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8

THE INTERNATIONALIZATION OF CORPORATIONS FROM THE CEE REGION - QUANTITATIVE ANALYSIS

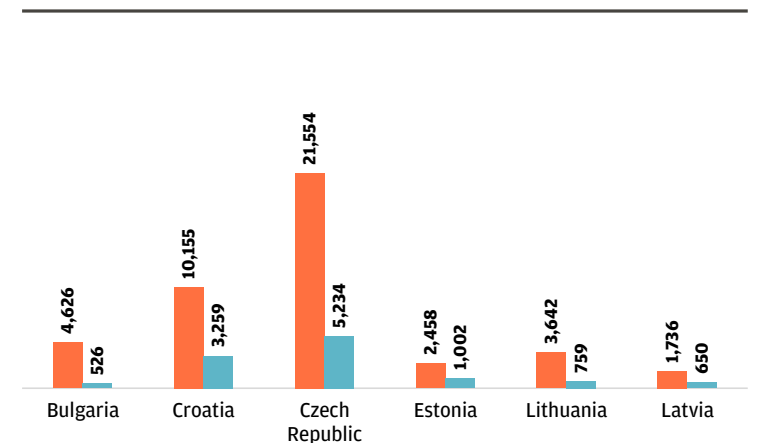
Łukasz Bryl

For many large enterprises markets of the Central and Eastern Europe (CEE) countries become insufficient and therefore companies have to decide to make an expansion into the foreign countries. The fundamental questions are, what importance have revenues derived from sales in foreign markets, what are the main directions of foreign sales, and in how many countries largest CEE companies operate.

Total amounts of revenues and export (foreign sales) of the 15 largest companies by the annual value of revenues listed on the stock exchanges of each country (total 165¹) have been analyzed.

¹ Only commercial entities (joint stock companies listed on the stock exchange) have been studied. All data refer to 2012 and have been taken from the EMIS Emerging Markets database, as well as from annual reports and financial statements of the individual companies. In order to standardize the results necessary calculations have been made from the local currency into EUR basing at the exchange rate from 31/12/2012.

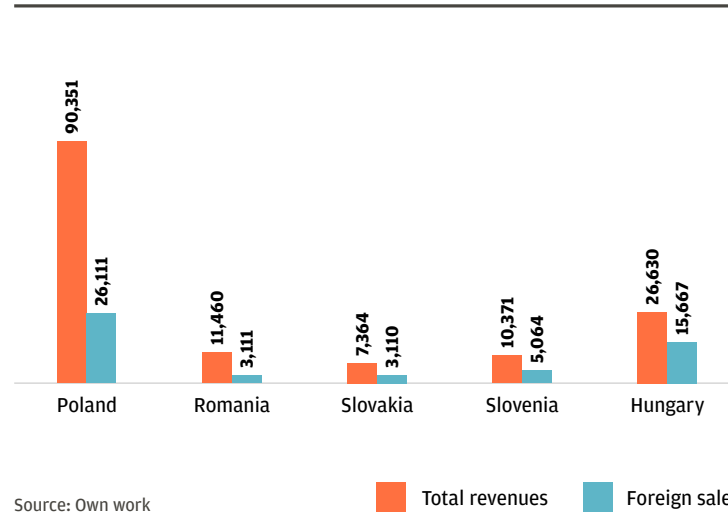
Revenues and export of the CEE countries (mIn EUR, 2012)



Source: Own work

■ Total revenues ■ Foreign sales

Revenues and export of the CEE countries (mln EUR, 2012)

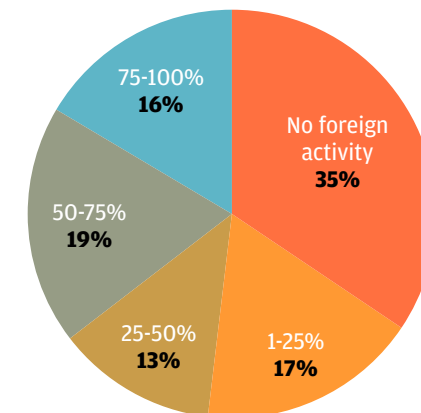


The total export value of the 135 largest companies from the CEE region (it failed to get the data in case of 31 firms²) amounted to 64 493 million EUR. The largest cumulative value of exports of 15 listed companies with the highest revenues referred to the Polish companies (26 111 million EUR) and was 40 times higher than the corresponding values for Latvian companies (EUR 650 million EUR) for which the total export values in the group were the smallest. The largest exporting company listed on the stock exchange was the Polish PKN Orlen, which operates in 10 foreign markets (28 870 million EUR in revenues and 16 483 million EUR of foreign sales). The second company with the largest foreign sales was Hungarian MOL (19 023 million EUR and 13 992 million EUR respectively) operating in more than 20 countries. Both companies work in the oil and gas industry.

It should be noted that not all largest companies are dealing with export activity. Among the 135 companies analyzed 46 of them (34.3%) does not sell abroad at all, or the share of exports in total sales is less than 1%. In that case predominantly appeared Bulgarian companies (6 enterprises), which arises from the fact that a large part of the largest listed enterprises in Bulgaria are dedicated to provide energy for the domestic market. In turn, most companies selling abroad came from Estonia (13 companies).

The internationalization of business earnings took different values. It has dominated the share of foreign sales in total revenues at the 50% -75% level.

Share of foreign sales in total revenues



² Although companies listed on the stock exchange have been studied, what imposes on them legal obligation to publish annual reports, some companies do not provide such document or in annual reports there has not been published any information related to its foreign operations. The reason behind such activity was that companies deliberately omitted this information for the fear of unknown future consequences of data sharing.

In the dominating level (50-75%) most companies derived from Estonia (6 firms). The internationalization of revenues at the lowest level (1-25%) referred mainly to the Polish, Estonian and Romanian companies (4 enterprises each). The highest level of internationalization of revenues (share of foreign sales in total revenues at the level of 75-100%) was mainly in case of Latvian companies (7 enterprises). The most internationalized enterprise turned out to be Estonian company Silvano Fashion Group (the share of foreign sales in total revenues amounted to 98.4%). The company manufactures and distributes women's underwear and conducts its activities in 7 foreign markets.

The most important of them is Russia with the share of 61.8% in total exports). Company with the lowest internationalized revenues (excluding enterprises with the share of exports in total sales of less than 1%) was a Polish bank PKO BP, that conducts its leasing activity on one foreign market, Ukraine. In 2012 the share of the Ukrainian market in total revenues of PKO BP amounted to 1.4%. In the whole range of the lowest level of internationalization (1-25%) prevailed Polish, Estonian and Romanian companies (respectively 4 enterprises from each country). Top 10 companies with the highest and lowest level of internationalization have been shown below.

Internationalization of revenues

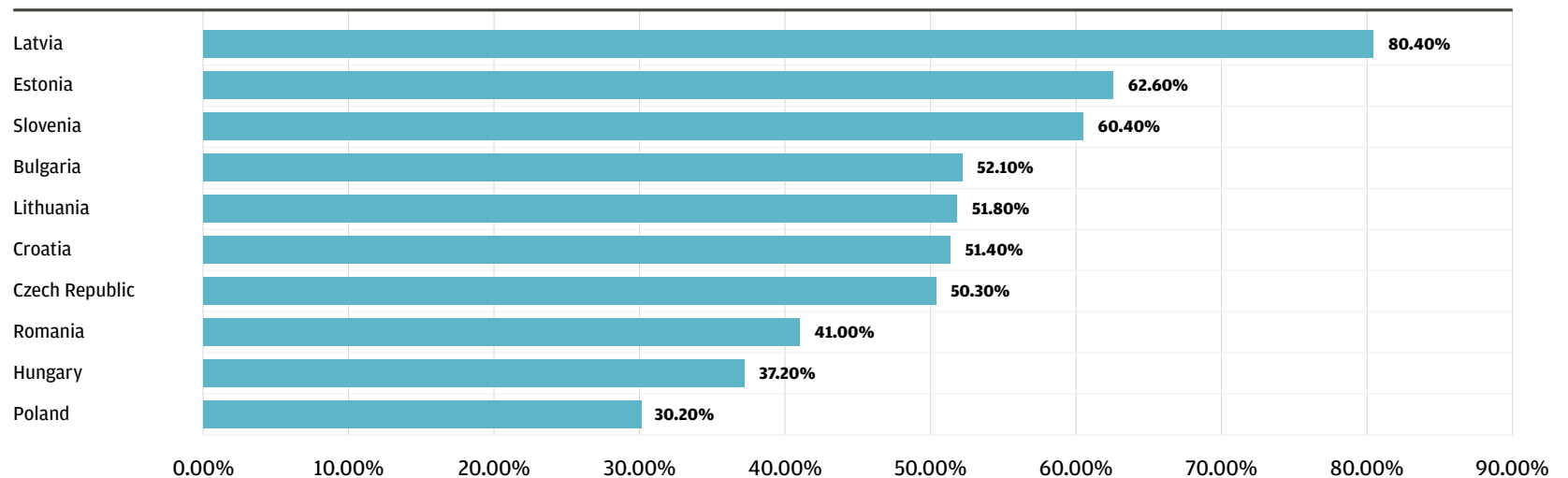
LARGEST			SMALLEST		
Company name	Value	Country	Company name	Value	Country
Silvano Fashion Group	98.4%	Estonia	PKO BP	1.4%	Poland
Grindeks	98.0%	Latvia	PGE	1.7%	Poland
Gorenje-	96.4%	Slovenia	PZU	1.9%	Poland
Valmieras stikla skiedra	96.0%	Latvia	Tallinna Kaubamaja	2.0%	Estonia
SAF Tehnika	95.0%	Latvia	Nordecon	2.0%	Estonia
Rigas elektromasinbuves rupn.	93.9%	Latvia	Tauron	3.1%	Poland
Rigas kugu buvetava	93.5%	Latvia	CIG Pannonia Eletbiztosito Nyrt.	6.1%	Hungary
Ditton pievadkezu rupnica	92.5%	Latvia	Croatia Osiguranje	7.5%	Croatia
KRKA	92.0%	Slovenia	Zwack Unicu Nyrt.	8.7%	Hungary
Richter Gedeon Nyrt.	90.5%	Hungary	Telefonica C.R.	9.6%	Czech Republic

Source: Own work

Companies that do not conduct any foreign operations were mostly banks (e.g. the Slovenian Alta Skupina) and companies providing municipal services in the country (e.g. Czech Prazskie Sluzby, Latvian Latvijas Gaze, Lithuanian Lietuvos Duis, Hungarian EMASZ and Bulgarian Energo Pro Sales AD³). The lowest level of the share of foreign sales in total revenues (1% -25%) was observed in the case of companies from the following industries: banking (e.g. PKOBP) and insurance (e.g. PZU, Croatia Osiguranje). In turn, the most internationalized actors were enterprises in the pharmaceutical industry (e.g. Latvian Grindeks: 98.0% or Slovenian Krka: 92.0%) and chemical (e.g. slovenian CINKARNA Celje: 86.2 %).

On average, companies from the CEE region record share of foreign sales in total revenues at the amount of 51.7%, a value lower than the corresponding result for the 100 largest non-financial corporations in the world. According to the UNCTAD data, the average share of foreign sales in total revenues was 62%. Analyzing the same value in a group of companies from developing and transforming countries the result of companies from the CEE region is higher (51.7 % vs. 45%). Generally, UNCTAD data suggest that internationalization increases with the level of economic development of the state. The most internationalized companies come from Great Britain, France and the United States. Internationalization of revenues differs significantly among the CEE countries.

Internationalization of revenues - countries breakdown



³ In fact, this company is a foreign subsidiary of the Czech company Energy Pro. However it is listed on the Bulgaria Stock Exchange.

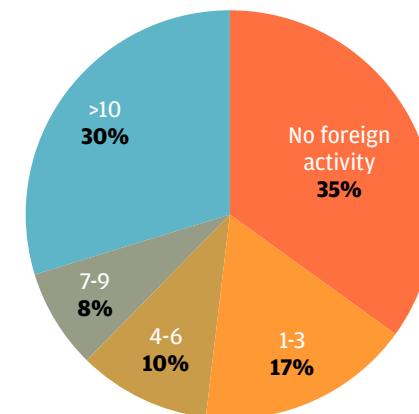
Notes: The analysis omitted Slovak companies due to the lack of data
Source: Own work

The largest average share of foreign sales in total revenues showed Latvian companies (80.4%), while the lowest Polish (30.2%). Among the analyzed CEE enterprises there was a moderate diversity (coefficient of variation of 27%) of the internationalization of revenues in the geographical scale. This situation can be explained by the size of economy (Polish GDP is 17.5 times larger than the GDP of Latvia⁴), which means that companies from small countries willing to grow (increase revenues) are forced to expand beyond its own small market. However, in case of the largest, publicly traded companies there was not observed any direct relationship between the value of foreign sales and the size of the GDP of the country.

Country	Nominal GDP (2012, bln USD)	Internationalization
Estonia	22.4	62.6%
Latvia	28.4	80.4%
Lithuania	42.3	51.8%
Slovenia	45.4	60.4%
Bulgaria	51.3	52.1%
Croatia	56.2	51.4%
Slovakia	91.4	66.7%*
Hungary	124.6	37.2%
Romania	169.2	41.0%
Czech Republic	196.5	50.3%
Poland	489.8	30.2%

The foreign activity of enterprises should also be considered by the presence in foreign markets. The largest companies from the CEE region export into different number of foreign markets. Number of foreign markets ranges from 1 (five companies: Polish PKO BP, Croatian: Zagrebacka Banka and Telefónica CR, Estonian Nordecon and Latvian Latvijas Tilti) to 100 (Hungarian Gedeon Richter selling pharmaceutical products). Into many markets their products also sell: Slovenian Gorenje (household goods industry) - 90 countries and Latvian SAF Tehnika (telecommunications equipment) - 86 markets. Comprehensive results of the analysis of the number of foreign markets is shown below.

Number of foreign markets



Source: Own work

⁴Based on World Bank data. Data refer to the real GDP.

Notes: The analysis omitted Slovak companies due to lack of data
Source: Own study based on IMF Economic Outlook Database

Among the companies involved in international expansion most companies sell their products or offer services in more than 10 foreign markets (30%). The largest listed companies in the CEE region are often also present in one, two or three countries (16.9 % of companies). Aside from the relatively large proportion of firms not making sales abroad in general (35.4 %) other companies have substantial internationalization results.

In order to determine the degree of geographical diversification of foreign sales the share of the largest markets in total exports of the company has been examined. Company dependence from only one of the partners (especially in the case of the large importance of exports in total revenues) apart from the possible benefits originating from lower costs and building long-term relationships with a single partner might also result in an increase of operational risk. In case of adverse changes of the exchange rate or in case of foreign economic downturn resulting in aggregate demand decrease, including imported goods, enterprises strongly focused on a foreign market must take into account the temporary or even long-term, negative trends in the stability of the revenue structure. Despite the fact that 30% of companies export to over 10 overseas markets the average value of sales to a single key country in total revenues was 43.9%, which indicates the high dependence of exports from one partner. Dominant key country was mainly Russia, followed by Germany, Lithuania, United States and Slovakia. Among the 22 key markets (with the largest share in exports) 13 came from outside the CEE region, however, there were only two non-European countries (United States and Canada), which means that companies undertake international expansion also on the culturally different markets. In addition, nine key markets were countries from the CEE region. On the one hand, this implies close links with the geographically (and culturally) nearest partners, on the other hand indicates a risk of transmission of economic downturn through trade. Particularly strong relationships take place in the case of mutual trade between the Baltic States and the Czech Republic and Slovakia. In terms of trade outside the CEE region key role play both Russia and Germany. Particularly noticeable dependence on Russia show enterprises from Lithuania, Latvia and Estonia. In the case of Estonian companies significant trade ties also occurred with Finland.

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