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# **STAGES IN THE INTERNATIONALIZATION PROCESS OF FIRMS - CASE STUDIES OF POLISH ENTERPRISES**

## **1. Abstract**

The paper discusses the problem of the internationalization process in corporate activities. It presents the methods for, possibilities and conditions of corporate expansion on international markets. The models and concepts which characterize corporate internationalization serve as an inspiration for primary research based on the case study method.

The empirical part of the paper presents the internationalization of two Polish companies: Fakro and Nowy Styl Group. Fakro is the world's second largest manufacturer of roof windows; the company has been building its market position for the last two decades. Nowy Styl Group, a manufacturer of chairs, started its world expansion in the same period, gaining a strong position in Eastern Europe. The two companies represent different sectors, but they share certain characteristics. The companies started "from scratch" some 20 years ago, and they are leading players on the global market. Both companies are family businesses focused on international expansion which they view as a development opportunity. Apart from different industries and, consequently, different market characteristics, different potentials, structure and competition factors, both companies are characterized by similar key success factors. The internationalization process at Fakro and Nowy Styl Group is not based on some unified procedures – the companies are operating in a flexible way, adjusting to the opportunities and factors of the business environment. Generally, the companies follow the Uppsala internationalization model in implementing their internalization process.

## **2. Key Words**

Internationalization, internationalization process, internationalization models, reasons for internationalization, methods for entering foreign markets, international market strategies

## **3. Introduction and Objectives**

The development of the contemporary economy involves the increasing engagement of company operations in the activities on international markets. Finding new markets for the sales of products, new ways of lowering production costs and the liberalization of international trade – these are just a few reasons for corporate internalization.

Internationalization is viewed as a concept of activities, a process, the result of a process, or managers' attitudes (Oczkowska, 2005; Duliniec 2004). Many authors (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Andersen, 1993; Meissner, 1998; McGaughey, 2007) support the process-based approach to internationalization. This process may be viewed as the company's increased engagement (especially financial engagement) in overseas activities. Internationalization may be related to expansion on new geographical markets. Internationalization may also manifest itself in management changes on overseas markets and an increasing number of contacts with foreign partners. Regardless of the dimension of the internationalization process, the company's expansion is the main driver of corporate activities on international markets.

The main objective of the paper is to characterise and analyse the internationalization process in the selected entities. The authors carry out an analysis of the stages of the internationalization process and the level of the internationalization of the investigated entities. In the further part of the analysis they identify the conditions and factors which determine the internationalization of the investigated companies and they specify the key success factors of the internationalization process.

## **4. Conceptual Framework**

### ***4.1. The theoretical foundations of corporate internationalization***

The internationalization process is usually presented as a sequence which identifies the subsequent phases of the process of the company's increasing engagement in overseas operations. One of the first sequential models is the Uppsala internationalization model which presents 4 stages of engagement in international activities (Johanson and Wiedersheim-Paul, 1975). Later sequential models of internationalization are the modifications of the Uppsala approach. This approach is extended by a model for developing internationalization methods introduced by Wiktor, Oczkowska and Żbikowska (2008), based on the concepts proposed by Berkoven (1985) and Meissner (1981). The model is presented in Fig. 1.

It should be noted, however, that the sequential models of internationalization have been widely criticized (for example, companies start their foreign operations at higher levels of internationalization, or they adopt the opposite policy, moving from more to less engaged forms of internationalization). Therefore, other theories also try to explain the internationalization process.

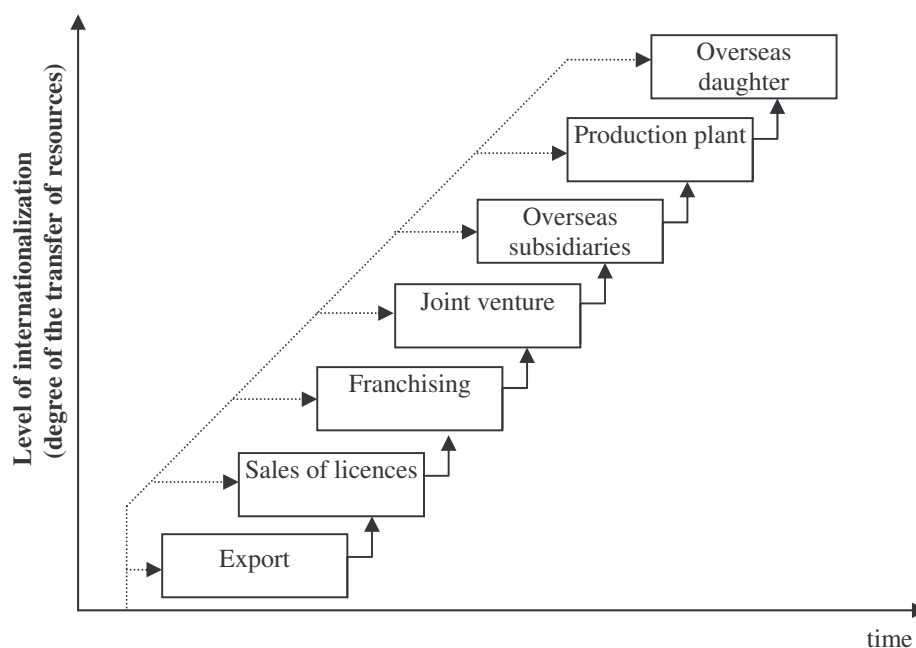


Fig. 1. The corporate internationalization development model

Source: Wiktor, Oczkowska and Żbikowska (2008).

The major theories include J.H. Dunning’s eclectic approach (1988, 1995, 1998, 2000), several times improved by its author. According to this approach, internationalization is a combination of 3 advantages (benefits):

- ownership – the company makes use of the assets which foreign companies do not possess,
- internalization – the company makes use of its own assets abroad which are not made available to other businesses,
- location – the company finds an overseas location for production purposes which has a positive impact on costs and production revenues (as a result of the diversified environment factors).

According to Dunning, companies decide to enter foreign markets when they expect to generate greater profits than on the home market. Companies engage in overseas operations to different degrees depending on the above advantages. Different forms include the following: international contracts (when only the ownership advantage occurs), export (when, additionally, the internalization advantage appears), and foreign direct investment (when the company has all the 3 advantages). In elaborating this approach, Dunning (1995, 1998, 2000) identifies such

factors as the changing environment, market failure and collaboration as well as the company's competitive advantages.

The model of the transaction cost analysis proposed by E. Anderson and H. Gatignon (1986) on the basis of O.E. Williamson's research (1975) indicates that the internationalization process is based on minimising transaction costs. Companies which enter overseas markets have to consider the costs of finding and selecting agents, concluding agreements and monitoring the proper implementation of contracts. The final level of corporate internationalization depends on the degree of mitigating long-term risk - the company's oversight of the undertaking. The higher the level of control, the more advanced the form of internationalization. This model was modified by S. Klein, G.L. Frazier and V.J. Roth (1990) as well as by M.K. Erramilli and C.P. Rao (1993).

The network approach should be mentioned here; it considers the company's relations with different entities in its environment. Companies are independent in their activities, but they are dependent on the resources controlled by other businesses. The company's relations with other entities on the home market may be a reason for entering overseas markets where new networks are developed (Hollensen 2011). In such a case the level of corporate internationalization depends on the internationalization of a given market. The company's participation in the corporate network accelerates the internationalization process.

The "born global" concept (Oviatt, McDougall 1994) is the very opposite of sequential models – it refers to companies which start their operations on a global scale and sell their products in many countries. The born-again global firms model refers to this concept (Bell, McNaughton, Young 2001); the model relates to companies which enter global markets after a long period of operation on the domestic market.

The criticism of sequential models has inspired the authors of this paper to investigate Polish companies which engage in internationalization undertakings. It is interesting to identify the stages of the internationalization process and to determine the degree to which this process complies with the sequential models of internationalization.

#### ***4.2. The analysis of the internationalization of Polish companies (an attempt to formulate a diagnosis)***

The analyses of the results of research on the internationalization of Polish companies suggest that their scope is limited. One of the main reasons for that is the fact that the level of

internationalization in the past was low. It should be noted that a free market economy in Poland has a short history of 20 years.

Therefore, most of research work in the past focused on passive internationalization – Polish companies cooperated with foreign entities, but their operations were confined to the domestic market. The analysis of such entities operating on the home market was relatively easy. Research mainly concentrated on the reasons for which foreign investors entered the Polish market as well as on the barriers and expansion factors related to companies with foreign participation.

Exporting companies were another area of research. Export has been the dominating form of the operations of Polish companies on foreign markets – Fig. 2.

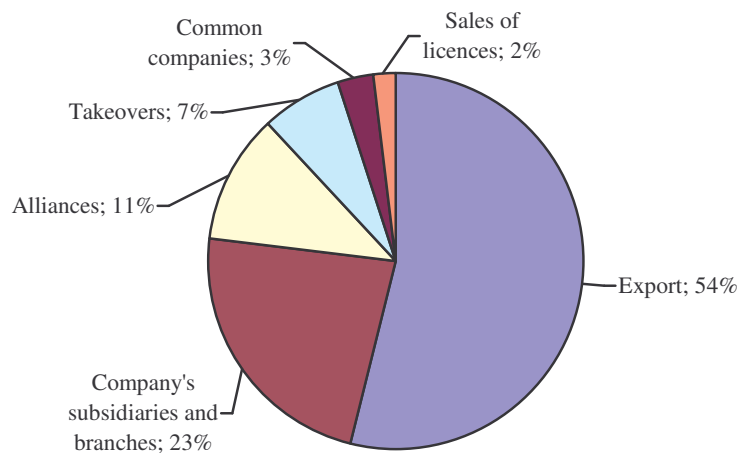


Fig. 2. The forms of expansion on foreign markets applied by Polish companies

Source: Gorczyńska (2008).

The above data are confirmed by the analyses conducted at the end of 2009 among Polish largest production companies. Export remains to be the major form of activities on overseas markets (Fig. 3).

The conducted research was supported by detailed statistical data concerning foreign trade provided by government agencies. The analysis focused on the share of exports in company revenues, the geographical scope of expansion and the classification of exporters in terms of the company's size, ownership and industry.

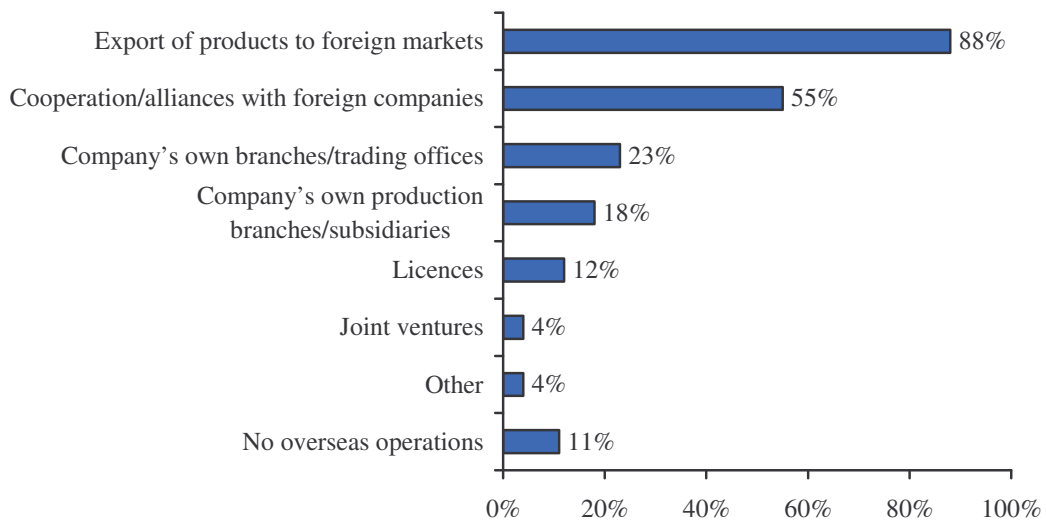


Fig. 3. The forms of the overseas activities of Polish companies

Source: *Ekspansja międzynarodowa polskich przedsiębiorstw produkcyjnych* (2010).

Poland's admission to the EU resulted in considerable changes to the functioning of Polish enterprises on international markets. Polish companies gained free access to more than 400 million foreign customers from countries located in the close vicinity of Poland's territory. It may have enhanced internationalization processes in Polish companies and stimulated research in this area.

Apart from that, the results of the particular research studies do not offer answers to a number of questions. Gorynia and Jankowska (2008) conducted an interesting study of the impact of clusters in Poland on the competitiveness of companies on international markets and the level of their internationalization. The investigated companies created three clusters.

The long-term success factors on international markets were defined by Fonfara and his team (2009) who examined 272 Polish companies engaged in international operations. The research study was based on the network approach.

The problem of the internalization of Polish companies is being researched, but the scope of the particular analyses is limited. The research studies do not lead to any recommendations to be followed by other companies; such recommendations could be the key success factors in overseas operations. In addition to that, the analyses do not define the major stages of internationalization.

## 5. Method

For the purpose of diagnosing corporate internationalization in Poland, the authors of the paper investigated the phases of the internationalization process on the basis of the case studies of companies which entered international markets at an early stage of the transformation process in Poland (which started in 1989) and which gained a competitive position on these markets.

The selected companies meet the following criteria: (1) they are important players on the international arena, (2) they export a significant part of their home-based production and/or manufacture products in foreign countries, (3) they are viewed by the public as companies which are successful in international operations, which is confirmed by a number of prizes awarded by government and business organizations as well as by positive reviews of their operations published by economic and industry journals, (4) they represent precisely defined market segments – specific market niches; the companies offer a unique but broad range of products.

The selected companies are FAKRO, the world's second largest producer of roof windows, and NOWY STYL GROUP, a leading manufacturer of chairs on international markets.

The analysis is based on the case study methodology. The case study is a description and analysis of one analysed entity. It presents different phenomena and explains their meaning (Konecki, 2000). Most case studies are qualitative analyses being similar to ethnographic studies; however, the use of quantitative methods is also possible. Unlike in the case of ethnographic analyses, the case study aims to present a more general theory, and the analyst's research is not fully inductive because, just like in the case of well-established theories, it relies on the existing theory (Kostera, 2003).

The objective of the further analysis is to describe the internationalization process in the Polish companies which started their operations in recent times and which are successful on international markets. The authors of the paper pose the following questions:

- What are the stages of the internationalization process?
- What are the key success factors of internationalization?
- What are the key elements of the internalization process which have an impact on the successful performance of the analysed entities?

Information on the analysed entities is collected on the basis of secondary and primary research including the following:



- an analysis of documentation (production, sales and export figures, promotion materials included in reports, information materials, websites and economic and industry journals),
- extensive interviews with Management Board members (at Fakro – the Secretary of the Management Office, at Nowy Styl Group - the Marketing Director),
- direct observations during site visits.

## **6. Findings**

### ***6.1. The case study of FAKRO***

#### *6.1.1. The company's general characteristics*

The Fakro company was established in 1991. It is a family business which developed rapidly to become a leading player on the global market of roof windows. The company went through a phase of rapid expansion on the domestic market, simultaneously entering and strengthening its position on the markets of Europe and the New World.

Fakro's mission is to supply the highest quality attic-related products which meet customer expectations worldwide. The company, in achieving this objective, is also concerned with clients' health and safety as well as with environmental protection. The company manufactures roof windows of different design and with different opening methods, roof window accessories, attic stairs and solar collectors.

Currently, Fakro has more than 3,000 employees, 100 thousand square meters of production halls - 12 production plants worldwide – and 30 thousand square meters of warehouse space. The company is innovative. It introduced windows with a handle at the lower part of the window, unlike its major competitor Velux, the global market leader. The company has registered several dozen patents for windows and accessories. Over the years, Fakro has been gaining experience, raising the level of quality standards. Currently, the windows offered by the company match the technical standards of those manufactured by the world leader. In addition to that, the company offers lower prices than Velux.

#### *6.1.2. The company's international position*

Presently, Fakro is the world's second largest manufacturer of roof windows. According to the company's estimates (official statistical data concerning the global sales figures are not available), it accounts for 15% of the global sales. It should be noted that the market of roof

windows concerns countries with a moderate climate; the climate, then, is a determining factor. The market leader, the Velux company from Denmark, has an overwhelming 80% market share, and Fakro is the only company which may successfully compete with the giant. The company owns 12 distribution firms in the USA, England, France, Spain, Germany, Austria, the Netherlands, Hungary, Russia, Ukraine, Slovakia and China.

In terms of the volume of sales, Fakro is Poland's market leader, accounting for approx. 60% of the roof windows sold in Poland. The company also occupies the leading position on the Ukrainian market.

Several major targets may be identified in the company's international expansion strategy. The first one is the West European market, especially Germany and France. It is a mature market on which Velux, the major competitor, has a well-established position – the brand is well known and easily recognisable, and the clients have much experience using the company's products. Therefore, competition on this market is stiff, and Fakro must expect the market leader's counteractions; in the case of Germany, it has to face the reaction of the Roto company, a local manufacturer. However, activities undertaken on a mature and very competitive market are significant because of its potential. France and Germany are the world's major buyers of roof windows. If Fakro intends to strengthen its international position, it must operate on the world's major markets, investing in distribution chains in Germany and France. Fakro's market share on the markets of France and Germany amounts to several per cent, and the company is starting its competitive struggle on these wealthy, mature and demanding markets. In some West European countries, however, Fakro is an important player on the market of roof windows. An example of such a country is the UK. Over the period of 10 years, since 2000, the company has been increasing its market share, which currently amounts to 15% of the volume of sales on the British Isles.

CEE is another expansion target. This region includes developing markets on which demand for roof windows and attic accessories is a new phenomenon. Fakro is entering these markets along with its competitors. Because Fakro's offering is less expensive, the company often becomes a market leader, gaining a 50% market share. These markets are not large but very absorptive, which implies a promising future for the company.

The company is also performing well on Asia's markets. It has launched distribution activities on the Chinese and Japanese markets, and established a production facility in China for the needs of the local market.

### 6.1.3. The history of the company's internationalization

Fig. 4 presents the history of the company's entry into the particular markets. The entry date is the time when Fakro's products are offered on a given market under the company's own or distributor's brand name. For this reason, the dates of registering distribution companies in Table 1 may differ from those presented in the illustration.

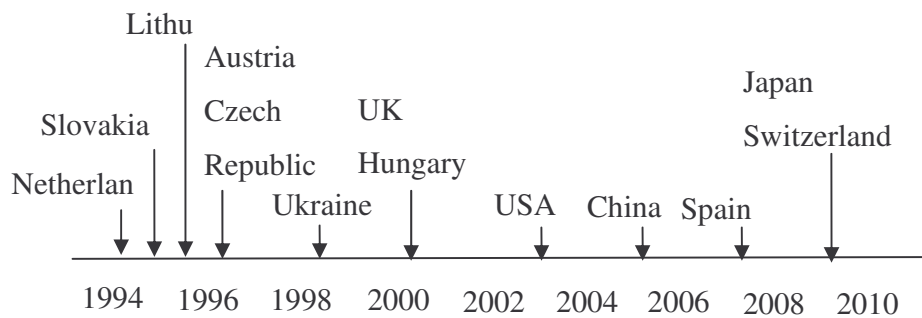


Fig. 4. The history of Fakro's entry into international markets

Source: author's own research based on information provided by Fakro.

Table 2. Establishment of Fakro's subsidiaries – an indication of the company's expansion

No.	Company's name	Country	Function	Date of establishment
1	Fakro Ltd	Poland	Production, distribution	January 1991
2	Fakro Dachfenster GmBH	Germany	Distribution	January 1998
3	Fakro Lvov	Ukraine	Production, distribution	May 1998
4	Fakro GB	UK	Distribution	June 2000
5	Fakro Magyarorszag Kft	Hungary	Distribution	October 2000
6	Fakro R Ltd	Russia	Distribution	May 2001
7	Fakro PP Ltd	Poland	Distribution	October 2001
8	Fakro Orbita	Ukraine	Production	November 2001

9	Kronles	Russia	Production	September 2002
10	Fakro France sarl	France	Distribution	November 2002
11	Stolart Ltd	Poland	Production	November 2002
12	Fakro Amertica LLC	USA	Distribution	February 2003
13	Fakro WDF Ltd	Poland	Distribution	Februaray 2003
14	Fakro GP Sp. z o. o.	Poland	Distribution	October 2003
15	Fakro Ltd Slovakia	Slovakia	Distribution	December 2004
16	Sandrew Ltd	Poland	Production	December 2004
17	FBM Building Materials CO	China	Production, distribution	September 2005
18	Kronmat Ltd	Poland	Distribution	January 2006
19	Fakro Dechflächenfenster GmbH	Austria	Distribution	July 2007
20	Fakro Spain S.L.	Spain	Distribution	July 2007

Source: Fakro.

Fakro owns 8 production plants in Poland, 2 in Ukraine and 1 in Russia. Roof windows are produced in China, Ukraine and Poland. In Russia, Fakro runs a wood processing plant (wood is the basic material for manufacturing roof windows). The company is planning to establish its plants in the Czech Republic, Germany and the United States.

## **6.2. The case study of NOWY STYL GROUP**

### *6.2.1. The Nowy Styl Group in Poland*

Nowy Styl Group started its operations in 1992 as a Polish-American company with 60% of the shares held by Adam and Jerzy Krzanowski, and 40% by Henry and Ronald Stern, the owners of Wythe, a manufacturer of chairs for restaurants. In the first months of its operations the company employed several workers and assembled chairs for cafes and so called waiting lounges on the basis of the components imported from Italy. The office chairs turned out to be a new market niche. At that time the Polish market of office and restaurant chairs was dominated by the imported products from Italy. However, as a result of high prices, the products targeted a limited number of clients. Nowy Styl Group launched the production of inexpensive and modern office chairs. At the time of economic changes demand for office chairs increased rapidly. In 1993, the

Nowy Styl Group was the first manufacturer of chair components in CEE countries. Originally, the company produced metal elements, which were followed by wooden and plastic components.

The company estimates its market share in Poland at 55%-60%, and its products are offered by 1,750 sales distributors (furniture shops, business dealers, supermarkets). In Poland, the company runs 6 production plants. Presently, the Nowy Styl Group's product portfolio includes 4 brand names: Nowy Styl, BN Office Solution, Forum Seating and Baltic Wood.

"Nowy Styl" is the oldest brand in the portfolio. The offering includes more than 200 designs of chairs, armchairs and tables which may be used in offices, conference rooms and waiting-rooms, catering places and houses. Nowy Styl's products are accessible for all consumers. The BN Office Solution brand is designed for the furnishing of offices, and it is available on the B2B market. The full-range service is based on consultations with clients, the developing of designs and their visualization, the delivery and mounting of products and post-sales services. The main product groups include office and conference-room furniture sets, employee and manager armchairs, supplemented by products for relaxation purposes as well as for the needs of waiting-rooms and reception areas. Forum Seating brand includes chairs designed for sports facilities, cinemas and auditoria, providing products for the needs of stadium stands, exhibition halls, cinemas and theatres, university and auditory halls as well as public utility facilities. Baltic Wood is a three-layer panel floor. The Baltic Wood product portfolio includes more than 400 products made of different types of wood.

#### *6.2.2. The Nowy Styl Group's internationalization*

The internationalization process started in the mid 1990s upon the company's entry into CEE markets – a similar environment to that of Poland. In 1995, the company's offering was presented abroad for the first time at Moscow's furniture fair, and one year later, at the prestigious Orgatec fair in Cologne. Originally, the sales process was based on direct exports (without the participation of overseas sales representatives or agents). The export department's employees tried to find foreign buyers, mainly targeting wholesalers, furniture shops and furniture manufacturers (the company's offering also included components for the production of chairs).

In the next stage of the process the company set up joint ventures with local distributors (50% of shares for each partner) who were significant players on overseas markets. Most entities

were engaged in distribution, but some of them also undertook production activities. Business partners in the particular countries had to meet certain requirements:

- good knowledge of the local market,
- good relationships with prospective clients,
- appropriate procedures ensuring high quality customer service.

After some time, however, Nowy Styl Group withdrew from joint venture agreements (buying or, in rare cases, selling its shares to business partners). Joint venture companies were maintained only in two countries (Hungary and Ukraine). Simultaneously, the company gradually abandoned its overseas production activities, one of the reasons being higher labour costs. Additionally, the company could make a more effective use of its own production capacity in Poland and benefit from the economies of scale. It eliminated the double costs resulting from overseas production activities.

Export remains to be the main form of the company's activities on foreign markets. At the same time, the company owns distribution chains in 11 countries for the needs of products manufactured in Poland and Ukraine (the Czech Republic, France, Spain, Kazakhstan, Germany, Russia, Romania, Slovakia, Ukraine, Hungary, the UK). This form of activity was chosen for tax and legal reasons, eliminating some of the barriers resulting from establishing overseas subsidiaries. The company exports its products to the remaining markets, and some of the products are serviced on the basis of exclusive-right contracts with foreign counterparties (Ireland, Greece and Cyprus). The Ukrainian market is an exceptional case where the company owns its production plant.

Considering different internationalization indicators it may be concluded that the company is engaged in international markets on a relatively large scale. The Nowy Styl Group's products are offered in 60 countries worldwide, with the particular markets being served in different ways. The company focuses on the European market, which accounts for approx. 90% of its output. Product uniqueness (relatively high transport costs as compared with production costs) decreases the profitability of the export of chairs to other continents.

It is hardly possible to estimate the company's share in the global market; it is possible, however, to determine its share in the particular foreign markets (the presented figures are estimates, as the company does not provide detailed information):

- Ukraine – 50%,

- Russia – 30%,
- other countries – 2%-3%.

Another internationalization indicator is the share of overseas operations in the total volume of business. At Nowy Styl Group this indicator is at the level of 75% (in 2009, the Group's total volume amounted to PLN 800 million, while the volume on the domestic market approximated PLN 200 million). The share of profits generated by overseas operations in the total profits is at a similar level of 70%. On the other hand, the employment rate which specifies the degree of corporate internationalization is much lower - 50%. It results from the fact that the company has only one overseas production plant (Ukraine).

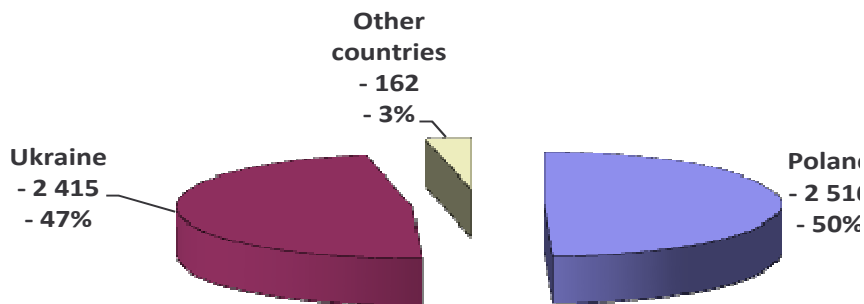


Fig 5. Number of employees in the Nowy Styl Group

Source: the Nowy Styl Group.

### 6.2.3. The Nowy Styl Group's internationalization process on selected overseas markets

The internalization process on the Ukrainian market is close to the Uppsala model. The company entered the market in 1999 as a result of direct export. Final products were sold to wholesalers and components – to mounting-service companies. The export of components was subject to much lower customs duties than the export of ready products. The Group established a joint-venture company (50% shares) with the distributor of its products – Seat Ukraine, contributing know-how and financing. The company started the production of chairs in Ukraine. This decision was related to the future plans to target the Russian market. Earlier, Ukraine had concluded an agreement with Russia on duty-free exports which lowered sales costs on the Russian market (as compared with exports from Poland). Presently, the Nowy Styl Group has

2,415 employees in Ukraine. Locally manufactured products are sold on the markets of Ukraine, Russia and Kazakhstan.

Export was also the starting point for the company's operations on the Mexican market. The Nowy Styl Group set up a joint venture with one of the leading distributors. The development of the project, however, did not meet the Polish shareholders' expectations. Increased sales in Mexico would have involved Nowy Styl Group's huge expenses resulting from additional investments, continuous monitoring and frequent site inspections. For this reason, the Group sold its shares to the Mexican partner, and currently it exports its products to this market.

The internationalization process on the French market was different. Export, again, was the starting point for business operations. One of the major clients was Chairtech Canonne, a French company which bought furniture components from Nowy Styl Group. The two companies established a joint venture for the distribution of Nowy Styl Group's products. The French partner continued to mount and sell their own chairs. Finally, the joint venture merged with the French company, and the new entity got engaged in the production (mounting and upholstery) as well as the distribution of products. In the course of time, however, labour costs increased and production in France was unprofitable. The Nowy Styl Group took over the partner's shares; presently, the company distributes products manufactured in Poland.

The establishment of a joint venture with a partner from South Africa is a special case. Cooperation with the local company was related to the 2010 World Cup. The new entity, Nowy Styl South Africa, submitted a tender for supplying football stadium seats. Finally, the company supplied stands for two World Cup stadiums: Green Point in Cape Town with more than 64,000 spectators, and Mbombela in Nelspruit with 40,000 stands. Nowy Styl Group contributed its know-how, advanced technologies, financing and chair designs, while the African partner manufactured the designed chairs. Having achieved this objective, the company stopped its operations.

In conclusion, the Nowy Styl Group carries out its overseas business activities in the form of direct export, joint venture and daughter companies. It should be noted that the current forms of overseas operations correspond to the Uppsala internationalization model. The company acquires its customers in most countries through direct export, but on its major markets it establishes joint venture companies and its own subsidiaries. The forms of overseas operations are presented in Fig. 6.



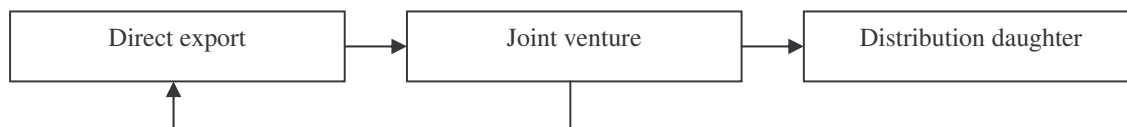


Fig. 6. The forms of Nowy Styl Group's overseas operations in its internationalization process  
Source: author's own research.

Another issue which deserves attention is marketing management on overseas markets. It may be assumed that the Group applies centralised management methods. Nowy Styl, BN Office Solution and Forum Seating brands are handled by one common marketing and logistics department based in Poland. It is also true of Baltic Wood – strategic and tactical decisions are taken in Poland. Nowy Styl Group's functioning on foreign markets is based on front-office activities – customer relationships, sales and services.

## 7. Discussion

### *7.1. The analysis and assessment of the internalization process in the investigated companies*

#### *7.1.1. Fakros's internalization – an analysis and assessment*

Fakro's internationalization process started 15 years ago. At that time, a small local business was transformed into an international company. The analysis of the process of entering global markets by Fakro indicates that it is not standardised. The company does not rely on the uniform patterns of entering new markets and establishing contacts with new partners. The company's activities are flexible and adjusted to the internal factors (financial resources, the knowledge of the market in different periods) as well as the external ones (competition, market characteristics).

The diversity of internationalization procedures is confirmed by the following facts:

- a. the company's presence on international markets is marked by distributors' "private label" brands or its own Fakro brand name. The German market may serve as an example. In 1996, the company entered the German market, offering its products under the distributor's brand name as part of cooperation with Braas. In the initial period of its operations Fakro received technological support and was offered the possibility of increasing its output, thus benefiting

from the economies of scale. The contract concluded with Braasem was a barrier to delivering products under the company's brand name but, accidentally, the company managed to resolve this problem. In 1997, Braas was taken over by Lafarge, and the windows operation was sold to Dorken. Fakro supplied windows to Dorken under the distributor's brand name, but at the same time it established its subsidiary in Germany and started selling its products under the company's brand name. Presently, the company is making efforts to increase its market share in Germany and strengthen Fakro's brand name. The company's strategy on international markets aims to offer branded products, which does not exclude the possibility of operations under the distributors' brand name with a view to increasing the volumes and cutting costs;

- b. Roof windows are sold on global markets by specialised roof accessory outlets, construction warehouses and building material hypermarkets. Fakro develops diversified distribution networks in the countries of its operations. On the German market the company's products are offered by Praktiker; simultaneously, the company is trying to target roof product warehouses. The two sales methods are complementary – super- and hypermarkets offer cheaper and less technologically advanced products. What matters is a low margin. The roof product centres offer innovative solutions for more demanding clients. In some countries, however, the company is focused exclusively on one form of sales.
- c. The sales policies in terms of the range of products vary from market to market. The company is trying to strengthen its market position in the particular countries offering various ranges of products. Fakro is best known as a manufacturer of roof windows, but it also offers attic stairs on a number of markets. In the USA, for example, the company is entering into cooperation with the manufacturers of Wayne Dalton's garage gates. Generally, products are standardised, but in some cases they are adapted to specific needs. On the US market products are adapted to a different system of measures, on the Swiss market products must comply with higher quality parameters in accordance with the relevant legal requirements.

Fakro's internationalization policy is flexible. The internationalization process is not based on commonly applied patterns. Fakro is a young company which has been gaining international experience over the period of the last two decades. In the beginning, the company improved its products, gained the knowledge of markets and built its brand name and relationships with business partners. At each phase of development such parameters change in response to the changes in the business environment.

Fakro is entering new markets which vary in terms of their characteristics, advancement and competitiveness. The company is gaining competitive advantage on the emerging markets of Russia and Ukraine. Demand for the company's products is increasing, and the market is not dominated by Velux, the global leader. On the mature markets of Germany or France, where demand is high, Fakro is trying to increase its relatively small market share. It is difficult, however, to counteract the "retaliation" activities undertaken by Velux. Fakro seeks arbitration settlements with the European Commission, presenting the evidence of its competitor's unfair business practices.

Generally, it may be stated that in its overseas expansion operations Fakro starts its activities with direct export; at a later stage it establishes its own distribution companies or capital-dependent entities which sell the company's products. The company is engaged in direct investments in the countries in which its sales volumes are high and its knowledge of the market is extensive.

#### *7.1.2. The Nowy Styl Group's internalization – an analysis and assessment*

Similarly to Fakro, the Nowy Styl Group started its overseas operations 15 years ago. Looking at the company's history it may be stated that it has been successful mainly on East European markets taking advantage of the fact that competitors did not offer similar products at relatively low prices. Unlike Fakro, however, Nowy Styl Group has a broader range of goods (different types of chairs, office furniture and floor panels which target different market segments). It makes the standardization of overseas activities more difficult – for example, the selection of entry strategies or the forms of international activities.

Nowy Styl Group's activities are based on a certain internationalization pattern:

- a. First of all, similarly to a large group of other Polish businesses, the company carries out direct export activities, supplying its products to approx. 50 countries directly from Poland. On the one hand, transport costs of a number of products translate into their prices, on the other hand, relatively low demand on these markets does not encourage the company to engage in additional services.
- b. The other option and stage in the Group's internationalization process is the establishment of joint ventures with the major overseas distributors. The company adopted such a policy because of a rapid increase in sales and its intention to raise the level of profitability. Foreign

partners were given free access to relatively inexpensive products and they could monitor their quality. Companies with 50/50 shares were established in the UK, Argentina, Mexico, France, South Africa, Hungary and Ukraine. The activities of the Polish-Austrian company resulted in the development of a furniture plant in Poland for the needs of more demanding clients. The Polish company gained more experience and broadened its range of products. However, due to a number of obstacles (different visions presented by the partners, changes to the company's functioning and the necessity of engaging in unprofitable operations), most of these companies did not survive on the market. A joint venture with the British partner was a special case – the overseas partner cheated the company. As a result of the court's verdict, all the company shares were taken over by the Nowy Styl Group. In some cases, the Group withdrew from its participation in joint ventures, engaging only in direct export. The Group, however, continues some of its joint venture operations, for example with Ukrainian and Hungarian partners.

- c. The last form of overseas operations is distribution companies established on significant foreign markets because of high prestige or a large market share. Such companies are owned by the Group, and most of them originate from joint ventures. It may be assumed that it was the consequence of the Group's greater experience in establishing contacts with foreign entrepreneurs and the intention to exercise stricter control over international operations as well as the fact that the Group was not willing to share its profits with other entities. Such companies focus on establishing contacts with clients, concluding agreements and carrying out service activities.

The review of Nowy Styl Group's internationalization process suggests a certain similarity to the Uppsala model. The Group started its activities entering selected markets. The company, however, did not rely on export agents, seeking its buyers and supplying products. The establishment of joint ventures with the best distributors was a form of setting up distribution companies, but it is the next stage of the process (the company's own distribution companies) that corresponds to the Uppsala model. Some of joint ventures started production activities, but the Group manufactured its products independently only in Poland. Referring the company's operations to the internationalization model presented in Fig. 1, it may be concluded that the company's internationalization is at an average level of advancement (measured by the resources engaged in overseas activities).

A number of factors explain this situation:

- in its investments and effective use of the Polish production potential the company benefits from the economies of scale;
- participation in joint ventures may imply a number of problems (possible conflicts with partners, management and communication problems, limited oversight of the company, no benefits related to the economies of scale);
- the changing environment (the global crisis, the declining markets in Russia and Argentina) requires the company's responsiveness, which is difficult in the case of direct investment projects.

Nevertheless, the Nowy Styl Group is performing well on its overseas markets, especially in Eastern Europe. The major role is played by Ukraine, which is a significant expansion target for other Polish companies. It is related to the size of the market and its geographical closeness. Apart from considerable differences in income between the inhabitants of Russia, Ukraine and West European countries, both Fakro and Nowy Styl Group made the right decisions entering these markets. The Nowy Styl Group intends to strengthen its position on the markets where it operates distribution companies as well as to increase its market share in other countries taking advantage of new business opportunities. The company operates in a flexible way, adapting to consumer needs and the business environment. Currently, the company is competing to supply the stadium stands for the needs of the World Cup to be held in Brazil in 2014.

## **8. Limitations**

The presented research is based on the case study methodology. It is assumed that this methodological approach leads to an appropriate assessment of the corporate internalization process, because the case study is an in-depth analysis of a given entity and its business environment. The case study assesses and verifies data collected during interviews as well as data from secondary sources of information. It should be noted, however, that the case study method has certain limitations. Firstly, the case study is based on the micro level, which prevents generalizations. Every entity is unique and operates in a specific environment. Therefore, recommendations related to one entity are not applicable to others. Secondly, much information in the case study methodology is based on direct interviews and company documentation which are not always unbiased. During the process of gathering information for the needs of this paper

the authors observed that company representatives tended to present their operations in a favourable light, avoiding facts related to negative phenomena.

Also, the authors encountered the problem which is common for a number of Polish companies – the unwillingness to share information. Both companies *did* agree to the analysis and tried to be cooperative; however, they were not always in a position or willing to offer answers to a number of more detailed questions related to the internalization process. On the basis of the past research experience the authors conclude that a number of Polish business entities, especially those dominated by private capital, are unwilling to disclose specific information being threatened by the possibility of the dissemination of such information and disclosing certain facts to competitors.

## **9. Further Research**

Two areas may be identified for the further research of the presented problems. The first one is the broadening of the scope of research based on further observations and interviews. The research process should include an analysis of internationalization indicators and the description of internationalization processes on the particular markets. It would be interesting to discuss the problem of cooperation and relationships with cooperating companies on target markets, especially in the area of partnership activities in join-ventures and direct investment projects. Attention should also be given to the internationalization of marketing activities related to product development as well as pricing, distribution and promotion strategies. It would be worth a while to discuss the problem of the standardization and adaptation of new activities.

The other area of further research refers to increasing the number of the investigated entities. The present research refers to two companies. It would be interesting to carry out an in-depth analysis of the Polish companies which are successful in their internationalization activities. Apart from the limitations of the case study methodology, it might be possible to formulate some generalizations related to the internationalization process and to identify the success factors in the Polish companies which started their international expansion at the time of economic breakthrough changes.

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