market is in the saturation stage and the company wants to prolong it,
- the company has spare production capacity,
- the competition on the domestic market is increasing,

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- foreign markets experience dynamic economic growth,
- protective measures against domestic companies operating on foreign markets are being intensified,
- current suppliers and (or) customers expanded their operations into foreign markets,
- the company's competitors start operating on foreign markets,
- the company is trying to gain a competitive advantage on international markets.

Cost motivation factors are closely related to the necessity to boost the company's performance and to the increase of its profitability. Entering a new market (regardless of its form) enables the company to achieve these goals because it causes a production increase, which in turn leads to economies of scale and learning curve effects and as a consequence to the increase of the company's turnover and profits. Companies often start operating on foreign markets because prices of raw materials, energy, semi-finished products or labour costs are lower there than on the domestic market and because, especially in the case of direct investments, they can eliminate transport costs. In order to avoid a price increase of raw materials and production materials and to ensure supply continuity, companies often absorb their current suppliers and clients also reducing this way also the costs of raw material acquisition (in the literature on the subject this process is referred to as internalization). Sometimes, because of the cost factors the company wants to reduce the risk of operating on just one or several foreign markets (e.g. the risk related to the economic situation) and then it decides to enter many foreign markets so that the losses resulting from the bad economic situation on some of them could be compensated by profits made on others.

Provision motivation factors for foreign expansion refer to the situation when there is a shortage of raw materials and production materials or when the company wants to ensure the continuity of their supplies, which can involve direct investments or the above-mentioned process of internationalization in sectors providing supplies for foreign investors.

Political motivation factors result from the state economic policy towards domestic companies and their operations on foreign markets. Generally, the

state policy in every country supports the international expansion of domestic companies. It may refer to all forms of foreign expansion but most commonly refers to export and direct investments. The support policy usually uses export insurance schemes but other instruments such as duty drawbacks, tax refunds, reduction or abolition of customs tariffs, partial or full state financing of the international market information acquisition, financing the promotion of domestic companies and products on foreign markets, granting export credit guarantees, etc., are also used.

Other authors divide motivation factors for international expansion into the following three categories:

- economic,
- strategic,
- competitive.

Strategic and competitive factors, however, correspond to the above-mentioned market factors and economic factors correspond to market and cost factors [Wiktor et al. 2008, Fonfara 2014].

Motivation factors can also be divided into offensive and defensive ones. The offensive motivation factors refer to the opportunity to increase the company's profits, enter new markets and win new customers. The defensive factors, on the other hand, involve protecting the domestic market, ensuring supply continuity and acquiring new technologies [Gorynia 2007]. Also in this case offensive factors correspond to market and cost factors, whereas defensive factors – to provision and political factors.

The literature of the subject also divides the reasons for internationalization into proactive and reactive ones. The first category results from the companies' own initiatives and their awareness that operating on foreign markets will benefit them. The company management expects that profits made on foreign markets will be higher due to the economies of scale and the learning curve effects, the acquired knowledge of foreign markets or the competitive and technological advantage. The other category of reasons results from the pressure exerted on companies by their competitors, the situation on the buyer's market, the degree of saturation in the product life cycle or the company's spare production capacity. The pressure on companies can also result from internationalization activities of the company's existing clients or from the fact that the

company has been contacted by some foreign enterprises [Keegan et al. 2002]. As we can see, the factors putting pressure on companies to internationalize and the factors resulting from the company's own initiative correspond to the market, cost and provision factors that have been briefly mentioned earlier.

The internationalization processes led to the internalization of industrial production and the integration of companies' activities on a global scale. The aim of the internalization processes is to optimize costs, maximize profits and to maintain or strengthen the company's competitive position on many foreign markets or globally. The competition on many foreign markets and on the international market as a whole is constantly growing and the transfer of new technologies is accelerating. We can also observe that there is a tendency to unify the patterns of organization and production processes worldwide [Witek-Hajduk 2010, Wiktor and Chlipała 2012].

FOREIGN EXPANSION OF ŁÓDŹ VOIVODESHIP COMPANIES – RESEARCH FINDINGS

Research assumptions and sample structure

This article is the result of the research project Foreign expansion strategies of Łódź Voivodeship companies conducted in the Department of Marketing at the University of Lodz in the years 2017–2018. To select the research sample we used random sampling. The research units were Łódź Voivodeship companies operating on foreign markets selected from Statistics Poland (the Central Statistical Office) list of over 2,800 companies based in Łódź Voivodeship, which constituted the sampling frame of our research.¹

In the first stage of the project we initially selected 100 companies from that list and after further verification we used purposive sampling to finally select 50 units. The main sampling selection criterion was the company's declaration that it has been operating on foreign markets. The managers of the selected companies were interviewed with the use of a standardised interview questionnaire. In the second stage of research we used interview questionnaires sent to per-

sonal email addresses in over 900 enterprises. They were selected from list of 2,800 companies that we purchased from Statistics Poland on having verified the information about their foreign expansion.

The presented findings result from the analysis of the information collected during the interviews and electronic questionnaires. The questionnaire was constructed in such a way that researchers could encode the acquired information and use statistical analysis to research it. During the process of collecting information we finally received 117 interview questionnaires and used them for further analysis.

Structure of surveyed companies

The predominant legal form among the companies surveyed were limited liability companies which accounted for over 50% of all the surveyed units. They were followed by public limited companies accounting for almost 20% of the surveyed sample and general partnerships – about 12%. The majority of the companies surveyed, namely 53% of the sample, were medium-sized companies employing 50–249 people. Large companies employing over 250 people accounted for over 27% of the companies surveyed. Small companies (10–49 people) accounted for over 17% of the sample, while micro enterprises employing fewer than 10 people – for only about 2%. The companies having the legal status of limited liability companies were mostly medium-sized or small companies – accounting for 29% and 14% of the sample, respectively.

Over 38.4% of the surveyed companies reported an annual turnover of EUR 11–50 million, while about 32.5% generated an annual turnover in the range of EUR 3–10 million. The prevailing majority of companies in these two intervals were medium-sized companies employing 50–249 people accounting for over 47% of the total number of the surveyed companies. Small companies employing 10–49 people in most cases (60%) generated an annual turnover of up to EUR 2 million. Only 9% of the companies surveyed admitted that their turnover exceeded EUR 50 million and these were primarily large companies employing

¹ It should be noted that the Statistics Poland list doesn't provide the information whether the company operates on foreign markets. That is why it was verified in order to select the companies that could potentially participate in this survey.

over 250 people (about 8% of all the companies surveyed). It can be noticed that the company size generally corresponded to its turnover – which means that micro enterprises and small companies usually generated a relatively small turnover (of maximum EUR 10 million), whereas small and medium-sized companies in most cases generated a turnover of EUR 11–50 million.

The prevailing majority of the surveyed companies (112) have been functioning on the market for over 10 years and accounted for almost 96% of the sample. None of the surveyed companies have been functioning on the market for less than two years, there was just one company in the interval 2–5 years of functioning (0.85%) and four companies in the interval 6–10 years of functioning (3.42%).

The majority of companies participating in the survey represented the food industry (15.38%), the service sector (11.97% – trading companies, security services companies, research centres, design studios, promotional agencies), electromechanical, electrical and electronic engineering sector companies (10.34%), chemical industry (10.26%), machinery industry (9.40%), textile industry (7.69%) and the furniture industry (6.84%).

Motivation factors for the foreign expansion of Łódź Voivodeship companies

One of the purposes of conducting this research was to obtain information about the motivation behind the foreign expansion of companies based in Łódź Voivodeship. The research identified cost, market, provision and political motivation factors and determined the characteristic elements of these motivation factors. As it follows from the research findings, for most of the surveyed companies the above-mentioned motivation factors were “of little importance” in the process of decision making concerning foreign expansion, 65 companies surveyed, that is 55% of the total number shared this opinion. Among the remaining 52 companies (45% of the total number) 12 companies (10% of all the companies surveyed) claimed they were “absolutely essential” (important), 11 companies (over 9%) said that they were “less important”, 15 companies (over 12%) were of the opinion that they were “neither more nor less important” (neither important

nor unimportant?), 12 companies (over 10%) claimed they were that they were “less important” and 5 companies surveyed (about 4%) claimed they were “unimportant”. For the majority of the companies surveyed these motivation factors were of moderate (neutral) significance for making the decision to expand into foreign markets. Such answers are difficult to interpret in an unambiguous way because the respondents were in fact presented almost all the likely reasons to expand into foreign markets.

Therefore, the only way to determine the elements describing particular kinds of motivation, which are of greater or lesser importance for the companies surveyed is an individual analysis of every single motivation factor. Although the number of responses was relatively small the most important and important elements of the motivation behind the foreign expansion of companies based in Łódź could be identified. The most commonly mentioned elements in the group describing cost motivation factors (Fig. 1) were labour costs (21 responses – about 18%) and production costs (21 responses – about 18%).

In the group of elements describing market motivation factors (Fig. 2) the elements commonly recognised as “important” were difficulties in selling the company’s products on the domestic market (21 responses – about 18%), high level of competition on the domestic market (21 responses – about 18%) and unsatisfied demand for the product(s) on the selected foreign market (24 responses – about 21%).

The most important element that influenced the decision of the Łódź Voivodeship companies to expand into foreign markets among provision motivation factors (Fig. 3), was the fact that they didn’t have to bear the transport costs and they had access to cheaper raw materials and production materials (11 responses – about 9%). These elements were apparently important for the companies surveyed because the form of foreign expansion that the majority of them chose was export.

The most common elements of political motivation factors (Fig. 4) behind the foreign expansion of the Łódź Voivodeship companies were the European Union incentives and support (13 responses – 11%) and deteriorating political situation on the domestic market (13 responses – 11%).

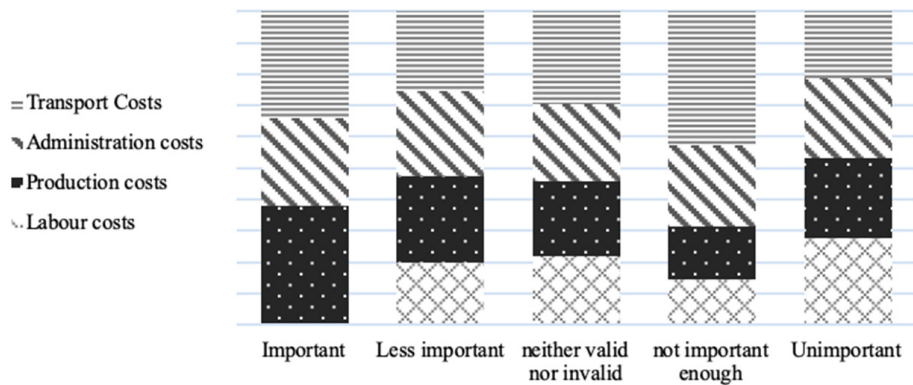


Fig. 1. Cost motivation factors behind the foreign expansion of Łódź Voivodeship companies, $N = 117$ (number of responses)

Source: the author's own study based on empirical research (N – research sample).

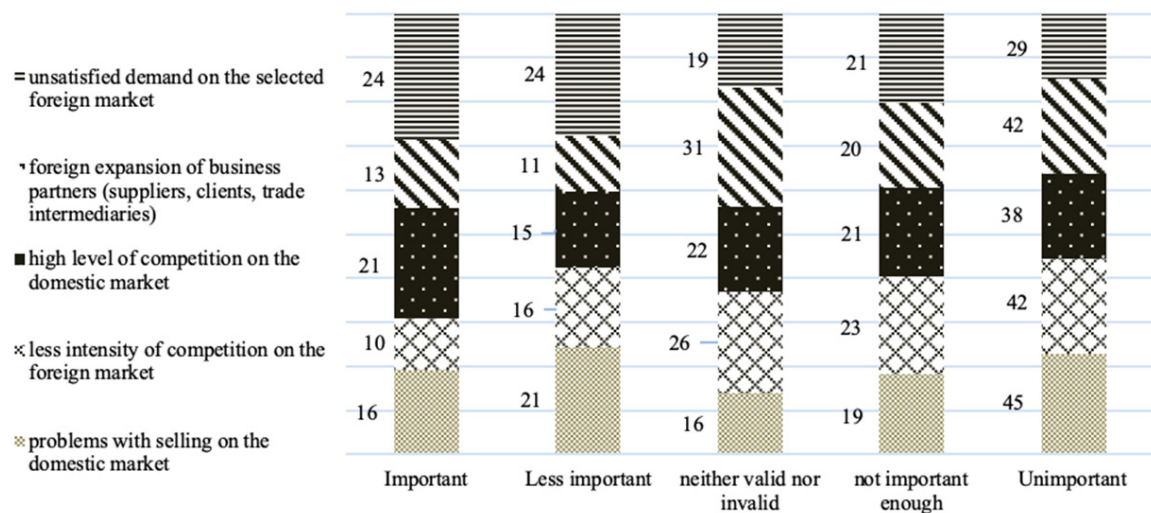


Fig. 2. Market motivation factors behind the foreign expansion of Łódź Voivodeship companies, $N = 117$ (number of responses)

Source: the author's own study on the basis of empirical research (N – research sample).

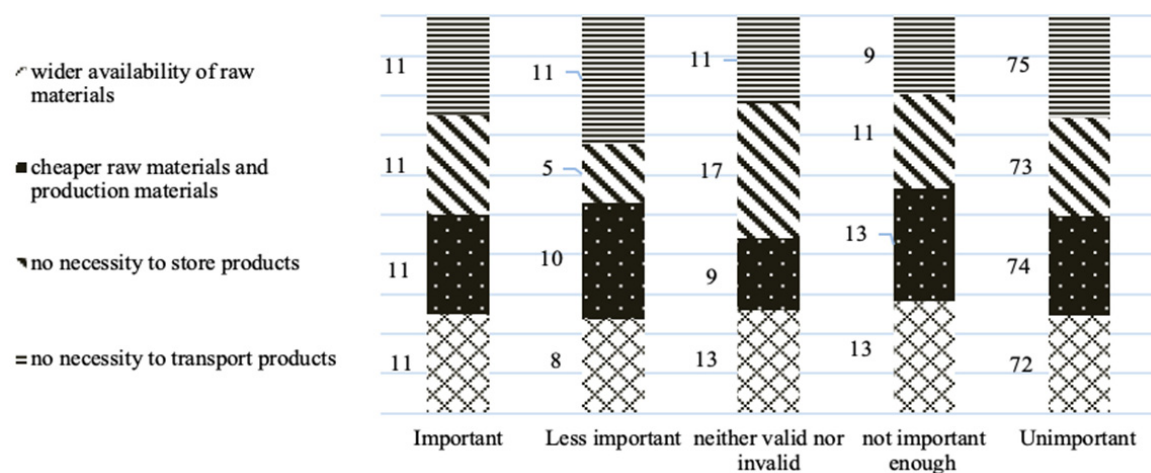


Fig. 3. Provision motivation factors behind the foreign expansion of Łódź Voivodeship companies, $N = 117$ (number of responses)

Source: the author's own study based on empirical research (N – research sample).

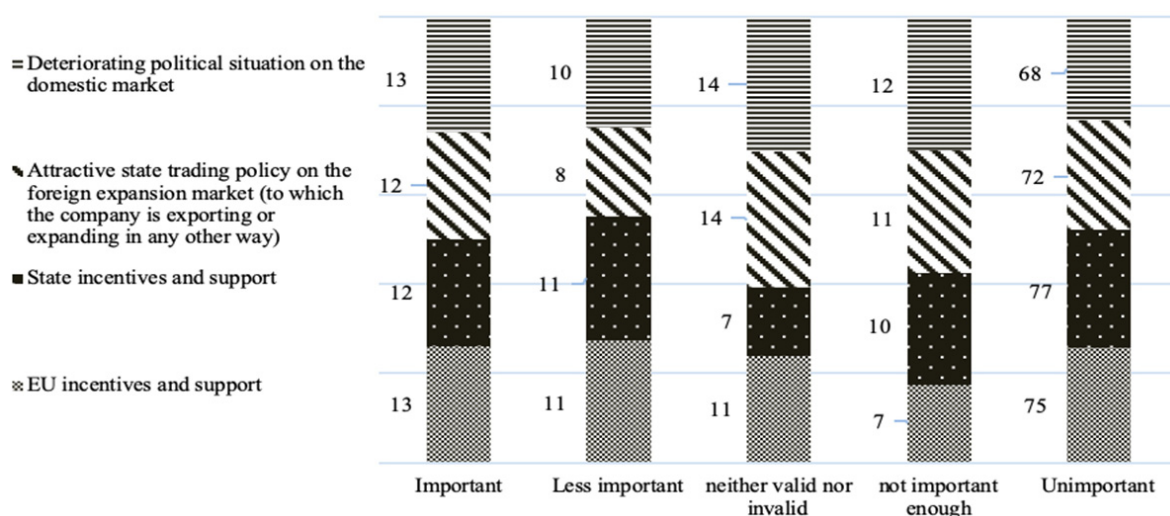


Fig. 4. Political motivation factors behind the foreign expansion of the Łódź Voivodeship companies, $N = 117$ (number of responses)

Source: the author's own study on the basis of empirical research (N – research sample).

It should be emphasised that many respondents presented an “averaged” attitude towards the motivation factors behind their foreign expansion recognising many elements of the motivation factors as being of “average importance”. The elements describing particular motivation factors for foreign expansion that were recognised as “neither important, nor most important” with respect to cost motivation factors included, among others, transport costs (20 responses – about 17%) and administration costs (17 responses – about 15%). The most commonly mentioned elements with respect to market motivation factors were the lower level of competition on the foreign market (26 responses – about 22%), the higher level of competition on the domestic market (22 responses – about 19%) and the foreign expansion of the company's business partners such as suppliers, clients and trade intermediaries (31 responses – about 27%). The element of “medium” importance among provision motivation factors was the lack of necessity to store products (20 responses – about 17%). As for political motivation factors, the elements of “medium” importance were factors such as attractive trade policy of the country to which the company exports its products or expands into in any form (14 responses – about 12%) and the deterioration of the political situation on the domestic market (14 responses – about 12%).

As for the cost motivation factors for foreign expansion the companies surveyed indicated that the elements recognised as being “of little importance and least important” were labour costs (65 responses – about 56%). This result, however, can be caused by the fact that the form of foreign expansion that the prevailing majority of the surveyed companies choose is direct export (93%) or indirect export (38%). Due to the fact that in this situation the company produces mainly for the domestic market and it bears the labour costs of such production these costs don't have a significant importance in export and are not the predominant factor influencing its volume.

There was also a significant percentage of the problems recognised as “irrelevant” among market motivation factors, such as difficulties in selling on the domestic market (45 responses – about 39%), lower level of competition on the foreign market (42 responses – about 36%) or the foreign expansion of the company's business partners, such as suppliers, clients, trade intermediaries (42 responses – about 36%).

As for the elements describing provision motivation factors, the Łódź Voivodeship companies don't attach great importance to the lack of necessity to transport products (75 responses – about 64%) or the availability of cheaper raw materials and production materials on the foreign markets (75 responses – about 64%).

As far as political motivation factors are concerned the companies surveyed indicated that the factors that do not have any greater importance to them for their foreign market expansion are the European Union incentives and support (75 responses – 64%) and the incentives and support of the state (77 responses – 66%). It can be assumed that such results were caused by the fact that the companies did not know about the European Union or state incentives and support, they have to wait for too long to receive them or they do not have specialists who could apply for such incentives.

Apart from the survey questions concerning the company's foreign expansion, the responses to which were presented in the above diagrams, the companies surveyed had to answer an additional open question. The purpose of this question was to find out whether there might have been any other reasons that encouraged the companies to expand into foreign markets. The analysis of the companies' responses to this question allows us to draw a conclusion that they made the decision to expand into foreign markets because they wanted to increase the company's turnover generated from the sales of the company's own products that either haven't been modified at all or have been only partially modified for new customers. Over 55% of the companies surveyed (65 responses) indicated that it was their aim and it was also the most common reason for foreign expansion of the Łódź Voivodeship companies. The opportunity to increase the company's turnover is rather not related to the difficulties in selling products on the domestic market but to the unsatisfied demand on the foreign market and/or the company's need to develop. The analysis of the collected material shows that the second most important reason for foreign expansion was the company's development (28 responses – 24% of the surveyed companies). The subsequent reason for foreign expansion was expanding the market for the company's products (18 responses – about 14%). 15 companies out of 117 companies surveyed also mentioned increasing profits (about 13% of responses), claiming that they can get higher profit margins. The surveyed companies also indicated that thanks to their foreign expansion they intended to diversify their product offer (12 responses – over 10% of responses). The less frequently mentioned responses pointed out to product development (7 responses

– about 6%), brand extension (6 responses – over 5%) or possibilities of financing (5 responses – about 4.3%). The reasons for foreign expansion related to company development that the companies surveyed mentioned were the issues concerning the quality of products, that is product improvement and implementing the innovations that are necessary to expand into foreign markets. According to the surveyed companies the elements that they considered important were the brand recognition and its prestige among new customers. The companies also indicated that foreign expansion enables them to access new sources of financing and to balance foreign currency flows (5 responses – about 4.3%). Some respondents also claimed that the presence on foreign markets allows them to have access to technological innovations and gives them an opportunity to implement them in the production process and to develop new products but the proportion of these answers was very small (4 responses – about 3.5%). Only 1.75% of the respondents claimed that the main aim for their foreign expansion was to enter new market segments, which can result from their lack of knowledge of marketing and segmentation or from the fact that they supply products only for the so called mass market consumers. This may mean that the companies based in Łódź Voivodeship supply their products to trade intermediaries on foreign markets and that is why they don't have the knowledge about their ultimate consumers. Contacting intermediaries doesn't require such knowledge and eliminates the risk of a misguided choice but it also reduces the company's sales revenues and makes exporters dependent on trade intermediaries.

SUMMARY

The decisions of Łódź Voivodeship companies considering their expansion into foreign markets were mostly motivated by costs and market factors. The decisions to enter foreign markets also resulted from the fact that companies wanted to increase their turnover and profits and in some cases, as the research proved, they were also motivated by factors concerning the companies' productivity. Market factors are related to the fact that companies keep looking for new markets in order to use their production capacities in a more

efficient way. Market expansion can also be driven by the company's growth and its desire to acquire knowledge about customers, the market or new technologies. Companies perceive foreign market expansion as an opportunity to expand their product offer, enter new markets, implement innovative solutions or achieve the previously set strategic goals, which is referred to as the so called strategic motivation. It should be emphasised that there are also motivation factors related to marketing activities, which mainly concern developing high-quality innovative products and building the image of Polish brands on foreign markets.

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MOTYWY EKSPANSJI NA RYNKI ZAGRANICZNE PRZEDSIĘBIORSTW WOJEWÓDZTWA ŁÓDZKIEGO

STRESZCZENIE

Celem artykułu jest przedstawienie motywacji stojącej za ekspansją zagraniczną małych i średnich przedsiębiorstw (MŚP) z siedzibą w województwie łódzkim. W celu realizacji projektu badacze przeanalizowali literaturę przedmiotu i przeprowadzili badania pierwotne na próbie wybranych firm z wykorzystaniem kwestionariuszy ankiet i wywiadów, na które kierownicy ankietowanych firm odpowiedzieli w latach 2017–2018. Decyzje o wejściu na rynki zagraniczne wynikały również z faktu, że firmy chciały zwiększyć obroty i zyski, a w niektórych przypadkach, jak wykazały badania, były również motywowane czynnikami dotyczącymi produktywności. Firmy postrzegają ekspansję na rynku zagranicznym jako okazję do poszerzenia swojej oferty produktowej, wejścia na nowe rynki, wdrożenia innowacyjnych rozwiązań lub osiągnięcia wcześniej wyznaczonych celów strategicznych, co określa się mianem tzw. strategicmotivation.

Słowa kluczowe: internacjonalizacja, czynniki motywacyjne dla ekspansji na rynku zagranicznym