Journal of Developmental Entrepreneurship
Vol. 14, No. 4 (2009) 375–392

THE SPEED OF INTERNATIONALIZATION OF ENTREPRENEURIAL START-UPS IN A TRANSITION ENVIRONMENT

JERZY CIESLIK

Kozminski University, 03-301 Warsaw
57/59 Jagiellonska Str., Poland
jerzy@cieslik.edu.pl

EUGENE KACIAK

Faculty of Business, Brock University
St. Catharines, Canada L2S 3A1

Received April 2009
Revised October 2009

This article examines the speed of internationalization by newly established firms operating in the rapidly changing environment of a country undergoing radical systemic transition, as exemplified by Poland. A longitudinal analysis of the speed of internationalization, measured by the time between the year of establishment and the year of the first export sale, identified three interesting patterns. First, both incumbent state-owned firms and private companies operating under communism played marginal roles in the internationalization process after transition to the market economy system. Second, the entrepreneurial start-ups typically embarked on exports shortly after their establishment. Third, the entrepreneurial start-ups that focused initially on the domestic market were rarely engaging in export operations later on. This aspect of the internationalization process has not been adequately explained by the extant mainstream management theories (new institutional economics, transaction cost and resource-based view). This paper offers an alternative theoretical framework for the internationalization of entrepreneurial start-ups in transition economies by extending Shapero's social psychological model of entrepreneurial events.

Keywords: Internationalization process; institutional context; transition economies; social and psychological context of entrepreneurship.

1. Introduction

Emerging economies, including those with transition economies moving from a centrally planned to a market system, are widely recognized by the research community in the management disciplines as good research laboratories for testing existing theoretical concepts and advancing new or modified ones (Meyer and Peng, 2005). However, a clear shortcoming of the existing research on emerging economies lies in its strong Western focus and lack of attention to the indigenous context (Tsui, 2004; Bruton *et al*., 2008). Typically, established theories, such as the new institutional economics, transaction cost and the resource-based view, are applied to the emerging economies with little regard for the local contexts and their differences from the settings of the mature economies in which these theories were developed. Zahra (2007) pointed to another issue related to the lack of contextualization that occurs when established theories from other disciplines are applied in the entrepreneurship research: the built-in assumptions of such theories, as well as their differences in phenomena and actors from those in the entrepreneurship field, may lead to a mismatch between theory and context, resulting in inconclusive findings.

With respect to the former centrally-planned economies in Central and Eastern Europe (CEE), the indigenous context is being shaped primarily by the radical and rapid systemic transition from communism to the market economy system. Unfortunately, the developments in transition economies are typically perceived by the research community as a reflection of more general trends identified in the broader group of emerging economies, which, particularly after 1990, introduced various liberalization, deregulation and privatization programs. This analytical framework resulted in downplaying specific features of systemic changes, particularly their radical character.

However, what is of particular concern is that the testing of the explanatory power of existing management theories in the transition economy typically lacks sound empirical context shaped by rich and reliable industry statistics and publicly available company data from which general trends and patterns can be detected. Thus, the results of standard research methods like mail surveys and interviews with managers of local companies cannot be examined in the context of industry and/or macroeconomic trends.

In response to this concern, we advance an indigenous, context-sensitive stream of research, as advocated by Tsui (2004), Bruton *et al.* (2008), and Zahra (2007), with the objective of understanding the process of internationalization of entrepreneurial start-ups during the transition from a command-type system to a market economy system. The transition context seems to be particularly relevant for studying international operations of the private firms. Under communism, some CEE countries' private business undertakings were allowed to operate domestically on a very limited scale, but on grounds deeply rooted in the communist ideology, they were totally barred from direct contact with foreign markets.

We believe research on the internationalization process in a particular transition environment will benefit from a methodological approach based on inductive theory-building (Locke, 2007); therefore, we adopt that approach here. Doing so entails first gathering and analyzing empirical data to identify trends and patterns of internationalization under transition. Identifying these trends and patterns helps formulate research questions relevant in a particular context of the economy undergoing transition (radical systemic transformation). Only then can alternative theoretical concepts be evaluated in terms of their explanatory power, followed by the suggested extension of the existing models to incorporate novel transition-specific aspects of internationalization.

The inductive approach is typically pursued in case studies used for grounded theory-building, with some limited examples addressing the particular context of a transition environment (Danis and Wade, 2002; Vincze, 2003). In this paper, we complement the inductive approach by analyzing a large micro-data set containing statistical information on the population of Polish firms engaged in export operations between 1989 and 2003. This method seems particularly useful in the case of transition economies, in view of the insufficient statistical information at company level.

The rest of the paper is organized as follows. First, we present the context of systemic transition from the perspective of the major categories of players: incumbent local firms (public and private), foreign investors and entrepreneurial start-ups, taking Poland's institutional and economic environment as an example. To that effect, we compiled both qualitative and quantitative data to assess the magnitude of the systemic change and its impact on key players in the internationalization process during the transition. Then, we present the results of the longitudinal analysis of the speed of entrepreneurial start-ups' internationalization in the Polish manufacturing sector between 1989 and 2003. Next, we use the key findings from the empirical analysis as a base from which to formulate pertinent research questions. While addressing these questions, we discuss the relevance of mainstream management and international business theories, as well as those that emphasize the social and psychological context of the decision to engage in entrepreneurial activity. The final section contains our main conclusions, policy recommendations and suggestions for future research.

The article makes two contributions to the extant literature. First, we expand indigenous research focused on the specific context of firm-level internationalization in the CEE economy undergoing systemic transition. Second, in view of the limited explanatory power of the mainstream management and international business theories, we offer an extension of Shapero's social psychological model of entrepreneurial event (Shapero and Sokol, 1982) by incorporating into the analysis transition-specific factors and circumstances.

2. Firm-Level Internationalization: The Magnitude of Change Under Transition

The crucial concept for understanding the process of internationalization at firm level (or lack of it) under communism is the so-called principle of the state monopoly of foreign trade. This ideological policy stated that both private entities and fully controlled state-owned enterprises were barred from directly exporting and importing and had to process import/export transactions through designated state agencies called foreign trade organizations (FTOs). Thus, the monopoly of foreign trade had been extended to inward direct foreign investment, and the maximum business presence allowed was in the form of representative offices of multinational companies that performed limited marketing and promotional activities.

During the 1970s and 1980s, measures were introduced to relax the state monopoly on foreign trade, but the number of business entities engaged in cross-border operations toward the end of the communist era in 1988 remained negligible. At that time, in a country of over 38 million inhabitants, there were only 767 exporting firms, and most of them channeled over 91 percent of their exports through 62 FTOs (Table 1).

From the institutional perspective, January 1, 1989, is a useful demarcation date for the beginning of the transition in Poland. On this date, several important pieces of legislation came into force:

- A new business law introducing the principle of freedom in conducting business activities;

- Freedom to engage in export–import operations and abolition of the foreign trade state monopoly rule;
- The foreign investment law, which, together with the privatization law introduced shortly thereafter, paved the way for setting up foreign-controlled firms and taking equity stakes in privatized state-owned enterprises.

After 1989, all key institutional elements of the old communist regime were substituted with new regulations that facilitated the functioning of the market mechanism and privatized the state-owned sector. As a result, out of 12,000 state-owned firms in 1988, only 5,500 (45%) remained in the public domain in 2003. At the same time, entrepreneurial activity surged. In addition to almost 600,000 incumbent private firms established before 1989, over 2.8 million new businesses were registered until 2003. Many of these new businesses subsequently failed, but there were still 1.7 million active business entities by the end of 2003 (Table 1).

At the same time, large multinationals and smaller Western firms rushed to set up their subsidiaries. Over 48,000 subsidiaries were registered during the transition period, of which 15,400 (about a third) remained active in 2003. The relatively low survival rate points to the obstacles foreign investors faced when operating in an unstable economy that was undergoing radical transformation. However, part of this low survival rate was intentional because a substantial number of subsidiaries were established just to capitalize on the generous tax incentives during the early 1990s, after which they ceased operations in Poland.

Figure 1 illustrates in quantitative terms the magnitude of change in export operations at firm level during the period from 1988 to 2003 that resulted from the systemic transition, and the roles of key players in the process. Between 1988 and 2003, Poland's commodity exports (in constant prices) increased 3.7 times. However, from a microeconomic perspective, the aggregated growth came from diverse directions and major players.

The transition resulted in a rapid increase in the number of domestic firms engaged in export operations. Between 1988 and 2003, more than 158,000 domestic firms engaged directly in exporting, of which some 40,000 (about a quarter) survived as exporters in 2003. At the same time, there was a drastic decline in the public sector's share of Polish commodity exports, from 95 percent in 1988 to 10 percent in 2003. Foreign subsidiaries dramatically expanded both domestic and international operations and provided more than half (54%) of Polish commodity exports. The most striking pattern in the domestic private sector's contribution of 36 percent of Polish commodity exports in 2003 was that 90 percent of this contribution was the result of export sales of new entrepreneurial start-ups, with limited involvement of incumbent private firms established before 1989.

3. Longitudinal Analysis of Export Activities of Polish Entrepreneurial Start-ups (1993–2003)

3.1. *Sample and data collection*

Our analysis of the internationalization speed of Polish entrepreneurial start-ups has been conducted on a large micro-data set provided to us by the Foreign Trade Data Centre (FTDC),

Table 1. Poland: Number of firms active in 1988; those emerging between 1989 and 2003; and those surviving by the end of 2003.

1988	Thousand	Systemic transition 1989–2003	2003	Thousand
I. Incumbent domestic	598.6		Domestic firms	1711.1
(a) Public	12.1	The majority of state-owned enterprises (55%) went through various forms of privatization, including liquidation. Those privatized firms or their assets joined the private or foreign-controlled sector.	(a) Public	5.5
(b) Private small business	586.5	In addition to existing private incumbent firms, there were 2.8 million new businesses registered between 1989 and 2003, bringing the total number of businesses registered in the private sector to 3.4 million, of which approximately 50% have not survived.	(b) Private — both incumbent and new entrepreneurial start-ups	1705.6
II. Foreign-controlled firms	0.895		Foreign-controlled firms	15.4
(a) Representative offices	0.090	Altogether 48,000 new foreign-controlled companies were registered between 1989 and 2003. Many of them did not start operations or ceased to exist for various reasons.		
(b) Joint ventures	0.040			
(c) Polish ancestry firms	0.765			
Total I+II	599.5			1726.5
III. Direct exporters	0.767		Direct exporters	50.0
(a) Foreign trade organisations	0.062	Altogether 158,300 firms have been engaged directly in exporting between 1989 and 2003. Less than 1/3 survived in 2003.	Of which:	
(b) Other public firms	0.217		(a) Incumbent public	1.2
(c) Other public	0.155		(b) Incumbent private	1.2
(d) Private domestic	0.480		(c) New start-ups	40.5
(e) Foreign-controlled	0.217		(d) Foreign-controlled	7.1

Sources: FTDC Database and various publications of the Polish Central Statistical Office.

a public organization responsible for compiling and processing official statistics on Poland's export/import commodity turnover. We will refer to this data set as the FTDC Database. It contains export sales of all Polish exporters engaged in commodity trade between 1993 and 2003 — over 158,000 exporters in total.

To arrive at a manageable number of firms, we first eliminated accidental exporters, that is, those that never achieved an annual export turnover of 80,000 PLN (27,000 USD) — an

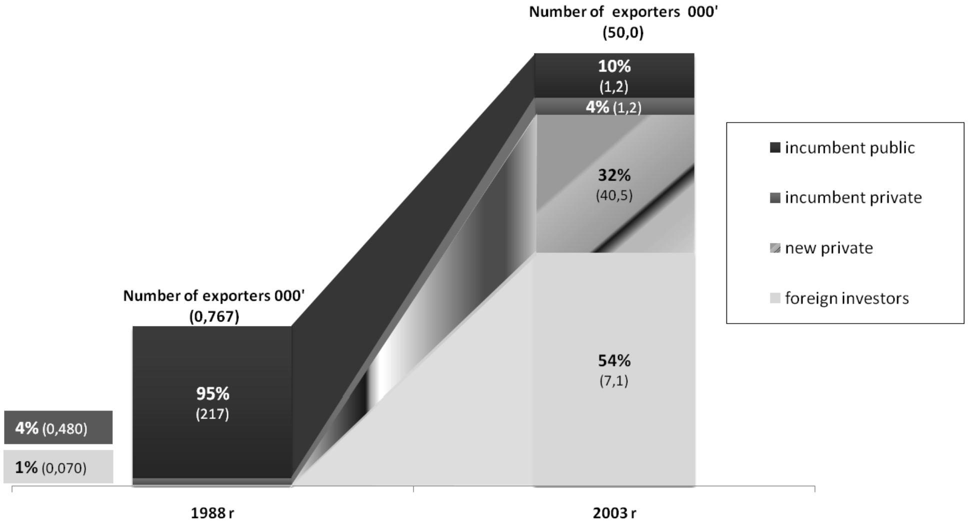

Fig. 1. Polish commodity exports 1988–2003: The number of firms and % share of total turnover by major categories of exporters.

Source: FTDC Database and various publications of the Polish Central Statistical Office.

aggregated share of these accidental exporters was less than 0.2 percent of the total export volume. Next, we removed from the data all trading companies (the second-largest group of exporters), because including them could produce confusing results because of their obvious differences from manufacturers. Any predominantly service firms were also rejected because cross-border service transactions are not properly captured in commodity trade statistics. This way, we confined our analysis to the manufacturing sector only (NACE Classification Division 15 to 37). After eliminating firms that did not belong to the entrepreneurial start-up category (foreign subsidiaries, public firms and domestic incumbents established before 1989), we finally arrived at 18,896 private firms (domestic entrepreneurial start-ups) in the core data set for the longitudinal analysis. The current export values for individual companies in each year have been adjusted for inflation, with the use of producer price index (PPI) (EconStats, 2006). We consider this data set fairly reliable, although certain data errors are unavoidable with such a large number of participating firms. In addition to export sales volume in each year, we compiled data on each firm so we could categorize the entities in the database by year of establishment, ownership (local versus foreign, private versus public), industry, legal form and geographic region.

3.2. *Speed of internationalization*

The issue of the speed of internationalization has been dealt with extensively in the extant literature, primarily by contrasting the cautious, stepwise engagement in international activities demonstrated by the Uppsala model (Johanson and Vahlne, 1977) with the more recent phenomenon of engaging extensively in international business operations shortly after start-up, as reflected in the "born-global" stream of research (for an overview, see Rialp *et al*., 2005). In this paper, we follow the notion of the speed of internationalization, which is defined as the time from the company's foundation to its first entry into international markets. Although "internationalization speed" has been most widely discussed in the extant literature (e.g., Acedo and Jones, 2007), there is a growing consensus about its multidimensional character: in addition to the overall speed of internationalization, it encompasses, for example, the speed with which the company diversifies geographically (Oviatt and McDougall, 2005) and by product lines (Chang, 2007) and the speed with which the company begins to engage in advanced forms of international activity, like licensing and direct foreign investment (Jones and Coviello, 2005). The "export rapidity" is particularly relevant to domestic firms that operate in a transition environment. The shift from a communist to a market economy opens new opportunities for such firms to expand internationally but also poses serious risks because of these firms' lack of international experience and relevant skills.

Initially, we planned to differentiate rapidly internationalizing and slowly internationalizing firms by adopting a time frame of three years, a time frame often used in the born-global literature to define rapid internationalization (Knight *et al*., 2001; Andersson and Wictor, 2003; Aspelund and Moen, 2005). However, because our preliminary analysis of the data set showed a surprisingly high proportion of firms that launched exports in the first years of operation, we decided to introduce a more detailed categorization:

Instant Exporters (*IE*), those that launched export sales in the year of registration (Year 0) or in the first full year of operation;

Quick Exporters (*QE*), those that launched exports in the second or third year of operation. An exception is firms that registered in the first year of transition (1989) and launched exports in 1993, which have also been categorized as Quick Exporters;

Late Exporters (*LE*), firms that launched exports in the fourth year after registration or later.

The distinction between Instant and Quick Exporters is not merely a technical one. For the first group, export sales had to be planned at the preparatory stage of the new venture; otherwise, transactions such as identifying potential customers, negotiating and handling necessary documentation could not have been accomplished in such a short period. For Quick Exporters, incidental export decisions, that is, those resulting from unsolicited orders, were still possible.

3.3. *Results*

The results of the export readiness analysis are shown in Table 2.

The most striking evidence is the prevalence of instant internationalization among exporting entrepreneurial start-ups (46.1% of the population) followed by quick internationalization (28.8% of the population). At the same time, the number of Late Exporters was significant only among firms established between 1989 and 1992; the trend declined between 1993 and 1999. Because the last export figures in our data set were for 2003, the

Table 2. Entrepreneurial exporting start-ups in the Polish manufacturing sector.

Year of Establishment	1989–1992	1993–1999	2000–2003	1989–2003
Number of exporting start-ups				
Instant Exporters[1]	941	5480	2296	8717
Quick Exporters	3361	1795	277	5433
Late Exporters	2987	1759	n.a	4746
Total	7289	9034	2573	18896
% of total number of exporters				
Instant Exporters	12.9	60.7	89.2	46.1
Quick Exporters	46.1	19.9	10.8	28.8
Late Exporters	41.0	19.5	n.a	25.1
Total	100.0	100.0	100.0	100.0
% share of the volume of exports[2]				
Instant Exporters		57.6	61.8	59.9
Quick Exporters		39.5	31.9	35.3
Late Exporters		2.9	6.3	4.8
Total		100.0	100.0	100.0

(1) For definitions of Instant Exporter, Quick Exporter and Late Exporter, see text.
(2) Data on turnover was available only for the 1993–2003 period.
Source: Own calculations based on FTDC database.

number of Late Exporters could not be captured at all among firms established after 2000, so that number has been underestimated, particularly regarding firms registered between 1998 and 1999. However, additional data on the contribution of the three categories of exporters to the volume of entrepreneurial start-ups' manufacturing exports confirms the main conclusion concerning the marginal role Late Exporters played in the internationalization process (bottom of Table 2). Although they represented 25.1 percent of exporting firms, Late Exporters never contributed more than 7.5 percent of export volume in any year between 1993 and 2003 (4.8% on average). Thus, Late Exporters' average annual export sales were much lower than those of Instant or Quick Exporters.

4. Research Questions and Propositions

4.1. *Limited involvement of the incumbent private firms in international operations*

In the domestic private sector's contribution of 36 percent of Polish commodity exports in 2003, the most striking pattern was that 90 percent of this contribution was the result of export sales of new entrepreneurial start-ups, with very limited involvement of incumbent private firms established before 1989. This phenomenon is surprising as there were almost 600,000 private small business entities outside the agricultural sector (which was predominantly in private hands, as well) in Poland toward the end of the communist era.

The above observations led us to the first research question:

RQ1: Why did incumbent private firms that were in operation under communism play only a marginal role in the internationalization process during the transition period, having been far overtaken by the entrepreneurial start-ups established during 1989–2003?

To find tentative answers to this question, we looked first at the established management and international business theories. With respect to the particular context of transition economies in the CEE region, researchers' attention has thus far focused on the operations of multinational enterprises, leaving the internationalization of newly established domestic firms largely unexplored (Meyer and Peng, 2005).

Institutional theories provide the most obvious framework for studying the internationalization of domestic firms in countries undergoing systemic transition: a radical change in the regulatory framework shaped the new operating environment, which prompted the emergence of millions of new businesses that could freely expand their activities into international markets. The neo-institutional framework seems to be particularly suitable in addressing our research question on the marginal role of incumbent private firms in the internationalization process.

The role of private incumbent firms is largely neglected in the extant Western literature; the entrepreneurial sector under communism has typically been presented as illegal or "gray economy" activities (e.g., Peng, 2001). This picture may well represent the reality in the former Soviet Union, but it is oversimplified with respect to countries like Hungary and Poland, where agriculture was predominantly in private hands and there was a visible small-business sector. Before the transition, in 1988, there were almost 600,000 small businesses registered in Poland made up primarily of sole proprietorships engaged in handicraft, private transport (e.g., taxi drivers), retail trade, services, and so on.

Although the entrepreneurial sector contributed only 7 percent of non-agricultural employment, its role in the context of the forthcoming transition should not be neglected. First, a substantial number of people accumulated practical experiences in starting and running businesses, albeit in a very restrictive environment. Second, these businesses were legal, with clearly defined rules on registration requirements, tax obligations, restrictions regarding the scope of activities and the maximum number of employees, and so on, all of which was particularly important for analyzing the transition process from an institutional perspective. Therefore, in seeking an answer to the first research question, we must focus on the informal rules as much as (or more than) the formal ones, and on the operating practices deeply embedded in the communist past. Here, we have particularly in mind the operating practices and particular set of skills developed by entrepreneurs while attempting to survive at the periphery of the command-type economy.

The negative impact of "communist embeddedness" was profoundly reflected in the field of marketing. Generally, customers/clients were not catered to under communism because of the acute shortage of consumer goods and services that resulted in customers waiting in lines to buy. The major concern and key survival factor under communism was the ability to purchase production inputs, materials and components, which came mostly from state-owned enterprises and trading organizations. As a result, incumbent private firms were ill-equipped to operate within a market environment, where the crucial success factor was the ability to build a strong customer/client base.

Another important element of the private business establishments' survival strategy under communism was the "low profile" attitude. Although they were tolerated by the communist regime in Poland because they provided a marginal contribution to the predominantly state-owned economy, small businesses were carefully monitored to make sure the incomes earned by the *petite bourgeoisie* did not differ substantially from the average wages earned in the public sector. The low-profile attitude was reflected in eschewing demonstrations of excessive wealth and limiting involvement in social life. This lack of ostentation obviously contrasted with the proactive, dynamic orientation common — and sometimes even required — among those operating within a free market environment, particularly while engaging in international operations.

Therefore, we may conclude that the particular set of business skills, operating practices and attitudes, much needed during the communist era, became obsolete once the key elements of the market economy system were introduced. In fact, those small businesses that survived had to reengineer their businesses completely after communism, as exemplified in the following excerpt from an interview with an incumbent entrepreneur:

> "In 1989 Poland changed to such an extent that in order to continue my prosperous business I had to start de novo. The same business, in a different environment, became a new kind of activity" (Osborn and Slomczynski, 2005).

Based on these considerations and in line with the neo-institutional analytical framework, we formulate the following proposition:

Proposition 1: The skills, experience and operating behavior of private business owners that were successful under communism were not compatible with the free market environment after the transition, negatively affecting their ability to compete with foreign investors as well as with new start-ups.

4.2. *Internationalization speed of entrepreneurial start-ups*

The empirical analysis presented in the previous section demonstrates the strong propensity of domestic entrepreneurial firms to engage in export operations shortly after foundation. However, that propensity is reflected in the activities of the relatively small percentage of Polish SMEs that engage in exporting — only 7 percent, according to the recent major Pan-European survey (Gallup, 2007). This share is only slightly below the EU average of 8 percent, so Polish exporters are well on the way to catching up with their counterparts from "old" Europe. Thus, although the overwhelming majority of SMEs remain concentrated on domestic markets, those that do export tend to launch international sales shortly after foundation. This leads to the formulation of the second research question:

RQ2: Why did those entrepreneurial start-ups that embarked on exporting do it so quickly after foundation?

To find tentative answers to the second research question, we looked again at the neo-institutional framework first. Although the basic regulations paving the way for the market economy were introduced rapidly between 1989 and 1990, the implementation of enforcement rules and informal institutions supporting efficient free market mechanisms was often delayed; the process has not been fully completed even in mature transition economies. New and young businesses in the CEE region faced obstacles in pursuing their domestic and international operations. Considering the anti-internationalization direction of the communist past, one would expect internationalization to take place only after a business is firmly established in domestic markets. Similar conclusions can be derived from other streams of theoretical management and international business research, such as transaction cost theories, the resource-based view, theoretical concepts emphasizing the role of networks, and organizational learning (Coviello, 2006; Hitt *et al.*, 2005). Entering international markets requires building firm-specific resources, usually a lengthy process because of the general unavailability of relevant skills in the region or country. Because of a very limited number of business entities that directly exported or imported during communist times, there were whole regions and towns without any international experience. Forging cooperative links with foreign business partners would be a natural remedy in view of the crucial role of networks in the early stages of the internationalization process (Freeman *et al.*, 2006), but again, new entrepreneurs would be expected to suffer from a lack of experience, not only in business, but also in tourism and social and cultural exchanges. A particular impediment to the small business sector that originated from communist rule was a lack of fluency in foreign languages. This shortcoming has begun to improve only recently as a result of the flow of young, educated people into this sector.

The concept of "the learning advantage of newness" within organizational learning theory (Autio *et al.*, 2000) might also be useful in explaining the internationalization patterns of entrepreneurial start-ups during periods of transition. This concept suggests that newly established firms demonstrate greater flexibility than older ones, allowing them, in this case, to assimilate knowledge on international markets more efficiently. However, even this theory may not outweigh all the impediments of internationalization that result from an unstable institutional environment and the absence of specialized knowledge and skills, particularly during the initial phases of transition.

Our analysis leads to the limited explanatory power of the mainstream management theories to explain the internationalization process in periods of transition, particularly the phenomenon of new private firms engaging in international activities soon after foundation and within immature institutional environments. What is missing is the particular context of systemic transition, the magnitude and speed of social, economic and political change that shapes the particular climate for individual decisions to engage in business in general and international operations in particular.

Therefore, we believe more promising insights can be derived from the entrepreneurship literature, which focuses on the behavioral process that leads an enterprising individual to form a company. Several streams of research in the extant literature have investigated the relationships among intentions, perceptions and entrepreneurial activities. The intentions-based model of entrepreneurial activity proposed by Bird (1988) pointed to the critical role of the intention to perform specific actions. The works of Bandura (1986), Shapero and Sokol (1982), Ajzen (1991) and Boyd and Vozikis (1994) emphasized the importance of perceptions in that it is the perceived feasibility and desirability of an outcome that ultimately prompts an individual to act. The Shapero model of entrepreneurial events (Shapero and Sokol, 1982) is particularly suitable for extension into the issue at hand because it incorporates both transition-specific and internationalization variables. With respect to the latter, we may benefit from the conceptual work of Jones and Coviello (2005), who proposed a framework for integrating entrepreneurship and internationalization streams of research based on their key common foundations: incorporating behavioral processes and recognizing that actions and decisions taken in response to certain conditions occur at specific times.

Time is crucial in our export-readiness analysis because it encompasses:

- a fundamental institutional change that initiates the shift from communism to capitalism (transition event);
- company formation (entrepreneurial event); and
- the launching of export sales (internationalization event).

In its original formulation, the Shapero model included:

(a) social and cultural factors that prompt an individual to consider entrepreneurship as a life-path option as a result of “negative displacement,” being “between things,” and “positive pull,” and
(b) individual perceptions of desirability and feasibility that turn initial ideas into specific actions leading to company formation (entrepreneurial event).

The proposed extended version of the Shapero model, incorporating both transition-specific and internationalization variables, is presented in graphic form in Fig. 2.

How did the radical systemic changes that took place in the 1990s in the CEE region affect the socio-economic and cultural environment, thus prompting people to consider starting their own business as a viable life-path option? The concept of “negative displacement” describes the situation of the hundreds of thousands of people who had lost their jobs in state-owned enterprises, farms and institutions — jobs which were previously at least secure, although they brought in unsatisfactory incomes. The negative emotions invoked by working in highly bureaucratic state-owned firms, government or municipality agencies and being prevented from expressing one’s own views and initiatives pushed many individuals — not only those with a clear entrepreneurial drive but also those seeking “freedom” from a humiliating working environment — to start their own businesses.

Being “between things” typically describes a situation when a certain period in life has a natural end (e.g., end of school, end of army service) and calls for decisions regarding the next phase. This situation deserves special attention because it clearly has a “systemic” connotation. Empirical studies, particularly those that concentrated on the initial period of 1989–1993, have emphasized the importance of the transition context for entrepreneurial decisions. For example, entrepreneurs interviewed by Osborn and Slomczynski (2005) referred to the “Wind of History,” the perception of the magnitude and irreversibility of the social changes taking place. While “between systems,” people often felt compelled to

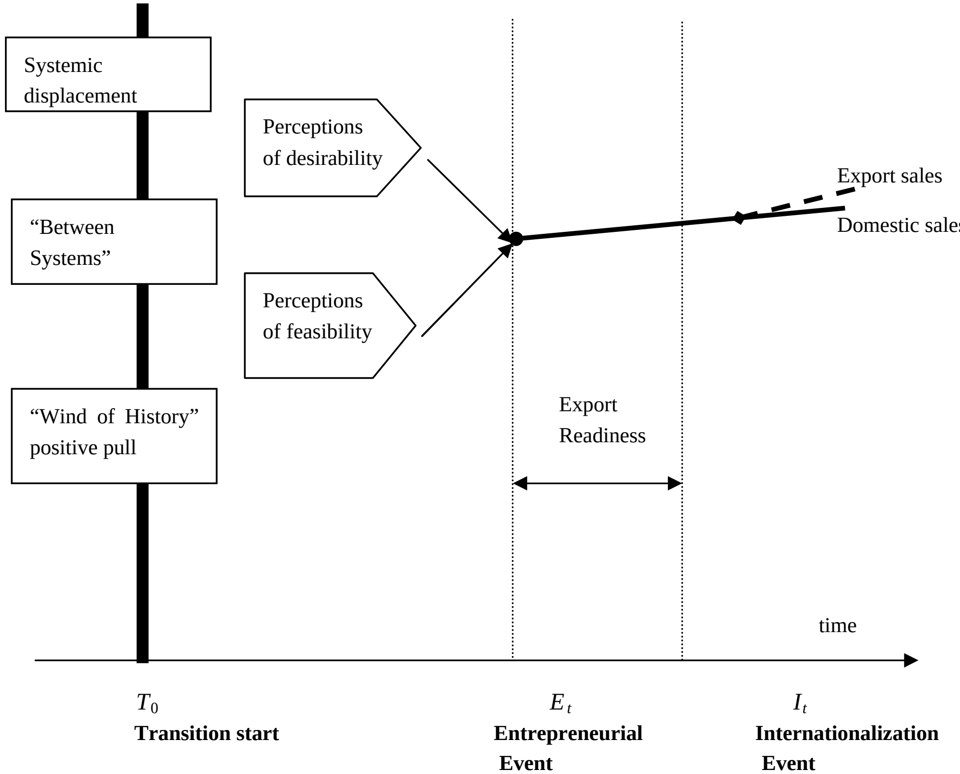

Fig. 2. Socio-cultural factors shaping decisions on company formation and internationalization under transition. *Source:* Author's presentation based on Shapero and Sokol (1982).

change their lives as a response to the overwhelming feeling that something very important and irreversible was taking place.

Empirical studies on the motivation to start one's own business in the CEE region, particularly during the initial phases of transition, have suggested that the need for independence is more important than financial motives or the need for achievement (Smallbone and Welter, 2001; Osborn and Slomczynski, 2005). Again, the historic context and the communist past played an important role here because establishing one's own firm was viewed as a primary route to freedom, independence and self-reliance.

In addition, the examples of friends and family who had made abrupt decisions to move into business created strong demonstration effects and served as a reinforcing mechanism of "positive pull." This influence often resulted in business start-ups being undertaken by people with no experience and skills but with courage derived from the overwhelming "Wind of History" spirit.

Because of the broad, multidimensional nature of all these socio-cultural factors, it is impossible to differentiate between those events that stimulated entrepreneurial initiatives in general and those that stimulated internationalization in particular. However, this kind of differentiation can be made when the socio-cultural factors that shaped perceptions of desirability (values) and feasibility (self-efficacy) are considered (see Fig. 2). Private businesses, subject to administrative burdens and restrictions under the Communist regime, had also been negatively affected by the official ideology that favored public ownership and marginalized the private sector's role. On the other hand, there were strong positive connotations associated with the removal of travel restrictions, the introduction of free convertibility of the local currency, and free flows of goods and services across borders, which positively affected the idea of international operations. Thus,

Proposition 2: The set of values and perceptions during the transition from communism to the market economy system was much more positive toward international entrepreneurial initiatives than toward purely domestic ones.

Accumulated historical experiences under communism and the initial phases of transition clearly favored international ventures. The most obvious route to earn "big money" under communism was to get a (typically temporary) job abroad and bring home savings that would materialize as small fortunes when exchanged into local currency using unofficial black or gray market exchange rates. In Poland, this strategy was followed not only by privileged groups, such as diplomats, but also by temporary emigrants, typically villagers, who visited their relatives in the United States and worked illegally during their sojourn, by students taking temporary summer holiday jobs in European cities, and so on.

There were many success stories of wealthy private businessmen making a great deal of money under communism, but because of the low-profile attitudes they tended to present, they were much less visible than were temporary emigrants who returned home and suddenly bought luxury goods such as modern cars, built houses, and so on. Thus,

Proposition 3: The perceptions of success in business shaped under communist rule and during the initial phase of transition generally favored international entrepreneurial undertakings over purely domestic ones.

In summary, the proposed extension of Shapero's model of the entrepreneurial event seems to be more useful than the established management and international business theories in explaining the rapid internationalization phenomenon in transition environments.

4.3. *Late exporters in the transition environment*

Our empirical analysis has demonstrated (see Table 2) that the number of Late Exporters is fairly significant only among firms established between 1989 and 1993 (when their share was still above 30%). After this time period, we observed a visibly declining trend, from 22.7 percent in 1994 to 5.1 percent in 1999. Moreover, the percentage share of the volume of exports for Late Exporters remained very low through the entire period 1993–2003, with an average of 4.8 percent of the total exports. This observation led us to the next research question:

RQ3: Why did those entrepreneurial start-ups that initially concentrated for a number of years exclusively on the domestic market seldom embark on exporting later on?

Based on the mainstream internationalization theory, one would also expect some similarity with the cautious, incremental internalization of smaller firms in the developed market economies, demonstrated by the Uppsala model (Johanson and Vahlne, 1977), although with an even longer time between a company's establishment and its first export sale. Bell *et al*. (2001) argued that Late Exporters could be much better prepared for international expansion because they have built their strength and skills in the domestic market. If this argument holds, engaging late in export operations should become a widespread internationalization route among established domestic firms operating in a transition environment; however, we could not confirm such a trend among exporters in Poland's manufacturing sector during 1989–2003.

One explanation, which fits well within the neo-institutional framework, is that the operating environment under transition (particularly in its early stages) was highly unstable; therefore, entrepreneurial start-ups that managed to survive the initial risky phase on the domestic market may have been reluctant to launch exports operations abroad because of their uncertainty about whether establishing international operations would be as volatile as establishing those in the domestic market had been. We speculate that many firms may require a period longer than the 15-year timeframe our analysis covers to expand into international markets; therefore, the late internationalization route may become more visible in the years to come. Based on these arguments, we formulate the following proposition:

Proposition 4: The unstable operating environment during the early stages of the transition period discouraged entrepreneurial start-ups involved from the beginning exclusively in the domestic market from launching export sales because of their perception of the high risks involved in international operations.

5. Conclusions

Longitudinal process analysis of a large data set that covered the entire population of Polish exporters was highly useful in our investigation of firm-level internationalization in a transition environment. We were not only able to quantitatively assess the economic significance of the processes within Poland's national economy, but also to position them in a particular context of transition from the communist system to a market economy system.

Our analysis also confirmed the benefits of the methodological approach based on inductive theory-building, particularly in the emerging, transition-economy context. It helped to reveal context-specific trends and processes, which then led to the formulation of valid research questions. While addressing these questions, we relied on a broad range of theories: those typically recognized as the mainstream management and international business theories, as well as those formulated within other disciplines, as demonstrated by the proposed extension of Shapero's (1982) original social psychological model of entrepreneurial events.

The analysis of large micro-data sets can provide a valuable base or "research springboard" from which to conduct further analyses using both quantitative and qualitative methods to relate them to the patterns and trends identified during the initial phase. The analysis of anonymized data sets that contain a large number of entities but have narrow information content for each entity has obvious limitations: for example, initial findings cannot be confirmed through direct contacts with the companies, and additional variables cannot be added. This limitation can be remedied by follow-up research that validates key findings, particularly through qualitative methods such as case studies and interviews with top management. With respect to the particular issue of internationalization speed, the comparative analysis of Instant Exporters and Quick Exporters versus Late Exporters, seems particularly promising.

Finally, our investigation leads to some important policy implications. For example, the finding that a newly established firm becomes an exporter predominantly during the initial phase calls for significant adjustments in export promotion programs. Rather than providing support for smaller existing firms, the relevant measures and tools should be focused on entrepreneurs who plan to start a new business or are at an early stage of the formation process. This strategy can be accomplished, *inter alia*, by expanding the international topics covered in educational programs aimed at fostering entrepreneurial activities.

The Authors

Jerzy Cieslik is a Professor of Entrepreneurship at Kozminski University, Warsaw, Poland. He earned his PhD in International Economics (1976) at the Warsaw School of Economics. During 1990–2003 he was a co-founder, board member and CEO (1996–2000) of Ernst & Young Poland. He is the author of a leading academic textbook in Poland, *Dynamic Entrepreneurship. How to start your own business* (in Polish), Warsaw, 2006 and 2008.

Eugene Kaciak is an Associate Professor of Management at Brock University in St. Catharines, Ontario, Canada. He earned both his MSc in Economics (1973) and his PhD in Econometrics (1977) at the Warsaw School of Economics (Poland). He has published articles in a number of scientific journals, including *Journal of Marketing Research*, *Journal of International Consumer Marketing*, *Journal of Targeting*, *Measurement and Analysis for Marketing*, *International Business & Economics Research Journal*, *Journal of Microcomputer Applications*, and *Revue Internationale PME*.

References

Acedo, FJ and MV Jones (2007). Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms. *Journal of World Business*, 42(3), 236–52.

Ajzen, I (1991). The theory of planned behaviour. *Organization and Human Decision Processes*, 50, 179–211.

Andersson, S and J Wictor (2003). Innovative internationalization in new firms: Born globals — the Swedish case. *Journal of International Entrepreneurship*, 1, 249–76.

Aspelund, A and O Moen (2005). Small international firms: Typology, performance and implications. *Management International Review*, 45, 37–57.

Autio, E, HJ Sapienza and JG Almeida (2000). Effects of age at entry, knowledge intensity, and imitability on international growth. *Academy of Management Journal*, 43(5), 909–24.

Bandura, A (1986). *The Social Foundations of Thought and Action*. Englewood Cliffs, NJ: Prentice Hall.

Bell, J, R McNaughton and S Young (2001). 'Born-again global' firms: An extension of the 'born global' phenomenon. *Journal of International Management*, 7, 173–89.

Bird, B (1988). Implementing entrepreneurial ideas: The case of intention. *Academy of Management Review*, 13, 442–53.

Boyd, B and GS Vozikis (1994). The influence of self-efficacy on the development of entrepreneurial intentions and actions. *Entrepreneurship Theory and Practice*, Summer, 63–77.

Bruton, GD, D Ahlstrom and K Obloj (2008). Entrepreneurship in emerging economies: Where we are today and where should the research go in the future. *Entrepreneurship Theory and Practice,* January, 1–14.

Chang, J (2007). International expansion path, speed, product diversification and performance among emerging-market MNEs: Evidence from Asia–Pacific multinational companies. *Asian Business and Management*, 6, 331–53.

Coviello, NE (2006). The network dynamics of international new ventures. *Journal of International Business Studies*, 37(5), 713–31.

Danis, WD and A Wade (2002). Hungarian–Western partnerships: A grounded theoretical model of integration processes and outcomes. *Journal of International Business Studies*, 33(3), 423–55.

EconStats (2006). EconStats, Poland WPI Base Year 2000.

Freeman, S, R Edwards and B Schroder (2006). How smaller born-global firms use networks and alliances to overcome constraints to rapid internationalization. *Journal of International Marketing*, 14(3), 33–63.

Gallup Organization (2007). *Observatory of European SMEs*. Brussels.

Hitt, MA, H Li and WJ Worthington IV (2005). Emerging markets as learning laboratories: Learning behaviors of local firms and foreign entrants in different institutional contexts. *Management and Organization Review*, 1(3), 353–80.

Johanson, J and JE Vahlne (1977). The internationalization process of the firm — A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1), 23–32.

Jones, MV and NE Coviello (2005). Internationalisation: Conceptualising an entrepreneurial process of behaviour in time. *Journal of International Business Studies*, 36(3), 284–303.

Knight, J, J Bell and R McNaughton (2001). The 'born global' phenomenon: A re-birth of an old concept? In *Researching New Frontiers* 2, 4th McGill Conference on International Entrepreneurship, Glasgow.

Locke, EA (2007). Case for inductive theory building. *Journal of Management*, 33(6), 867–90.

Meyer, KE and MW Peng (2005). Probing theoretically into Central and Eastern Europe: Transactions, resources and institutions. *Journal of International Business Studies*, 25(6), 600–21.

Osborn, E and KM Slomczynski (2005). *Open for Business. The Persistent Entrepreneurial Class in Poland*. Warsaw: IFIS Publishers.

Oviatt, BM and PP McDougall (2005). Defining international entrepreneurship and modeling the speed of internationalization. *Entrepreneurship Theory and Practice*, 29(5), 537–53.

Peng, MW (2001). How entrepreneurs create wealth in transition economies. *Academy of Management Executive*, 15(1), 95–96.

Rialp, A, J Rialp and GA Knight (2005). The phenomenon of early internationalizing firms: What do we know after a decade (1993–2003) of scientific inquiry? *International Business Review*, 14, 147–66.

Shapero, A and L Sokol (1982). The social dimensions of entrepreneurship. In *Encyclopaedia of Entrepreneurship*, CA Kent, DL Sexton and KH Vesper (eds.), pp. 72–90. Englewood Cliffs, NJ: Prentice-Hall.

Smallbone, D and F Welter (2001). The distinctiveness of entrepreneurship in transition economies. *Small Business Economics*, 16(4), 249–62.

Tsui, AS (2004). Contributing to global management knowledge: A case for high quality indigenous research. *Asia Pacific Journal of Management*, 21(4), 491–513.
Vincze, Z (2003). Foreign-market expansion in newly-emerging markets: Finnish companies in the Visegrad countries — Results of a grounded theory analysis. *Journal of East–West Business*, 9(3/4), 107–35.
Zahra, SA (2007). Contextualizing theory building in entrepreneurship research. *Journal of Business Venturing*, 22, 443–42.