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**COMPANY BEHAVIOR  
IN THE INTERNATIONALIZATION  
PROCESS AND ITS PERFORMANCE**

## Abstract

The aim of the paper is to determine the role of different types of company's behavior in the internationalization process, identified from the perspective of a network approach, for corporate performance.

In order to describe the company's behaviour in the internationalization process a set of criteria has been proposed. These are: formalization of the internationalization process, openness to cooperation in the internationalization process and activeness in creating network of relations in the internationalization process. Taking into consideration the proposed criteria, the analysis of business practice enabled to identify four possible types of company's behaviour in the internationalization process: type A – Active, type B – Submissive, type C – Independent and type D – Distrustful realist. The assessment of corporate performance of the four types of company's behavior has been performed. Additionally, the dynamic approach to the typology of company's behavior in the internationalization process has been proposed.

The conclusions presented in the paper are the outcome of long-term studies of behavioral aspects of company's internationalization process, performed within two research projects carried out in years 2006-2008 and 2010-2012.

**Keywords:** *internationalization process, typology of company behavior, company performance*

## Introduction

The relationships occurring between companies are inseparable part of their market existence. In practice, it is hard to imagine an enterprise which is completely closed and has no links with its surrounding. That seems to be even more unlikely in an international environment, rich with relationships built between many different types of entities.

International environment has a major influence on a company's strategy and behavior in the market. Company should adapt to many factors (e.g. legal, social, cultural), which determine the differences in its behavior on particular foreign markets. These differences may result in a variety of approaches to creating and maintaining relationships between entities.

The literature on a company's market behavior (including from the international perspective) emphasises the numerous determinants of a company's per-

formance (and its competitive advantage), e.g. product quality, price and knowledge of the markets (Hooley, Piercy, Nicouland, 2008; Kotler, Keller, 2012). To a much lesser extent, the literature highlights details of the nature, scope and role of a company's relationships with various entities in the internationalization process. A company's operation within a business network may turn out to be a decisive factor in determining the company's advantage, also in the internationalization process, all the more so because the closest competitors tend to develop and offer similar solutions concerning the product, distribution, promotion and price.

The nature of companies' participation in international activity is, in a general way, presented by company internationalization models. They concentrate mainly on explaining the causes and ways of a company's involvement in international trade, but no comparison is made between internationalization process on the one hand and company performance and competitive advantage development on the other (Hadjikhani, Johanson, 2002).

The aim of this paper is to assess the role of different types of company's behavior in the internationalization process, identified from the perspective of a network approach, for the company's performance.

The discussion presented in the paper is a result of research projects conducted in years 2006-2008 and 2010-2012\*.

## **1. Theoretical background – The Network Model of Internationalization**

The internationalization process can be described by a set of different dimensions (Berghe, 2003). The research presented in this article focuses mainly on attitudes and behaviors as well as performance aspects of the internationalization process rather than on the timing of entry, the extent of internationalization or management and governance.

Behavioral aspects can be found in the four main internationalization models – these are: Uppsala, eclectic, strategic and network (Whitelock, 2002). However, the Uppsala model and the network model are directly linked with the behavioral theory. The Uppsala model assumes that a company's internationalization behavior is determined by its experiential knowledge; this is why companies develop their activities over time (in an incremental manner), based on their knowledge development (Johanson and Vahlne, 1977)

The network model stresses (Johanson and Mattsson, 1988) that in order to understand a company internationalization process it is necessary to identify and

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\* The results presented in the paper are described in detail in the book (Fonfara, ed., 2012).

study its network of relationships with all entities, including customers, distributors, suppliers and competitors. According to the network approach consistent with the main Industrial Marketing and Purchasing Group (IMP Group) research stream, a business network is constituted by a collection of long-term formal and informal relationships (direct and indirect) which exist between two or more entities (Håkansson and Snehota, 1989). Thus, “networking” means focusing attention on relations between a company and entities in its environment. According to the network model of internationalization, the process of company internationalization is defined as the establishment, maintenance and development of relations with network participants on foreign markets (Johanson and Mattsson, 1988, p. 287). This model stresses the importance of developing long-term interactions with entities from the foreign environment (Blankenburg, 1995) and characterises the internationalization process itself as determined by the entity-diverse foreign environment and the establishment of formal and informal contacts with the entities in it. When considering the network model of internationalization, both the individual company (its own assets) and the network which it belongs to (market assets) are taken into account. The degree of company internationalization and the level of market internationalization (network internationalization) both affect the internationalization process (Johanson and Mattsson, 1988, p. 287-314). The network model of internationalization incorporates into analysis of the internationalization process the companies cooperation, partnerships and alliances. The value of this concept consists in taking into consideration comprehensive interdependences, interactions and both sides of internationalization process, i.e. inward (such as import or cooperation with suppliers and competitors) and outward connections (such as export). For these reasons, the network model seems exceptionally well-suited to the analysis of the behavior of contemporary companies in the international arena.

Definitely, the two mentioned-above models (the Uppsala and the network models) are most appropriate for behavioral studies of the internationalization process. However, other models can also be an interesting inspiration for the analysis of company behavior in the internationalization process, specifically of the formal character of the internationalization process (the strategic model), and the collaborative versus self-dependent attitude to the company internationalization process (the eclectic model).

## 2. Methodology of the empirical study

The findings presented in the paper are based on conceptual propositions of the behavioral aspects of the company's internationalization process (Fonfara, 2007) and supported by two research projects conducted in years 2006-2008 and 2010-2012\*.

The first research project entitled "Company Behavior in the Internationalization Process: a network approach" was conducted in 2006-2008. In this project in order to examine company's success four types of company's behavior in the internationalization process were identified, that will be discussed later in the article. The empirical data was obtained from a mail survey, conducted in the second half of 2007. The questionnaires were mailed to 2000 companies from the nationwide database provided by Kompas Poland. The sampling frame (database) used in the study covered companies from throughout Poland and represented all industries. The sample was selected at random, which enabled the possibility of making the generalizations on the whole population. Due to mailing problems (unknown addressees, liquidated companies) the questionnaire reached 1950 companies rather than the intended 2000. By the end of December 2007, the questionnaire had been answered by 272 respondents which means that a response rate was 14%.

The results of the first research project inspired the second research project conducted in 2010-2012, entitled "The Development of Business Networks in the Company Internationalization Process". Its primary goal was to deepen the analysis of the mechanism by which business networks develop in the internationalization process. With reference to the 2006-2008 research project, the new studies also took into account four types of company behaviour in the internationalization process. The difference is that in the earlier project the respondents were linked to particular type of behavior based on their selection of a number of variables describing different types of company behavior, whereas in the 2010-2012 research project, the companies directly selected the option – from the four previously identified – which most accurately corresponded to their behavior in the internationalization process. In the second research project the em-

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\* The 2006-2008 Research Project entitled "Company behavior in the internationalization process (A network approach)" [„Zachowanie przedsiębiorstwa w procesie internacjonalizacji (podejście sieciowe)", No. N 115 043 31/1968] was conducted by a team: Professor K. Fonfara (project leader), Dr. M. Łuczak, Dr. M. Ratajczak-Mrozek Dr. R. Szczepański, A. Hauke. The 2010-2012 Research Project entitled "Development of Business Networks in a Company Internationalization Process" [„Kształtowanie powiązań sieciowych w procesie internacjonalizacji przedsiębiorstwa", No. N N115 320238] was conducted by a team: Professor K. Fonfara (project leader), Dr. M. Łuczak, Dr. M. Ratajczak-Mrozek, Dr. R. Szczepański, Ł. Małys; both projects were financed by Poland's Ministry of Science and Higher Education.

empirical data was based on a mail survey conducted in the first half of 2011. The mailing list of 2000 companies was obtained from the database of Kompas Poland and was selected at random. The sampling frame involved companies from all over the country and contained representatives of all of the industries included in the database. Due to postal problems, the questionnaire was delivered to 1921 entities and not to the full quota of 2000. By the end of June 2011, it had been answered by 192 respondents, producing a response rate of 10%.

In the paper, due to the aim of the presented analysis, the main findings of the both above mentioned research projects will be presented.

### **3. Types of Company Behavior in the Internationalization Process**

Internationalization is a complex process which can influence company's behavior in many different ways. In order to examine performance of a company operating in an international environment there is a need to identify basic types of company behaviour in the internationalization process. The conceptual work was inspired both by an analysis of company internationalization models and by earlier research and consulting projects conducted by the research team. Based on the conceptual work (Fonfara, 2007), three pairs of alternative characteristics describing company behavior in the internationalization process were identified, namely:

- formal and spontaneous internationalization,
- openness and closeness to cooperation in the internationalization process,
- active and passive role of company in creating a network of relationships in the internationalization process.

When the internationalization process is formal, decisions on when, how and why to enter foreign markets are taken following formal preparation and incorporated by a company into its strategic and operating plans. The internationalization process may also be spontaneous and develop *ad hoc* by interplay with emerging and often random opportunities. In this case, there are no formal in-depth studies and analyses of foreign markets, so that informal sources of information prevail.

Openness to cooperation means viewing it as an important part of the internationalization process. It involves the implementation of permanent, professional activities (often based on formal research) to enrol partners for cooperation, the selection of options for foreign activity requiring collaboration with local and foreign partners or very extensive developments in relations, such as offshoring and subcontracting. On the other hand, being closed to cooperation implies the pursuit of independent activities. In this case, only very substantial issues, such

as lack of competence, may force a company to cooperate with external entities. The situation frequently involves the “one-man band” syndrome.

A company engaged in the active development of a business network takes conscious and purposeful action to search for and select partners with whom resources can be combined to achieve competitive advantage. On the other hand, the spontaneous emergence of links occurs when relations between a company and various entities in its environment are formed autonomously as a result of constant interactions between given network participants. The system of relations is created independently of the will of its participants, is informal and is not based on any decisions concerning the establishment of a defined structure and network leadership.

The three identified characteristics were used to distinguish twelve theoretical types of company behavior in the internationalization process. Each of them was assessed in terms of possible existence in the real-market conditions by an expert team composed of managers from companies operating in international markets and representing different sectors. The evaluation of company behavior options resulted in the identification of four possible types of company behavior in the internationalization process. These are (Fonfara, 2007):

1. **TYPE A – Active:** creates a network of broad formal contacts and cooperation with entities in both domestic and international environment; type A is characterized by: openness to cooperation, formal internationalization process, active creation of a network of relationships.
2. **TYPE B – Submissive:** openly and willingly submits itself to the objective process of incorporation into a network of relationships with entities in both domestic and international environment; type B is characterized by: openness to cooperation, spontaneous internationalization process, passive approach to the creation of a network of relationships.
3. **TYPE C – Independent:** takes formal decisions in order to avoid engagement in a network of relationships; with full awareness tries to minimize close formal contacts with entities in both domestic and international environment and the dependence on them; tries to independently realize as wide scope of activity as possible; type C is characterized by: closeness to cooperation, formal internationalization process.
4. **TYPE D – Distrustful realist:** tries to reduce the scope of relationships with entities in both domestic and international environment as much as possible, however being aware of its inevitability; because of its set of competences is often forced to submit to the “power of the network”, especially to its experience and resources; type D is characterized by: closeness to cooperation,

spontaneous internationalization process, passive approach to the creation of a network of relationships.

#### 4. Results of empirical studies

In order to verify the reliability of the four identified types of company behavior in the internationalization process there was a need to compare them to business reality. For this purpose an empirical analysis has been carried out within the two research projects (2006-2008 and 2010-2012). The key element of the analysis was to relate companies' performance (a measure of their success or failure) to the earlier identified types of company behavior in the internationalization process. The aggregate performance measure included the total profit, sales volume, market share and return on investment (ROI) achieved by the respondents in the previous year in comparison to the competition. Due to the difficulties in comparing companies with different characteristics (taking into account elements such as size, ownership and sector among others) a subjective assessment method of comparison against competitors was adopted, based upon the relative assessment of the companies themselves. The application of such an evaluation method facilitates the comparison of companies with different characteristics in terms of their overall performance. The 5-point Likert scale was used for the assessment. The respondents, by answering the questions posed in the questionnaire relating to four indicators of their performance (profit, sales, market share and ROI), were to provide their own self-assessment in relation to their closest competitors. The aggregate performance measure included the average of four previously mentioned financial and non-financial indicators. Based on that performance measure the companies were divided into three groups based on the performances declared: poorer than the competition (PTC), same as the competition (SAC), better than the competition (BTC).

Business performance of companies characterised by different types of behavior in the internationalization process, divided into three discussed groups, are presented in Table 1 and 2. The data was obtained during 2006-2008 and 2010-2012 research project respectively.

**Table 1. Types of company behavior and business performance in the internationalization process (results of empiric studies – research project 2006-2008)**

Performance	Type A	Type B	Type C	Type D
PTC*	7,1%	0%	13,8%	42,9%
n	5	0	8	6
SAC*	38,6%	87,5%	39,7%	35,7%
n	27	7	23	5



**table 1. contd.**

BTC*	54,3%	12,5%	46,5%	21,4%
n	38	1	27	3
Total	100%	100%	100%	100%
n	70	8	58	14

n – Number of respondents who answered all of the questions concerning variables describing particular types of company behavior.

\* PTC – poorer than the competition (mean aggregate variable describing performance: 1-2.50),

SAC – same as the competition (mean aggregate variable describing performance: 2.51-3.50),

BTC – better than the competition (mean aggregate variable describing performance: 3.51-5.0).

Source: [Fonfara, 2012, p. 45].

The majority of “Active” companies (54,3%) tended to perform better than their competitors (see Table 1). It would seem that openness to cooperation, active development of network relations together with formalized path of internationalization result in advantageous corporate performance. Surprisingly, also a great number of “Independent” companies (46,5%), which are characterized with closed attitude to cooperation and formalised internationalization process, occurred to perform better than closest competitors. 42,9% of “Distrustful realists” with closed attitude to cooperation, spontaneous internationalization and passive attitude to the development of relationships with foreign entities obtained results poorer than closest competitors. Although small number of responses (8 companies), the majority of “Submissive” companies (87,5%), which are open to cooperation, have spontaneous internationalization and passive attitude to the development of business networks with foreign entities, demonstrated performance similar to the closest competitors.

**Table 2. Types of company behaviour and business performance in the internationalization process (results of empiric studies – research project 2010-2012)**

Performance	Type A	Type B	Type C	Type D
PTC*	17,30%	43,10%	0,00%	28,60%
n	13	22	0	2
SAC*	38,70%	37,30%	100%	28,60%
n	29	19	4	2
BTC*	44,00%	19,60%	0,00%	42,80%
n	33	10	0	3
Total	100%	100%	100%	100%
n	75	51	4	7

n – Number of respondents who answered all of the questions concerning variables describing particular types of company behavior.

\* PTC – poorer than the competition (mean aggregate variable describing performance: 1-2.75),

SAC – same as the competition (mean aggregate variable describing performance: 2.76-3.50),

BTC – better than the competition (mean aggregate variable describing performance: 3.51-5.0).

Source: [Fonfara, ed., 2012, p. 69].

Within the framework of the research project conducted in years 2010-2012 only a little number of companies declared themselves as Type C (4 companies) and Type D (7 companies) and that is why it is not possible to analyse their business performance indicators (see Table 2). It is however justified to draw conclusions for companies Type A and Type B, that more often answered the questions concerning variables describing company behavior. 44% of companies Type A obtained an aggregate variable describing performance higher than 3,51, which means this type seems to be more successful than its closest competitors. On the contrary, about 43% of companies Type B obtained an aggregate variable describing performance lower than 2,75, which means this type seems to be less successful than its closest competitors.

The results of the analysis performed for the purpose of the research project executed in years 2010-2012 are similar to the ones obtained during research in years 2006-2008. The majority of the “Active” companies were found to perform better than their competitors. It would thus seem that openness to cooperation with foreign entities and the active development of network relations with them – when combined with a formalised path to internationalization – are clearly conducive to business efficiency.

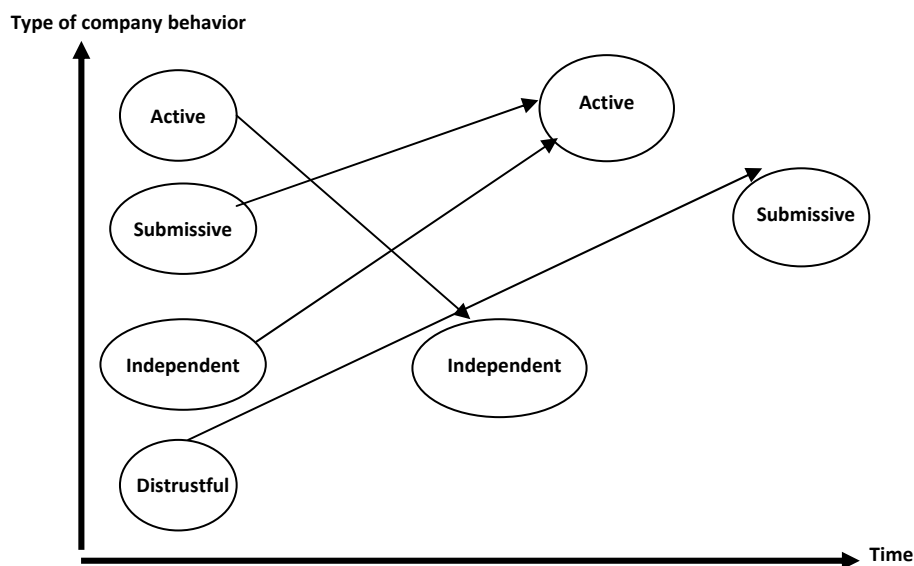
The analysis conducted within the 2010-2012 research project enabled to identify the differences in the characteristics of companies representing particular types of behavior in the internationalization process. Regardless of the type of behavior identified, the companies in the sample were, for the most part, medium-sized. All of the entities were involved in operations on foreign markets, which was reflected in their share of foreign sales in total sales. Type A companies prevailed among the enterprises most active on foreign markets and these same entities were characterised by a relatively higher level of progress in internationalization. Direct export was the dominant mode of foreign expansion. At the same time, the majority of the companies analysed, with the exception of type D, were planning to limit the simpler strategies in favour of involvement in more advanced activities, which clearly demonstrates their continuous development and growing maturity in operations on foreign markets. The key role in the development of relations on foreign markets is played by bonds based on formal contacts, but it should be emphasized that informal interpersonal contacts are also significant and support business relations. This assessment of the company performance may be concluded by stating that in order to perform better than the competition, a company should be open to cooperation and actively develop business networks with foreign entities based on a formally-founded internationalization process. These, of course, are all features associated with type A companies.

## 5. Some conclusions and directions of future research

The empiric investigations conducted within the 2006-2008 and 2010-2012 research projects indicated the existence of all four proposed types of company behavior in business practice and proved the diverse nature of relationships between entities in the internationalization process.

The four identified types of company behavior in the internationalization process vary from each other, which implies that companies representing different types of behavior obtain various market performance indicators. However, in time company may present a different attitude towards business networks and entities in its environment. It means that company's behavior in the internationalization process may evolve. The directions of changes in company's behavior are a subject of typology considered from dynamic approach, presented in Figure 1. The dynamic approach was inspired by the results of case-studies conducted within the 2006-2008 and 2010-2012 research projects. They enabled to observe and identify the change in behavior of selected companies over time.

**Figure 1. A dynamic approach to the typology of company behavior in the internationalization process**



Source: (Fonfara, ed., 2012, p. 58).

There are various reasons why a company may change its type of behavior in the internationalization process. These, for example, are: an attempt to reduce

transaction costs (“Active”→”Independent”), takeover (“Active”→”Independent”), becoming more independent by an international corporation's subsidiary (“Submissive”→”Active”), outsourcing (“Independent”→”Active”). It should be stressed that in view of the conducted research, a company's transition to another type of behavior is a process that occurs over certain period of time and sometimes takes up to several years.

The discussed changes and shifts in a company behaviour occurring over time only highlighted the complexity of relationships in the internationalization process. In order to better understand the nature of changes, future studies should involve an in-depth analysis of a panel of 20-30 enterprises, which would represent the diversity of attitudes described in the typology presented in the paper.

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