

# **Challenges of expanding business in foreign countries on “Polimersvarka” company example.**

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## **Abstract**

*Nowadays a lot of companies want to expand to the market in another company; author’s aim in this work is to describe the challenges of such business from perspective of Belarus company “Polimesvarka”, which expand their business to Estonian market.*

## **Introduction**

Topic of this paper is Challenges of expanding business in foreign countries on “Polimersvarka” company example.

Aim of this paper is to analyze challenges of expanding business in foreign country according experience of company “Polimersvarka”.

Following tasks were set up:

- Analyze theoretical sources about business expanding in different countries
- To characterize company
- To analyze bonuses and problems in this business regarding differences in law, language and culture. Way of workforce selection and management
- To provide conclusions and suggestions

Company “Polimersvarka” has 20 year experience in Belarusian market and 8 year experience in Estonian market. Therefore author decided to take company as example due to long experience in two markets.

## **Company expanding in theory**

Globalization is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture. (Al-Rodhan, R.F. Nayef, Gérard Stoudmann, 2006) Advances in transportation and telecommunications infrastructure, including the rise of the telegraph and its posterity the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities. (Martin Albrow, Elizabeth King, 1990)

The term globalization has been increasingly used since the mid-1980s and especially since the mid-1990s. (statistics) In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people, and the dissemination of

knowledge. ( IMF staff, 2002) Further, environmental challenges such as climate change, cross-boundary water and air pollution, and over-fishing of the ocean are linked with globalization. (Bridges, 2002, pp. 361-368) Globalizing processes affect and are affected by business and work organization, economics, socio-cultural resources, and the natural environment.

The effects vary a lot from one part of the world to another and from one area of business to another.

Globalization has impact on competition in local and foreign markets. This effect can be interpreted as pro and con at same time, it provides company with opportunity to sell product or service global, but at same time in local market there will appear new competitors which might overtake segment.

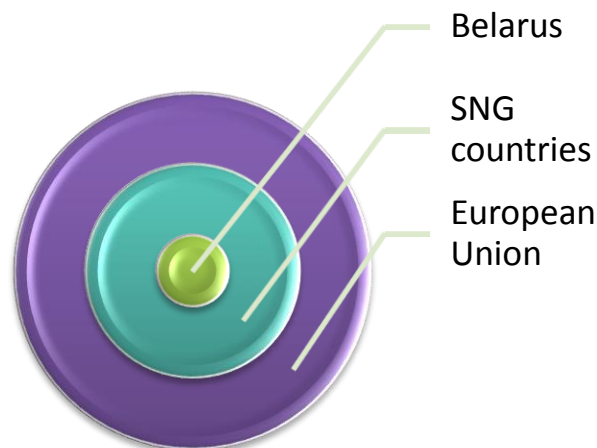
This is a major challenge to businesses and their managers. A multi-national business environment is more complex with more variables, and so is more difficult to manage. A multi-cultural employment policy leads to employees of many different nationalities, languages, religions and cultures in different offices across the globe. These employees react in quite different ways to incentives, to motivation and it is very difficult to find managers who are sensitive to all these different factors. (David Crowther , Güler Aras, 2011) It is very easy to inadvertently give offence and demotivate workers.

#### **Why company from Belarus need to expand business in another country?**

Belarus country in is a landlocked country in Eastern Europe bordered by Russia to the northeast, Ukraine to the south, Poland to the west, and Lithuania and Latvia to the northwest.

The Belarus country strongly depends from Russia and has one border agreement with Kazakhstan, Russian, Ukraine, and some other counties which also have strong depends from Russia.

But with European countries (European Union) Belarus have customs boarders, different legal aspects, taxation and different market segmentation that are why it is difficult for companies deal with other Europe Union counties companies.



**Figure 1. Belarus ralations with other counties (information from interview)**

According to Figure 1 it is possible to see the Belarus relationship with other countries. Belarus have the same market segmentation with SNG countries and according to their agreements the goods and trades which countries sell to each other do not have taxes. That is why most Belarus companies prefer to do business and partnership with SNG countries, especially with Russia.

For companies which would like to expand their market segmentation, target market and introduce their product in the new level is very difficult to reach an agreement with European companies because of legal aspects and taxes, which companies need to pay for products. In such situation the easiest way for company is expand their own business to European market.

Author of this work have studied the aspect which companies need to take in account on Belarus company example which expanded their business in Estonia to widen their opportunities.

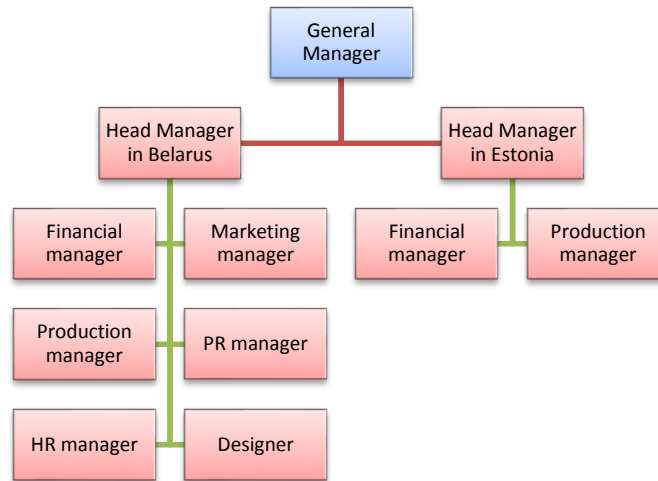
## **Description of subject**

### **General information about company**

The Limited Liability Company "Polimersvarka" was founded in 1995. Since the foundation the traditional activity are the manufacture and repair of awnings, drawing advertising on PVC fabric, as well as the production of tent structures of various sizes - trade and exhibition halls, tents, cafes, awnings, canopies, etc. Since 2003, the company is also engaged in the wholesale PVC fabric imported. In late 2004, LLC "Polimersvarka" started to produce inflatable motorboats under the trademark "Veles" and is currently the only manufacturer of inflatable motor boats class RIB in Belarus. In 2007 company established a branch in Estonia and opened manufacture in Tartu and Tallinn.

### **Structure of the company**

For clear and understandable work each company need to have their own structure of management, to help employees with understanding whom to ask question and whom to report. Structure of company which author analyzed is provided below.



**Figure 2 Structure of company (Interview)**

On Figure it is possible to see the structure of the company. The main person in the company is General Manager, he is ruling business in both countries (Estonia and Belarus) and responsible for them. Then in each country there are head managers, which report to the General Manager about company's work in each chain.

The head manager in Belarus responsible for six managers (departments), which includes Financial department, Marketing department, Production department, HR department, PR department and designer. The head manager in Estonia is responsible for financial and production departments.

In Estonia there are only two departments, because chain in Estonia still develops and range of product is smaller than in Belarus and it is very expensive to employ many people and create a lot of departments. That is why all missing department work is done by departments in Belarus which are doing work for both countries.

### **Characteristic of company products**

Company in Belarus focuses on different production from PVC material, wood and metal constructions. The product range consists of: 48 products. Most of products can be adjusted to individual preferences of customer. Company is focus on Business to Business sales. B to C clients are buyers of products boats, pools.

Company in Estonia focuses on boat production. They offer wide range of boats made from PVC material, no other products are sold in Estonia.

### **Selection of the country**

During the interview with general manager of the company was founded that selection processes of the country where to expand business was made relying on rates of taxation, average income in country, economic situation and country's attitude toward business development in general.

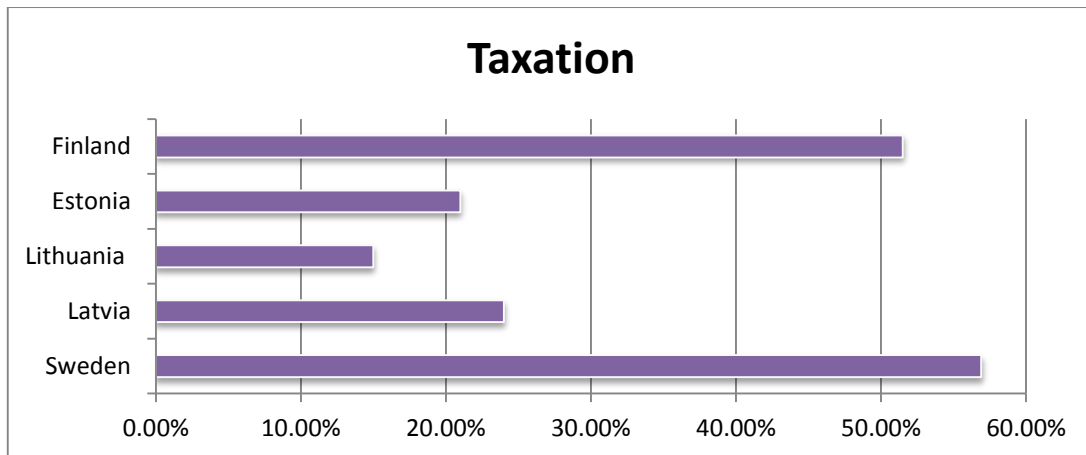


Figure 3 Taxation (Питалев, 2014)

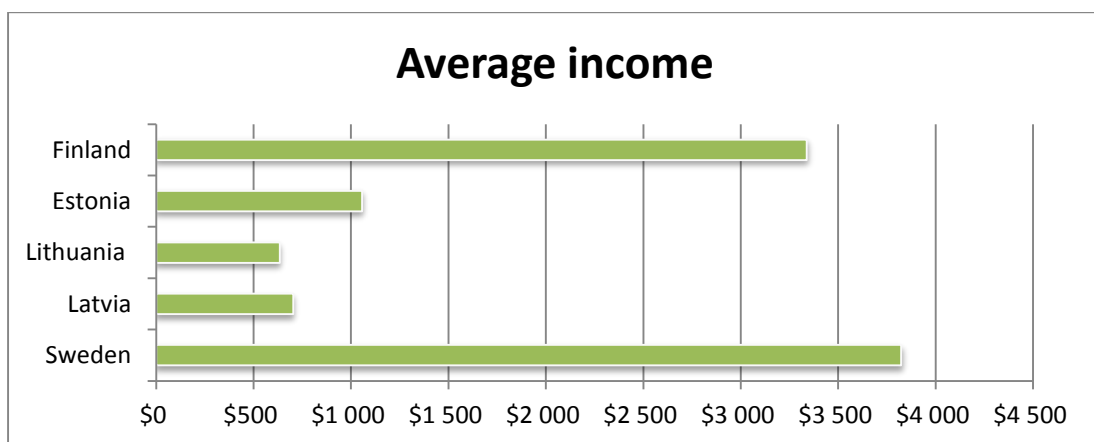


Figure 4 Average income of countries (Питалев, 2014)

From Figure 3 and Figure we can see potential countries for expanding of business. Lithuania has lowest taxation, but average income as well is lowest among countries. Latvia has second lowest average income, but taxation is higher than in Estonia. Therefore Lithuania with very low average income and Latvia with rather high taxation was removed from list to review as potential places of company opening.

As one of the criteria which company used was language barrier. Company wanted to find a country where they can do management inside of company in Russian language, at least for communication with Head Company.

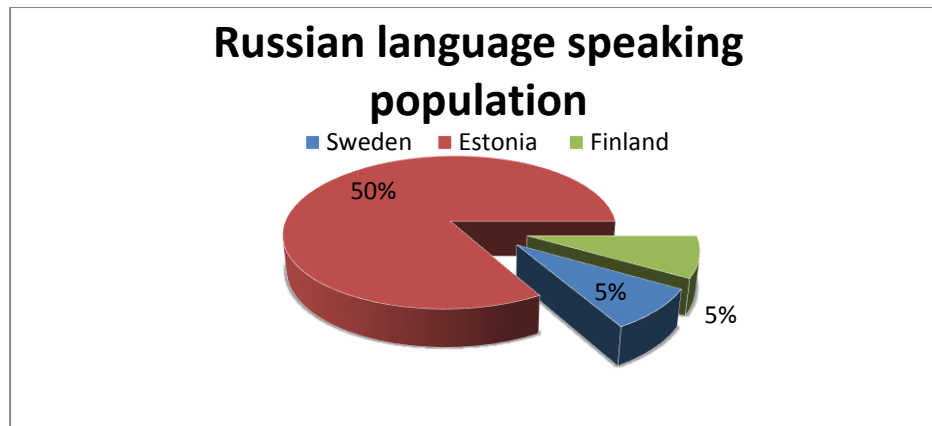


Figure 5 Russian language speaking population (European Commission, June 2012)

From Figure 5 we can see that Estonia among other countries with good economic situation has big amount of russian speaking population. This point was important as well for company during decision making process where to open branch. Estonia has 10 times more russian speaking people than Sweden or Finland.

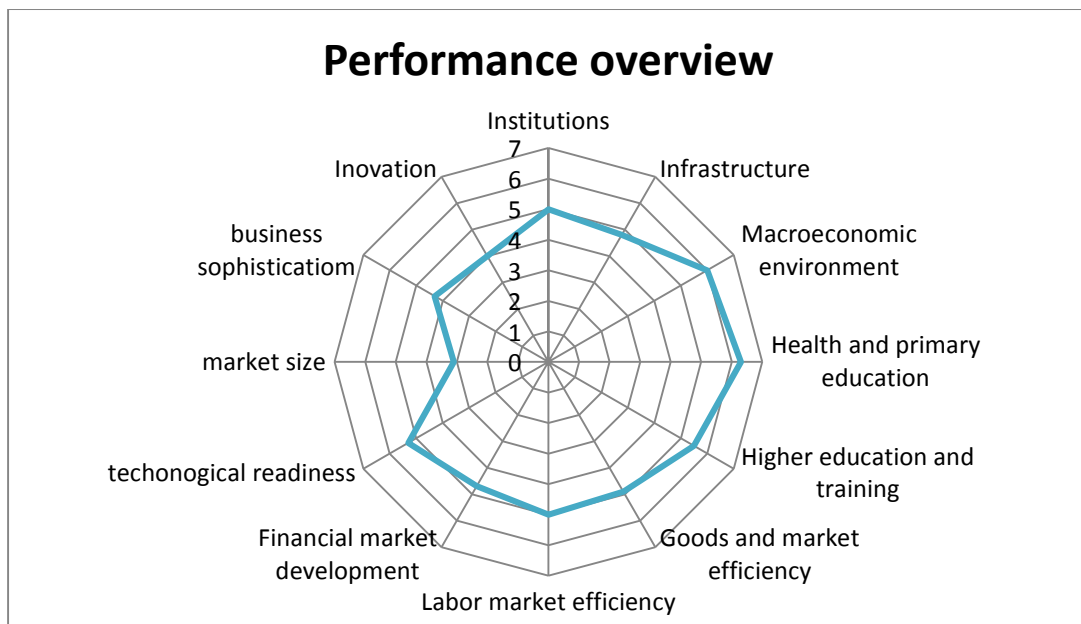


Figure 6 Performance overview of Estonia ( World Economic Forum)

From Figure 66 it is possible to see that weak spots are market size, but it can be compensated with opportunity provided by European Union to export goods among countries. As strenghts can be pointed Macroeconomic environment, health and primary education whcih plays role for company. Overall average score is 4.7 which crates positive environment for setting up business. Comparing Estonia with other Baltic states it has highest rank 29, Latvia has 45 place and Lithuania 41, therefore for foreign company it is good place to start expansion in European Union.

As a result company made decision to open branch in Estonia, due to low taxation rate comparing with Sweden and Finland and high average income rate comparing

with Lithuania and Latvia. Additional point was amount of russian language speaking people.

### Necessary documents for company registration

For doing business first step is to register a company. In many countries the legal aspects for company register may differ. In this chapter author will compare two companies' legislation for business' foundation on Belarus and Estonia examples. The choice of countries author can explain by belonging of countries to different trade unions: Estonia is belonging to European Union and Belarus is belonging to one union with Russia and Kazakhstan.

The process of establishing a private limited company

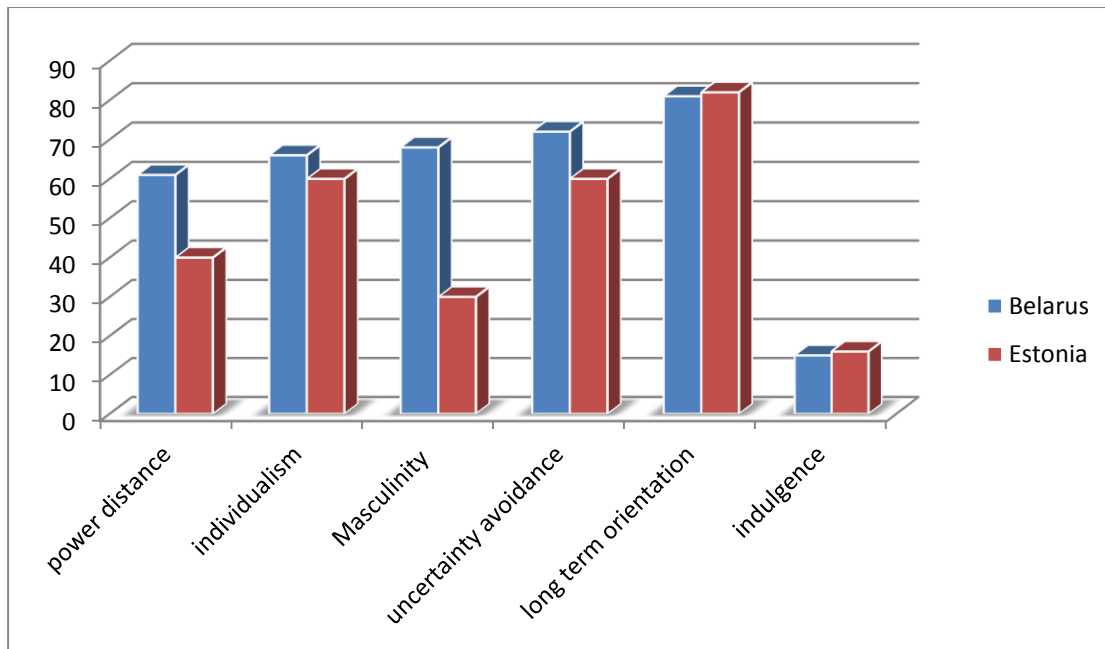
Table 1 Steps of registration of business

Estonia	Belarus
1.Choosing and checking the business name from the Commercial Register	1. Obtain an approval of the company name with the Registry Office
2. Registration of the company: <ul style="list-style-type: none"> <li>• Electronic filling request</li> <li>• Verification of foundation documents with notary</li> </ul>	2. Business registration with the State Registry
3. Acquiring licenses if the area of activity is subject to special requirements. Information and electronic registration at the Register of Economic Activities	3. Receive confirmation of registration with the Social Security Fund, RUP Belgosstrakh and Tax Inspection
4.Registration of the company as a VAT payer at the Estonian Tax and Customs Board	4. Make a company seal
5.Registration of the employees in the employee registry at the Estonian Tax and Customs Board ( <b>Estonian Investment Agency</b> )	5.Open a regular bank account and pay a statutory fund before filing documents at the State Registry (World Bank Group, 2014)

In table 1 we can see that between Belarus and Estonia most of procedures are the same, main difference is that in Estonia it is possible to do registration of company by electronic filled request. Rest of procedures are the same only count number differs and name of procedure, but not the goal of it.

### Differences in cultural aspects

For analysis of cultural differences was used Geert Hofstede's cultural dimension research to find differences between Belarus and Estonia. From findings below author developed questions for interview. Data was gathered from official webpage of Hofstede's research results <http://geert-hofstede.com/>, and (Kustin, 2008) with latest inquiries.



**Figure 7 Cultural evaluation**

From the information gained during the interview author conclude that board of directors feel some difference doing business with Belarus and Estonian people. They are a little bit differing in communication and distance.

Author of this work can explain this little difference by Hofstede theory about cultural dimensions Figure 7. The masculinity of Belarus culture is much higher than Estonian and it means that if head of the company used to work with men and there are more men in the business and management in Estonia, where people do not pay so many attentions on gender, company will need to employ more women and do business with them. Moreover possible to see difference in attitude to work: Belarus (masculinity) people work for salary and money is priority for them, the Estonians used to work for work, it is necessary for them have clear schedule and motivation for work in particular company. Other dimension which also needs to be taken in account it is that power distant in Belarus much higher, which means that company hierarchy in Estonia need to be more democratic and consultative than company used to have with Belarus employees.

Company has two different webpages, one in Belarus second in Estonia. Estonian webpage has poor content; there is only Estonian language, which creates barrier for people outside Estonia to introduce themselves to product of company. Webpage does not have possibility of feedback or interaction of customer, but as we can see from Hofstede's Masculinity graph, Estonians are more feminine therefore for them it is important of build relationships with people or product. Webpage oriented to private customers, but it is hard to clearly understand content.

Meanwhile Belarusian webpage has more user-friendly interface, with different options of contact with company and more developed database. Website of Belarusian Company is more focused on Business to Business customers.



Interaction in social networks especially in Estonian branch will build good relationship with target audience and will help to understand their preferences, attitude and emotions towards product. (Mers, 2014)

### Workforce selection and management

One of the questions for company management when company expands their business in another country is to employ local labor force or to send people from “Mother Company” to work in the new enterprise?

The company strongly supports the idea that workforce should be local for clear communication with each other, knowledge of law aspects, and cooperation with local customers and for strong company work in general; moreover it is reduce costs for transportation, living expenses and native-language educational courses. Author analyzed expenses and reasons for this attitude.

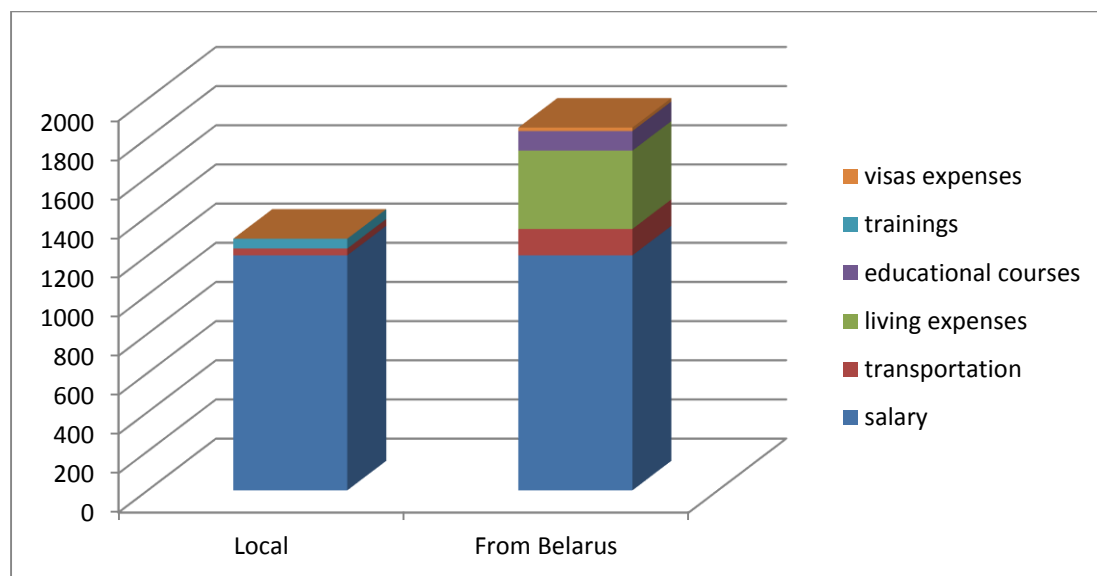


Figure 8. Workforce costs in Estonia ( Interview)

According to **Error! Reference source not found.** author can conclude that employment of the local workforce for companies is much cheaper in monthly expenses scale. From **Error! Reference source not found.** it is possible to see total monthly expenses for sending person to work from Mother Company will cost for company 1852, 50 euros per month instead of the cost of employment the locals with all additional expenses and the same salary will cost for company 1285 euros monthly. It is means that company can save 567, 50 euros every month on each manager’s salary by employing the local people.

*Moreover from the global point of view the employment of locals’ workforce helps to increase amount of workplace and taxes payable in country where company doing the business.*

### Benefits for company

When company expanded to the European market, they received some benefits. For example they got opportunity to sign the contract with German company and receive all necessary raw materials for production goods, moreover thanks to the

contracts with European companies, company “Polimersvarka” has opportunity to sell their product in some shopping chains in Estonia and Lithuania. The second opportunity is that Estonian’ companies can exhibit marked “made in EU” and for export to Belarus and Russia it may play a big role for potential customers. One more opportunity is that in future company can easy expand to another country in Europe and develop their chain there, in case of all borders are already opened and company already have some partners in Europe.

### **Conclusions**

1. For companies in Belarus very difficult to make contract with companies from EU that’s why the best solution for Belarus companies establishes their business’ chains in other countries.
2. During the establishing new chain company may face to several problems, such as legislations, cultural differences, workforce selection and etc.
3. Estonian and Belarus legal aspects are very similar.
4. It is better in case of company’s cost to employ local people, and company X did it in such way.
5. Cultures in both countries are very similar, but there are some differences which company needs to take in account.
6. It is easy to build management in country which is located in not very far, in case of cultural and language similarities.
7. Company receives benefits, such as new cooperation, opportunity to development and etc.
8. Estonia – country which has positive attitude toward opening business and company “Polimersvarka” has used this opportunities.
9. Company has limited communication with customers in term of limited using of new media.

### **Suggestions**

1. Expand range of products produced in Estonia, pick most successful products from Belarus, and analyze competition regarding them in country and implement product which will have less concurrence.
2. According to interview results and Hofstede’s research on Masculinity, in Estonian branch of company should be more emphasis on relationship with employees, special events can play big role.
3. From point of view of power distance in Estonian company important is avoidance of building high hierarchy, because for Estonian culture it is hard to accept such type of management in company.
4. Company should involve themselves into social network live in both countries; to establish relationships with their customers and potential partners, social networks can help become more recognized.
5. Webpage for Estonian branch has crucial role, but for current it is poorly developed, therefore for company it would be beneficial to create user friendly webpage with good design.

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