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DOCTORAL DISSERTATION SUMMARY

Motives of Small Foreign Enterprises Owners to Transact Direct Investments in Poland on the
Example of West-Pomeranian Voivodeship and Lubuskian Voivodeship

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Justification of topic election

The presented doctoral dissertation undertakes an analysis and assessment of motives, which induced owners of small enterprises to take decision concerning implementation of foreign direct investments in Poland. The participants of the study were mostly enterprises with foreign owners coming from Germany. The study included companies, that have made foreign direct investments in Poland in West-Pomeranian Voivodeship and Lubuskian Voivodeship already, or these ones, which intend to do so in one of these voivodeships in the near future.

The imposed research problem is important and informative, as the significance and social benefits generated by the small enterprises are often not sufficiently appreciated. Small enterprises achieve income, employ a majority of all workers in enterprises, pay taxes and train their successors.

According to data elaborated by *Institut für Mittelstandsforschung* (ifm Bonn) in the year 2009, 99,8% of all Polish companies belonged to the small and medium-sized enterprises, from among which 98,7% of them, according to the definition of the European Commission, are classified as small enterprises. These companies employ 68,7% of persons obliged to pay contributions to social insurance and 57,5% of the total income taxpayers in Poland¹.

Small enterprises include also companies of so-called freelancers. They have unique skills, offer professional autonomy, independence and intellectual and creative services provided personally to their clients and society.

Small foreign enterprises hardly undergo any research, because they are often not recorded in the business activity register and furthermore, they are not emerged as foreign enterprises. These companies neither pass out any signals, which could clearly state, that these are foreign enterprises. In some cases, only because of private contacts, it was possible to state that the specific enterprise has a foreign origin.

The term SME, that was used in the study to determine small and medium-sized enterprises, is inaccurate, it does not distinguish the division between small and medium enterprises, however medium-sized enterprises in their decisions and strategies are closer to large, than to small, companies.

Small enterprises and freelancers face particular problems in the process of internationalization. These companies must operate in a foreign culture, narrow market and in conditions of high competitiveness. Comparing with large enterprises, their unit transaction costs are very high, and difficulties arising from language barriers and impediments of local bureaucracy very severe. Small enterprises often do not possess sufficient market knowledge, intercultural competence

¹ See: *Institut für Mittelstandsforschung*, SMEs indicators for Eastern European EU countries, Internet: www.ifm-bonn.org, February 2013, the figures for Germany: 99,5% of all enterprises belong to the SME sector, of which 97,0% are small enterprises employing 54,6% all employees, turnover of 35,8% of GDP in 2010.

and financial capital needed for sustainable and gradual involvement for investments in the host country.

The main objective of the dissertation

Basing on literature and results of researches, conducted by the author, concerning experience of owners of small enterprises investing in Poland, an assumption has been made, that there are diverse and divergent internationalization motives of small and large enterprises.

Internationalization's methods and strategies, previously known from the literature and from researches made by large enterprises, did not overlap with experiences of small enterprises. There are also different motives and reasons for the internationalization of the company. Results of the literature study, conducted by the author, show that the investment decisions of small business owners is primarily affected by motives of a personal nature. However it was not clear, whether these motives were of a private, or business nature. Clarification has been made by comparison and verification of the relevant theories explaining the essence of foreign direct investments. From an entrepreneurial point of view, the motives inducing to invest can be assessed as rational or irrational.

In order to investigate the distinctive features of the small enterprises' internationalization and motives, which guide their owners to undertake decisions concerning the choice of the form of direct investments, direct investments' and internationalization's theories should be analyzed, in order to determine, whether these explain motives inducing owners of small enterprises to carry out foreign direct investments.

It turns out, that theories of foreign direct investments relate primarily to the market situation and explain why it generally comes to these investments. These theories only slightly explain which motives induce to undertake decisions concerning investments. Above all, they concern premises of decision-making, but do not explain irrational motives. They do not provide any satisfactory answer concerning motives, which guided the owners realizing these investments. Here theories, that attempt to explain the general process of internationalization, as well as taking into account the motives of active persons, can be useful.

According to the behavioural approach of Yair Aharoni, the involvement of small enterprise abroad is highly influenced by irrational reasons. Literature in the field of internationalization's theories explains rational reasons responsible for decisions concerning involvement abroad; these are basically similar to companies of all sizes. It is more difficult to explain so-called irrational motives, as they are primarily perceived in the activities of the smallest enterprises. The activities of these companies are often a result of chance, or the result of inexperienced managers. In the case of small enterprises, the supposition is confirmed, that the internationalization of these companies runs by

different schemes than in the case of large companies. The decision of foreign direct investment implementation might be a result of chance, or the result of management's lack of experience.

Also the transaction costs theory, of Ronald H. Coase and Oliver Williamson composition, clearly informs about bounded rationality of investment decisions on the basis of behavioural problems, although its representatives do not go as far as Aharoni in his behavioural approach. Instead of decision making based on irrational motives, enterprises are backed up with intermediaries.

Finally, the Uppsala model emphasizes learning abilities of the company and its stakeholders. Thus, both the behaviour related with decision making by the entrepreneurs, as well as the reasons leading to direct investments, are dependent on the situation of the enterprise and its owner. Entrepreneurs' decision-making process is adapted to their personal circumstances and enterprising reasons - respecting experiences of the owners - are able to change the internationalization process in foreign direct investments.

Hypothesis and target

Basing on the theory of direct investments and internationalization, as well as on research results, conducted by the author, the below presented **research hypothesis** have been formulated:

“Except previously known reasons related with business economics, that lead large, international enterprises to invest abroad, small enterprises are driven also by other, specific motives, which contribute to their internationalization.”

The main objective of the study is to determine the specification of direct investments, as a form of small enterprises internationalization, and to answer the question, **which motives** have induced the owners of small enterprises to take business abroad.

Analysis of motives requires a fine, previous explanation of the concept of motives and of the concept of aims. Motives - according to its Latin origins - determine reasons, leaning to act, literally specify impulses guiding somebody or something and are not focused on the future, as are the aims. In the sequence, motives relate to the beginning of operations, aims and ways that contributed to their achievement, relate to their end.

Nevertheless, concepts of motives and targets are often used interchangeably, as synonyms, but motives are based on conditions, from which strategies can be developed. However aims are formulated on the basis of their attainability.

This analysis focuses on the motivation of small enterprises. Of course, they also pursue their objectives, and to achieve those, certain strategies need to be developed. The real reason for the foreign activity of small enterprises can be better explained by motives, than by yet unrealized aims.

According to the established hypothesis, the internationalization of small businesses and freelancers also proceeds on the basis of **personal motives**. Adopting a foreign activity is often motivated by irrational motives, but the key - to its success - is also the amount of transaction costs and intellectual competence of stakeholders.

Methodology and construction of thesis

The empirical researches have been carried out in the form of surveys, which included 108 companies, that meet the accepted criteria. The research group counted 77 enterprises, that made the investments in the West-Pomeranian and Lubusian Voivodeship and 31 companies, that in the time of the conducted research - summer 2011 - were standing still before the execution of foreign investments.

As far as it is known, in the research group were 77 enterprises, that are already active in Poland, in 71 cases the investments come from Germany, and in six cases from other countries. Two companies come from Denmark and accordingly one from United Kingdom, New Zealand and Hungary.

From among 31 enterprises, that until now did not become involved or have not been active in Poland, there are 28 German enterprises and 3 companies coming from other countries. Two of them come from Turkey, and in one case it is a German enterprise, led by a Pole, who wishes to invest in his country.

The doctoral thesis consists of an introduction and six chapters. The first chapter deals with theories and forms of foreign direct investment, which are diversified in the second chapter in terms of the specific implementation of foreign investments in Poland in comparison with conditions of implementation in other selected European countries.

The third chapter has a fundamental approach for solving the problem, which was adopted in the research. In this chapter small enterprises' characteristics, enabling them to identify the international companies, have been presented. It contains tools needed for identification of the internationalization's attributes and elements of the strategic orientation of the small enterprises. Information about the implied research methods and detailed results of the surveys have been presented in the fourth and fifth chapter. The sixth chapter presents an assessment of the obtained results and recommendations, that may help to improve the investments climate to make it more favourable for companies investing in Poland.

Final remark refers to the verification of the hypothesis and the resulting tendency.

Results and conclusions

Individual research results have been divided into three parts. Firstly, it has been indicated, what kind of **expectations**, according to internationalization, involve small enterprises, in order to explain which **experiences** led to it and whether they have been fulfilled or not. At the end, **wishes and recommendations** have been formulated and synergies have been achieved.

The results of the research showed, that small enterprises deciding for foreign expansion, are guided not only by economic motives, but also by personal motives, arising from the quality of life in Poland and from the impact of the public sector on doing business in Poland. The results of the research indicate, that in economic and social terms, foreign investors find favorable *investment climate and satisfactory framework* for doing business in Poland. Privately, it is *high quality of life* and many other derivative aspects. **The result of hypothesis check is positive.**

Crucial for the fact, whether the investment will be implemented and in what form of market entry will it be made, has the issue of transaction costs in the host country, and in the private matter the desire of the foreign investor to integrate with the Polish society. Thanks to the gained knowledge, concerning motives directing small enterprises to take foreign expansion, conclusions for business recommendations and new strategic orientations can be developed.

Confirmation can be found also referring to economic reasons. As in the case of large enterprises, also small companies and freelancers, indicated opening of *new markets, usage of favourable labour costs*, as well as *opportunity to gain a more favourable strategic position* for further action, as motives determining undertaking of internationalization.

However, small enterprises are driven also by **additional motives**, such as for example *integration*. Small enterprises tend to *recognition* in the host country. Therefore, a small role plays the fact, whether the strategic orientation contributes to the issue that the investments in the host country are built as entirely new objects, or that connections with the home country are remained.

Polish state and society also benefits from internationalization. The country comes out in favour thanks to processes and products innovations, which can be applied in some national companies. New workplaces, that did not exist before the time of foreign investments, are created and the country receives additional taxes and admission costs from new enterprises.

The risk of bankruptcy is relatively low, because the investing enterprises have been successful in home countries so far and thus gained an experience, which can be now contributed to the new target market. The research have shown, that just a few companies choose to invest abroad due to economic problems encountered in their countries.

The only significant cultural difference is the language barrier. Small foreign enterprises generally do not come from other cultures, but from the direct neighbourhood. Although they meet a

different mentality and customs in Poland, but even these do not differ significantly from each other in the European region.

For example, the cultural difference between Poland and Germany is much smaller than between other European countries. Poland and its neighbours often culturally influenced each other in the past. In this way, the chance of true integration of foreign enterprises in the Polish society is very high.

The results of small foreign companies in the West-Pomeranian and Lubuskian Voivodeship can serve as an example to follow and encourage new entrepreneurs to the implementation of foreign direct investments.