

## **Internationalization as key factor of Polish banking system development**

The outward internationalization as a phenomenon was investigated by many researches starting from the 1960-ies. Among them one could mention R. Vernon (Vernon, 1966), J. Johanson, J.- E.Vahlne (Vahlne & Johanson, 1990), J. Danning, (Danning, 1993), R. Luostarinen, L. Welch (Welch & Luostarinen, 1993), C.H. McMillan (McMillan, 1996) and many others.

Internationalization as a term is rather indefinite. Some experts consider internationalization to be an establishment of affiliates abroad. Other suggest that it is an international character of company's employees allowing it to accumulate valuable experience and knowledge. Nevertheless, there is a single direction – no matter which approach to internationalization we share. This direction may be described as boundaries blurring out in the company's activity. Boundaries disappear in terms of labor market, distribution etc. Thus, internationalization is a geographic expansion of business scale as a whole as well as a scale of each particular activity direction.

Internationalization should be considered not only statically, as relations existing between the economy, companies and foreign countries, but, above all, dynamically, as a development process, evolving towards more advanced forms. The process may be either of sequential or simultaneous character, with its different forms being introduced at the same time.

The transfers of information (know-how) have the greatest significance for the processes of internationalization. In developed countries, the creation, transfer and processing of information has such influence on their economic, social and cultural development that we can talk about the evolution of information society. Already now, the information processes create the basis for extremely dynamic development of foreign direct investments whose value exceeds the value of foreign trade.

The decisive role in creation and transfer of information, as an internationalization factor, has been attributed to big international corporations which can use the opportunity to conduct research requiring huge investments with respect to marketing and technologies. These corporations have given rise to a new and specific (higher) form of internationalization i.e. globalization, where the world can be generally treated as one, single market.<sup>1</sup> Globalization has mainly comprised the production and sales of modern goods which are scientifically and technologically advanced (electronic, motor or chemical industry). Owing to globalization, internationalization is most vividly demonstrated through international investments, production and inter-corporation exchange rather than through traditional foreign trade. Following the assumptions, the development of internationalization will take place simultaneously with the spread of information, and therefore, the future society will be not only the society of information but, first of all, a global one.

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<sup>1</sup> The economic globalization can be also defined as a process where markets and production of different countries become more dependent on one another due to an increase in the volume of exchanged goods and services as well as due to the inflow of capital and technologies. Globalization can be perceived as a higher stage of internationalization, characterised by intense development of relations and interactions on a global scale. According to W. Anioł, nowadays, internationalization „evolves” into globalization as a result of expanding geographical range of interactions between different subjects of international relations, until it comprises the whole world. Hence, the internationalization can be treated as an initial concept of globalization. H. Chołaj describes globalization as the highest stage of internationalization, which constitutes multitude of processes and phenomena such as the international flow of goods, services, capital, technologies, information and human resources. The author also refers to it as a dominant orientation on the world's market with respect to trade, investment and other transactions, as a territorial and institutional integration of markets and, finally, as global problem relating to ecological degradation which calls for international cooperation in providing adequate solutions. According to A.K. Koźmiński, in the economic sense, the main difference between the internationalization and globalization lies in their geographical range. In case of internationalization, its range reaches several countries, whereas globalization comprises the whole global market. Internationalization is of gradable character where we can talk about less or more advanced stage of internationalization of companies, industries or the economy of a given country or region. More in : A. Limański (ed): „Polska u progu integracji z Unią Europejską”, WSZMiJO, Katowice 2001.

The reasons for the acceleration of the internationalization processes in the world, and especially their occurrence on a global scale, are connected with technological (technological and scientific revolution), political and socio-economic changes.<sup>2</sup>

With respect to the first factor, its influence on the internationalization should be combined mainly with well-grounded interests of oligopolystic competitors and with huge investments made in research and development. Bearing the costs of investments, big corporations aim at their quick amortisation through selling which goes beyond the borders of domestic, or even neighbouring markets. The increase in sales volumes, and consequently, the extension of a production range, brings more benefits. The shortening of a product life cycle as a result of growing competition encourages countries to sell to the largest markets including the global one.

Another technological factor affecting the process of internationalization relates to new inventions, mainly the Internet which facilitates and reduces the costs of transport and communication. The distance included in costs does not influence the price as much as before, and thus helps develop the international transfer of products and know-how.

The socio-economic factors, resulting from a homogenous character of consumers and their growing requirements, are also connected with technological changes. The development of transport and communication has facilitated not only the flow of goods and information, but also the movement of people whose tastes have become alike. The standardization of life styles and consumption patterns increases income levels and fosters educational development. As a result, there appear consumer groups whose buying behaviour with respect to goods and services is mainly conditioned by demoscopic or psychological factors, and not by the type of their nationality. This explains why the demand for these goods and services appear in different countries.

Another factor that has accelerated the process of internationalization is the liberalization of the world trade combined with the policy of facilitating and supporting the flow of capital. This policy is advocated by countries which send or receive the capital, and by organizations (e.g. World Bank) whose activity is crucial for supporting economic growth and for including Poland and other East-European countries in the process of internationalization. The economic changes which took place in Eastern Europe have contributed to spatial as well as sector development of the internationalization process. Initially, however, the process comprised mainly sectors involved in production and selling of goods. At present, thanks to new technological inventions, the internalization also includes service sectors, especially the market of banking services (or, in a broader sense, financial services).

The question arises about the stage of internalization which has been arrived at by the Polish banking sector. Internalization as a process appears in stage-like forms which reflect the history of internationalization based on individual experience of big international corporations. These forms, frequently presented as models, remain in quasi-causality, which means that the assumption of one form, to some degree, conditions the assumption of another.<sup>3</sup> In view of this, we can interpret the internationalization of the Polish banking sector as the evolvement from national banks (domestic), through international to world banks (global). The aim of this paper is to determine the distance to be covered by the Polish banking sector in order to achieve the highest form of its internationalization or its full involvement in the global banking system.

### **1. Process of Polish banking system internationalization**

The banking system in Poland constitutes the basis for the whole financial system of the country. With the Polish economy being subject to many transformations, the banking sector has been under very dynamic development influenced by numerous factors: external and internal, legal, economic as well as political. There are also many barriers and difficulties which must be overcome in order to continue the expansion of the banking system. This task, however, calls for serious conceptual, financial, organisational and legislative efforts.

At present, the banking system in Poland is mainly the result of four processes:

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<sup>2</sup> J. Rymarczyk: „Internacjonalizacja przedsiębiorstwa”, PWE, Warszawa 1996, p. 13.

<sup>3</sup> This approach, among others, is followed by.: L. Berekoven: „Internationales Marketing”, Neue Wirtschafts-Briefe, Berlin 1985, H.G. Meissener: „Aussenhandelsmarketing”, Verlag C.E., Poeschel, Stuttgart 1981.

- changes in the banking legislation, initiated in 1989, which gave the foundations of a two-level system: the central bank with its functions typical of institutions in a market economy, and commercial banks functioning according to universal bank models,
- market transformation which enables to stimulate changes in the banking sector, and which has created conditions for the development of market forms of transactions between banks and business units as well as between commercial banks and the central bank; this transformation has encouraged positive tendencies to build particular segments of the market financial system, especially money, capital and foreign currency markets being the field of activity of banking institutions,
- adjustment to conditions of the European financial sector and to norms elaborated within the monetary integration of the European Union,
- influence of contemporary tendencies such as: globalization of financial markets, liberalization and deregulation of transfers of financial services and capital, advancement of banking techniques, changes in the range and structure of the demand for banking services; this influence is much slighter in Poland compared to developed countries, yet it is already more visible and will probably become more significant with every year.<sup>4</sup>

The principles of a centrally-managed Polish economy prevented active involvement of the banking sector in economic or even monetary processes. The dominance of planning and execution of delegated tasks over monetary processes as well as the centralization of economic decisions, including decisions about the direction, volume and structure of the money flow, led to a situation in which all banking functions were predominantly held by one monobank - the Polish Central Bank.

After the Second World War, the model of the open banking system in Poland was rejected and no foreign investments, either direct or indirect, were allowed. The authorities introduced one-level banking system with home capital only. The system was composed of: the National Bank of Poland, which held some functions of the Central Bank and provided services to companies, Bank Handlowy S.A., which dealt with foreign trade, Bank Polska Kasa Opieki S.A., which handled foreign transactions of members of the public and Bank Gospodarki Żywnościowej, which was responsible for managing accounts of the agricultural sector.<sup>5</sup>

In 1982 the Polish banking system underwent first changes aimed at bringing it closer to the market reality and to principles of functioning in western economies. The change in the banking legislation created a legal basis for separating the National Bank of Poland from the Ministry of Finance, for giving it more independence in the elaboration and implementation of a credit-monetary policy and for establishing new banks in the form of public limited companies with foreign capital.<sup>6</sup> Unfortunately, in practice, the new regulations did not lead to creation of two-level banking system or to the internationalization of the banking sector.

The year 1989 marked a turning point for the Polish banking sector. The Act of New Banking Law<sup>7</sup> and the Act of the Polish National Bank<sup>8</sup> gave rise to two-level banking system. The liberalization of the system created conditions for opening up new banks, including private ones in the form of public limited companies, both national and foreign.

The new banking legislation, supported by changes in the political system, formed a foundation for new banking system. Poland entered a road towards the market economy. The transformation process combined with the implementation of a stabilizing program from 1990, provided conditions for banks' operations within new regulations. It also reinforced the position of the banking sector in regard to execution of economic tasks and accelerated the formation of a financial system which was open to foreign institutions.

<sup>4</sup> B. Pietrzak, Z. Polański, B. Woźniak (ed): "System finansowy w Polsce", PWN, Warszawa 2004, p. 90.

<sup>5</sup> P. Wyczański, M. Gołajewska: "Polski system bankowy 1990-1995", Fundacja im. F. Eberty, Warszawa 1996.

<sup>6</sup> Act from 26.02.1982 r. – Banking law, Journal of Laws No 7, item 56.

<sup>7</sup> Act from 31.01.1989. – banking law, Journal of Laws No 4, item 21.

<sup>8</sup> Act from 31.01.1989. about National Polish Bank, Journal of Laws No 4, item 22.

The internationalization of the Polish banking sector started, in fact, in 1990. The process can be divided into 4 main stages. The first stage, which spanned the period between 1990 and the first half of 1992, had a „mild climate”, conducive to setting up banks with foreign capital. The second stage, between the second half of 1992 and the first half of 1994, was characterized by unfavourable climate for the inflow of foreign capital to the banking sector (stricter requirements of licensing banks). During the third stage (until 1999) the foreign capital was allowed to enter the Polish banking sector on condition that it helped reform banks and provided them with extra capital. As a result of the agreement with OECD, since the beginning of the fourth stage (since 1 January 1999) foreign banks have been free to open their subsidiaries in Poland, and their activity has been based on the principle of national treatment, which means that they are obliged to guarantee equal treatment to all credit institutions operating in the country.<sup>9</sup>

The problem of the foreign capital share in the Polish banking system evokes many controversies. In his comments on the issue, S. Lachowski said that: „the problem of foreign capital share in the ownership structure of the banking sector is related to the fear that banks will be controlled by people and institutions whose interest may be contrary to the interests of the country. The necessity to preserve the national character of the sector is justified by a strategic interest of the country, its economic security or a need to protect less powerful local (domestic) entities.”<sup>10</sup>

In the meantime, foreign banks play a great role in the improvement of the service quality and in the extension of bank service range offered on the Polish market. Their growing market share strengthens competition and forces positive changes in other parts of the sector.

According to data obtained from the General Office of Bank Supervision, between 1999 and 2005 the number of banks controlled by foreign investors grew from 39 to 44, including 24 banks with 100% foreign capital share.

**Table 1. Number of banks in Poland according to ownership structure (end of 2005r.)**

Type of banks	Number
All banks including:	651
Commercial banks	55
- with majority of Polish capital	11
- with majority of foreign capital, including:	44
100% foreign capital share	24
Cooperative banks	572

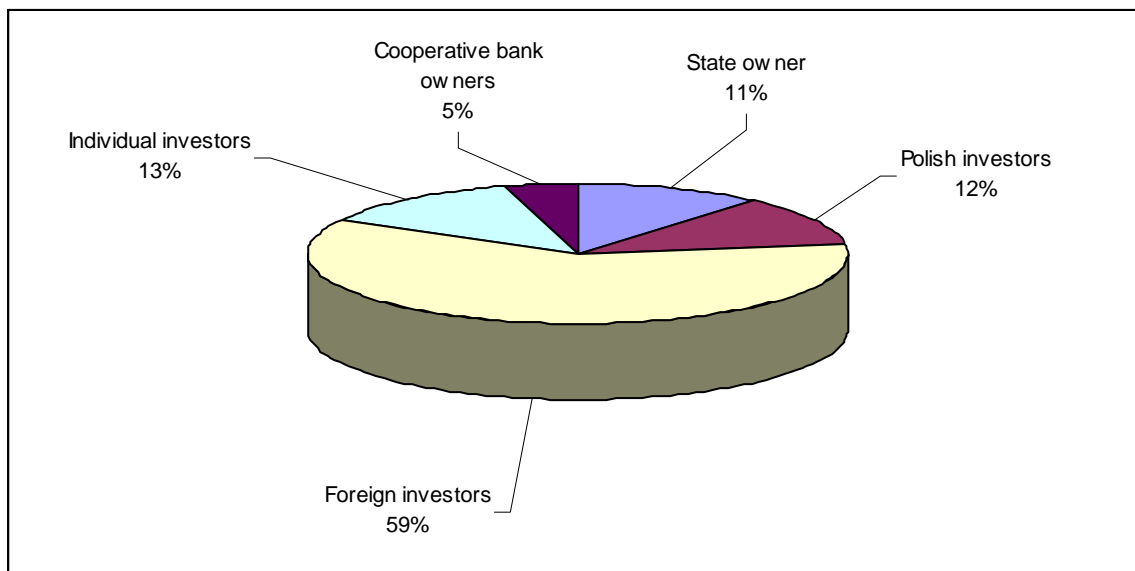
Source: [www.stat.gov.pl](http://www.stat.gov.pl)

Although in terms of quantity, the banking sector is dominated by banks with majority of national capital share, (this group comprises all cooperative banks), yet in terms of assets value, the leading position is occupied by foreign investors operating on the Polish market (60.1%).

### **Diagram 1. Ownership structure of banks in Poland**

<sup>9</sup> W. L. Jaworski (ed.): „Banki w Polsce. Wyzwanie i tendencje rozwojowe”, Poltext, Warszawa 2001, p. 24.

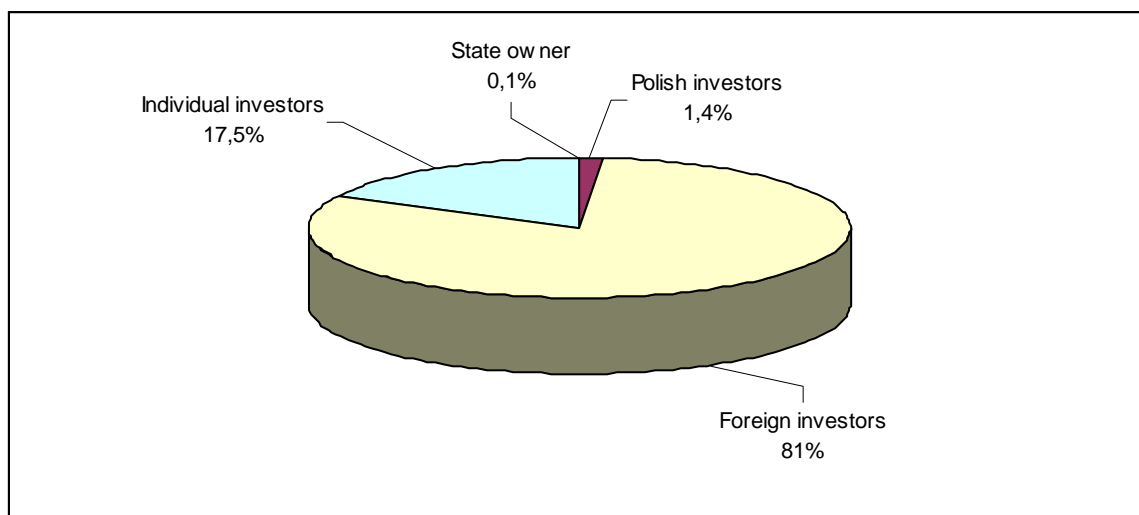
<sup>10</sup> S. Lachowski: „Prywatyzacja sektora bankowego jako czynnik wspomagający długofalowy wzrost gospodarczy”, Bank i Kredyt 1998, No 7-8.



Source: „Sytuacja finansowa banków”, Synteza NBP, Warszawa 2005.

The presence of banks with the majority of foreign capital on the Warsaw Stock Exchange clearly shows that the role of foreign investors in the Polish banking sector is quite significant. Despite the fact that at the end of 2005 only one foreign bank and as many as 14 local banks were listed on the Warsaw Stock Exchange, the share of foreign investors in the Stock Exchange accounted for as much as 81.0%.

**Diagram 2. Ownership structure of listed banks in Poland**



Source: Ibid.

The power and significance of banks with foreign capital in Poland can be acknowledged on the basis of volume of accumulated deposits of the non-financial sector - 62, 2% and of granted credit facilities - 70, 6%<sup>11</sup>

In spite of the inflow of capital from abroad, Polish banks also start to invest in foreign countries. Hence, the conclusion that the Polish banking sector is not only a passive participant of internationalization (through receiving foreign investments), but it is also trying to be its active player. In 2004 first subsidiaries of Polish banks were open abroad, including Kredyt Bank - one subsidiary in Vilnius with 5 branches and Bank Polska Kasa Opieki S.A. - two subsidiaries. Moreover, some other banks had their agencies in Kaliningrad- Kredyt Bank, and in Moscow – BGŻ SA. Additionally, three banks i.e. BRE Bank S.A., Kredyt Bank S.A. and Bank Pekao S.A. have bought a significant share parcel in 4 foreign banks.<sup>12</sup>

<sup>11</sup> Individual elaboration based on “Sytuacja finansowa banków”, Synteza NBP, Warszawa 2005.

<sup>12</sup> B. Pietrzak, Z. Polański, B. Woźniak: “System ... op. cit., p. 99.

Referring to these banks as international may, however, cause some problems (internationalization in the institutional approach). In the specialist literature, authors often make a distinction between domestic (local) and international banks on the basis of number of foreign markets on which these banks operate. According to I. Fayerweather<sup>13</sup>, M. Brooke and H. Remmers<sup>14</sup>, the main characteristic feature of international banks is the possession or control of their subsidiaries in two or more countries. Other scientists set the requirements of 4 or 5 countries.<sup>15</sup> E.H. Sieber, in turn applies much stricter criteria and ventures the opinion that a bank remains “national” if its overseas subsidiaries do not exert much influence on the overall activity of the bank. We can talk about the „proper internationalization of a bank” when its major activity is focused overseas. A bank can be referred to as a „world bank” when it has its subsidiaries all over the world and its share in foreign markets is relatively high.<sup>16</sup>

Bearing in mind all this, we can state that the Polish banking system has been included in the process of internationalization, but its role is mainly of passive character. Several banks are trying to enter foreign markets with their own activity, yet, at this stage, they cannot be referred to as international.

## **2. Polish managers’ about internationalization of banking sector**

The growth of competition on the market is one of the effects of internationalization of the Polish banks. This competition is two-dimensional:

- Polish banks compete on international markets – which is connected with the necessity to enhance the internationalization of their activity as a competitive factor
- Polish banks compete with foreign ones being carriers of direct foreign investments on the domestic market – at that point it is essential to examine the influence of foreign direct investments on the market behaviour of Polish banks.<sup>17</sup>

Since the role of the Polish banking sector in the process of internationalization is mainly of passive character, the second dimension of competition was subject of research conducted in 2005. This research should become an introduction to more profound analyses in the years to come.

The aim of the empirical research was:

- to define factors determining the inflow of foreign investments to the banking sector on the basis of Polish bankers’ opinions,
- to assess the effects of internationalization on the Polish banking sector, on studied banks and Polish consumers,
- to define the competitive structure of the market and the market position of studied banks in times of intensified inflow of foreign investments,
- to determine and compare the knowledge about domestic and foreign competitors as well as to identify the source of information about competitors,
- to determine and compare the level and the influence of competition from domestic and foreign banks,
- to define long-term opportunities for the development of examined banks in predicted market conditions.

The research covered 93 banks with majority of Polish capital operating throughout the country. The test group composed of 13 commercial banks (all operating in Poland) and 80 cooperative banks (5 from each voivodship).

One of the basic problems in the literature discussing the topic of internationalization refers to the definition of factors which determine the choice of placement of direct foreign investments. It can be generally stated that the great inflow of foreign direct investments to Poland, including the banking sector, is the result of two interactive factors. The first one relates to the general perception

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<sup>13</sup> I. Fayerweather: „International Business Management, a Conceptual Framework”, McGraw-Hill, New York 1969.

<sup>14</sup> M. Brooke, H. Remmers: „The Strategy of Multinational enterprise”, London 1978.

<sup>15</sup> R. Vernon: „Sovereignty at Bay”, New York, London 1971.

<sup>16</sup> E.H. Sieber (ed.): „Festschrift zum Geburtstag von Hasenack”, Herne, Berlin 1966.

<sup>17</sup> Individual elaboration based on: M Gorynia: “Międzynarodowa konkurencyjność polskiej gospodarki a polityka ekonomiczna”, Ekonomista 1996, No 3, p. 343.

of Poland as a country of many competitive advantages (these are so-called push factors). The second factor is connected with changes in the economic policy towards foreign investors: from preventing or restraining the inflow of capital before 1989 to attracting foreign investments in present times (pull factors).<sup>18</sup>

The studied managers of Polish banks pointed to the absorptive powers of the domestic market as a main determinant of the foreign investment inflow to the Polish banking sector (59.7%). Poland is the biggest country in terms of population (nearly 40 mln citizens) compared to other new EU members. The managers defined some other important determinants such as: cost factor – low labour costs (47.9%) and weak competitiveness of Polish banks (44.5%). Less significant were factors such as: favourable law regulations for foreign capital (37.0%), prospects of local market development (36.1%), and privatization processes (21.8%). The political and economic situation was of less importance for the internationalization of the Polish banking sector (10.1%).

In most cases the managers pointed out that the process of internationalization of the Polish banking sector carried „both advantages and threats” for the whole sector (93, 3%), for studied banks (51.3%) and for Polish consumers (80,7%). In their opinions, the process of internationalization brings most advantages and benefits to consumers. 16.2% of respondents expressed the opinion that the inflow of foreign capital is, in most cases, advantageous for consumers, 4.2% of managers considered it to be the most beneficial for the Polish banking sector and only 1.7% expressed such a view with respect to the studied banks. The managers of the banks voiced most fears connected with internationalization and the inflow of foreign capital to the Polish banking sector. Every third bank representative (34, 5%) admitted that the process of internationalization posed most threats to their banks’ activity. 4.6% of respondents perceived the process of internationalization as a threat to the whole banking sector and only 1.4% of them as a threat to Polish consumers. There is no doubt that the banks under the study are aware of the significance of internationalization since none of the managers considered the process as meaningless and only 0.8% of them expressed such an opinion with respect to consumers. On the other hand, every tenth bank representative (9.2%) stated that the inflow of foreign capital to the Polish banking sector was of no importance to their banking activity.

When discussing positive effects of internationalization on the Polish banking sector, the managers focused mainly on the greater satisfaction of consumers’ needs. This satisfaction is due to a wider range of services - 55.3%, transfers of new ideas (product innovations) – 48.7% and influx of modern technologies (mainly new service distribution channels) – 45.4% (Table 2).

**Table 2. Positive effects of internationalization on the Polish banking sector**

No	Type of effect	Answers in %
1.	Wider range of services	55.3
2.	Product innovations	48.7
3.	New technologies in the distribution of banking services	45.4
4.	Increased competitiveness of the banking sector	42.0
5.	Growth of employment and work efficiency	39.5
6.	Lowering growth barriers of the sector due to capital shortage	32.8
7.	Development of service infrastructure (availability of banking services)	31.1
8.	Undermining the dominance of state banks	26.9
9.	Improved image of the sector and of the whole country in economic rankings.	26.7
10.	Transfer of work styles and work patterns as well as managerial skills	22.7
11.	Pressure on stability and transparency of the economic and legislative policy	21.9%

<sup>18</sup> W. Kraszewski, J. Wiśniewski: “Bezpośrednie inwestycje zagraniczne w Polsce: ich skala, struktura i wpływ na procesy rozwojowe”, *Ekonomista* 2000, No 4, p. 573.

12.	Growth of cooperation of domestic banks with the foreign financial system	20.1%
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Source: Elaborated on the basis of individual direct research

The managers less frequently mentioned the following positive effects: an improvement of qualifications of the Polish personnel (18.5%), increase in the revenue (17.6%), strengthening the Polish currency (15.1%), promotion of positive cultural patterns and patterns of banking service consumption (12.6%), easier access to foreign credits (6.7%) an improvement of current turnover balance (2.5%).

Negative effects of internationalization of the Polish banking sector referred to:

- the transfer of bank profits abroad (58.8%),
- the risk of encouraging unfair competition in relation to domestic banks, which may lead to their bankruptcy (57.9%),
- tax evasion by foreign investors (56.4%),
- ousting domestic banks from the market (57.2%),
- reduction in employment (41.1%),
- influx of speculative capital (33.6%),
- influx of illegal money and “money laundering” (25.2%).

In addition, some other negative effects were pointed out with respect to internationalization of the Polish banking sector including: limiting the independence and efficiency of the national macroeconomic policy (19.3%), disturbance of trade and payment balance (15.1%), keeping managerial positions for personnel from a country of the capital origin (14.3%), weakening the motivation to raise domestic savings and to gain internal sources of capital (13.4%), transferring highly-qualified local personnel to head offices of foreign banks (8.4%) and disseminating negative cultural patters and patterns of banking service consumption (7.6%).

With Polish banks as its direct observers and participants, internationalization of the national banking contributes to the growth of competition. The research shows that Polish banks are much more familiar with the domestic competition than with the foreign one. Almost every second bank representative (46.2%) has good knowledge of all national competitors, and only 1.7% of respondents have little or no knowledge at all. Only 22.7% banks declare to know all foreign competitors, and every fourth bank is little or not familiar with them. The lack of knowledge about present as well as potential foreign competitors, who are beginning to expand on our market, may pose a real threat to the future functioning of Polish banks. This may be especially true if we consider the Polish bankers’ predictions and fears of intensified activity of foreign banks on our market.

International fairs are the most common source of information about foreign competitors for Polish banks (62.2%). Other frequently used sources are as follows: press and specialist literature (53.8%), direct studies conducted by banks individually (30.3%), published statistic data (26.1%), information obtained from other banks (25.5%) and reports of companies involved in market research (16.1%).

The estimation of competition volume on the market (level of competition) is another important issue of the competition analysis. 64.7% representatives of Polish banks think that the competition from other local banks is „strong” or „very strong”. Similar views with respect to foreign banks are expressed by 52.9% managers. The competition from local banks is very weak or does not exist at all in the opinion of 12.6% banks, and the same view with respect to foreign competitors is expressed by 24.4% of managers. On the other hand, as many as 70.6% bank representatives are afraid of a rise in the foreign competition level within the next 3 years. Such fears in relation to local competitors are voiced by 41.3%. Moreover, 56.1% banks are convinced that the level of local competition will remain intact, but, with respect to foreign banks, this conviction is shared only by 22.7% bankers.

The foreign competition can be analysed in terms of its volume (level) and also with respect to the involvement of foreign banks in their efforts to gain consumer financial means and to satisfy



consumer needs. In this respect, competition can be defined as direct, substitutional and potential<sup>19</sup>. In the direct competition, competing banks attend to the same consumer group and offer the same services, in other words, have a similar service range and operate on the same, geographically located market. 62.2% of studied bankers considered this type of competition characteristic of foreign banks. 7.2% described the foreign competition as substitutional. This form of competition appears when competing banks (or other institutions) offer other or different services, but satisfy the same or very similar consumer needs. Every fourth bank under the study (25.2%) defined the foreign competition as potential, which means that it does not pose a threat in a given moment but may become one under specific circumstances. The potential competition is hardly noticeable to market players since it comes along with new technologies and results from changes or emergence of new activity areas of many market participants.

The studied managers pointed to many effects of banks' functioning in a competitive environment where foreign banks start acquiring importance. Above all, foreign competitors force local banks to improve and enhance their market offer (51.3%), win over their clients and contribute to the reduction in market share and profits (46.2%), encourage banks to improve their customer service (44.5%) and pressurize them to lower their interest rates and commissions (42.9%). Additionally, foreign banks force active promotion (37.8%), increase insecurity and the operational risk (36.1%), cause a decrease in banks' operational costs (33.6%) and may lead to a bankruptcy of the banks (20.2%).

Operating in the environment of growing and intense competition, foreign banks compete for their market share. Most managers under the study claim that the market share of foreign banks will remain the same (41.2%) within the next three years. Fewer bankers predict the growth of their banks' market share (37.8%), but none of them expects this growth to be considerable. Every fifth bank (20.2%) fears the shrinkage of its market share.

In their opinions on growing foreign competition on the local market, the managers expressed a general conviction about the growth of foreign banks' market share within the next three years. 56.3% bank representatives expect that this share will be growing, almost every third banker (32.8%) is convinced that it will remain intact, and merely 5.9% predict a drop in the market share of foreign banks.

One of the main purposes of the study was to determine long-term opportunities for the development of the studied banks in view of internationalization of the Polish banking sector. The bankers' opinions about the opportunities for development of their banks were extremely different. Referring to the growth of foreign competition, almost ¼ of the studied bank representatives (24.3%) gave a negative assessment of opportunities for their banks' development. The level of pessimistic predictions varied with 13.4% of managers who did not predict development of their banks, 10.1% who expected the reduction in their activity range, and 0.8% who saw no prospects for their bank's activity. On the other hand, 73.1% bank managers predicted development of their banks, defined as slow by 60.5% and as fast by 12.6%. The fact that every eighth manager expects this development to be fast is rather positive.

To sum up, the process of internationalization and the inevitable inclusion of the Polish banking sector in a global net of financial institutions will prevent Polish banks from isolation and special separate treatment. The process of internationalization is largely connected with a growing influx of foreign direct investments, and that is why, banks must adapt to more open external competition and adjust to the growing power and new qualities of competitors, including international corporations. Although Polish banks are aware of the growing external competition, they are not quite familiar with new qualities, operational principles and a sudden growth of power of foreign banks as well as financial corporations. Meanwhile, it is corporations that are becoming major subjects of internationalization, and main participants of the global competition. Changes that are taking place in the competitive environment of Polish banks call for revision of previous market behaviours and for adaptation to a new reality.

### **3. Polish consumers' about internationalization of banking sector**

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<sup>19</sup> H. Mruk, B. Pilarczyk, B. Sojkin, H. Szulce: "Podstawy marketingu", AE, Poznań 1996, p. 61.

The process of internationalization of the banking sector also exerts influence on consumers and their buying patterns. If the reputation of a bank's country of origin is high, the bank tries to build up a name which could be associated with its country. It is all about creating a positive perception of a bank's name on the basis of a country of origin effect (COE – Country of Origin Effect).<sup>20</sup>

As regards the reactions to foreign or local bank services, consumers can be divided into:

- customers who prefer services of Polish banks
- customers who consciously favour services provided by foreign banks (this phenomenon is referred to as consumer „internationalization” ),
- customers who do not pay attention to banks' country of origin, but to the quality of services (cosmopolitan consumers).<sup>21</sup>

Consumers who consciously refuse to use services of foreign banks are referred to as ethnocentric. They search for information which could help them identify the country of origin of their potential bank and use its services in the conviction that they support the national economy and/or that Polish banks are better and safer. Consumers may be regarded as ethnocentric when they recognize the superiority of Polish banks in spite of a wide range of services offered by other banks operating on the market.

The level of ethnocentrism and internationalization, in other words consumers' reactions to services offered by foreign banks as opposed to their Polish equivalents, depend on many factors which are connected with the environment, consumers' characteristics and types of purchased service.

After 1989, Poland witnessed a phenomenon opposite to ethnocentrism, namely negative attitudes of Polish consumers to local banks, especially the state banks. However, negative experience with services of foreign banks (mainly limited access, higher fees and commissions) as well as an adverse media campaign about the acquisition of Polish banks by foreign interest groups focused consumers' attention back on local banks.

It should be emphasized that the differentiation between local and foreign banks poses some difficulties and evokes many controversies. Owing to interpenetration of national and foreign capital as well as economic changes caused by internationalization and globalization, it is hard to draw a distinction between “the Polish” and “the foreign”. In view of this, the recognition of a bank's „national character” by consumers becomes the most important issue. Therefore, it is indispensable to learn about consumers' attitudes towards foreign and national banks.

The results<sup>22</sup> of the study carried out among individual consumers (individual clients) show that Poles predominantly choose services offered by Polish banks, in other words, they take the ethnocentric attitude (84.5%). On the other hand, while considering the number of Polish banks and their role in the sector, it must be stated that the majority of consumers have little knowledge about the country of origin of a given bank and of its capital.

The situation looks different if we take into account consumers' declarations about their future behaviour towards banks and types of banking services. When opening a current account, most consumers would not consider the origin of the bank's capital, which means that their attitude is cosmopolitan (48.2%), 34.6% of consumers would open an account with a Polish bank, and as few as 12.2% with a foreign one. When it comes to allocating surplus money (using term deposits), a great majority of consumers assume the ethnocentric attitude (90.1%), whereas in terms of financial commitments (53.2%) or credit cards (79.3%) consumers adopt the international approach.

**Table 3. Attitudes of Polish customer on banking market (according to type of product)**

Type of product	Attitudes		
	cosmopolitan	ethnocentric	international
Current account	49.2	37.6	13.2

<sup>20</sup> M.K. Nowakowski (ed.): “Biznes międzynarodowy”, Key Text, Warszawa 2002, p. 197.

<sup>21</sup> Z. Kędzior (ed.): “Konsumenci na rynku. Postawy wobec produktów”, CBiE, Katowice 2003, p. 53.

<sup>22</sup> Research was conducted in September 2005 within the grant of Research Committee: “Models of Consumer Behaviour on the Market of Financial Services”. The research covered 1.200 respondents in the whole Poland.

Term deposit	3.6	90.1	6.3
Credit/ loan	18.1	53.2	28.7
Credit card	14.2	6.5	79.3

Source: Elaborated on the basis of individual direct research.

Both men and women prefer Polish banks, yet it is noteworthy than women more frequently point to such services as: personal account, deposits and credits. Men, however, more often speak in favour of services provided by foreign banks (except for deposits).

If we consider the age of respondents, we can observe that the respondents under 24 do not pay attention to the origin of banks' capital, whereas those between the age of 25 and 34 more frequently choose services of foreign banks. Hence, the conclusion that younger generations reveal more cosmopolitan attitude, the middle-aged consumers take the international approach and the elderly respondents can be considered ethnocentric.

**Table 4. Attitudes of Polish customer on banking market (according to age of respondents)**

Attitudes	Age				
	Under 25	25-34	35-44	45-54	55 +
cosmopolitan	61.2	17.6	19.4	13.2	8.4
ethnocentric	28.4	72.1	70.8	18.7	9.1
international	10.4	10.3	9.8	68.1	82.5

Source: Elaborated on the basis of individual direct research.

Also, the level of education differentiates the attitudes of Polish consumers. The study shows that the increase in the educational level is accompanied by changes in consumers' attitudes: from ethnocentric (primary school and vocational education) through international (secondary school education) to cosmopolitan (consumers with higher education) (graph X).

The respondents were asked to determine the influence of internationalization of the Polish banking sector on their private lives. In most cases the answers were positive, and respondents pointed to the following benefits:

- extension of service net distribution (easier access to banks) – 54.2%,
- product innovations – 49.5%,
- higher level of provided services – 42.3%,
- new technologies, especially with respect to distribution – 38.6%,

There were also negative opinions about the effects of internationalization, especially with respect to insecurity of deposited money – 32.8% and flight of capital – 27.1%.

Bearing in mind all this, it may be concluded that Polish consumers are more willing to accept the process of internationalization of Polish banks. And, in spite of their national preferences, consumers more often buy services offered by foreign banks, and thus reveal their international or even cosmopolitan attitudes.

To resume, the internationalization of Polish banks and their management is not as common as the internationalization of the whole banking sector or financial services. A great number of foreign banks and a big share of foreign capital in the sector assets prove that the internationalization of the Polish banking sector is getting more intense and advanced. Moreover, thanks to the liberalization of world trade and standardization of communication systems each single banking service can be offered in every country and on every market, and thus can threaten the offers of local (Polish) banks. In view of this, the awareness of Polish managers is of less global range and few Polish bankers are able to work with the same ease in every part of the world. The same refers to Polish banks. The number of banks with a truly global strategy and a global range is relatively small.

In spite of these critical remarks, more and more banks, including small ones, start entering the road of global development, which is possible thanks to the differentiation of globalization

forms. The current globalization of banks cannot be identified only with big financial corporations. Taking part in the global competition requires not only highly-advanced technologies, but, above all, changes in the management style. According to F.A. Hayek, the global market is the most complex phenomenon of the modern economy and as such is unpredictable.<sup>23</sup> Maintaining the global market position by Polish banks depends on their ability to adopt such forms of banking activity which will ensure flexibility and dynamism. These features are indispensable for the frequent and fast introduction of innovations and for proper and swift reactions to customer needs and competitors' behaviour. Moreover, such qualities are also necessary to spot and use development opportunities, which frequently come and quickly go in the complex global environment.

All things considered, we can predict that the developing process of globalization of the world financial sector (with Poland being mainly its passive participant), revealed through the intensified international flows of capital, will speed up the process of internationalization of the Polish banking sector.

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<sup>23</sup> I. Drabik: „Główne płaszczyzny globalizacji gospodarki światowej”, w: A. Limański, D. Sztefanycz (ed.): „Problemy zarządzania marketingowego w warunkach transformacji i integracji z Unią Europejską”, WSZMiJO, Katowice 2003, p. 36.

### **Abstract**

The economic changes which took place in Eastern Europe have contributed to spatial as well as sector development of the internationalization process. Initially, however, the process comprised mainly sectors involved in production and selling of goods. At present, thanks to new technological inventions, the internalization also includes service sectors, especially the market of banking services.

The question arises about the stage of internalization which has been arrived at by the Polish banking sector. Internalization as a process appears in stage-like forms which reflect the history of internationalization based on individual experience of big international corporations. These forms, frequently presented as models, remain in quasi-causality, which means that the assumption of one form, to some degree, conditions the assumption of another. In view of this, we can interpret the internationalization of the Polish banking sector as the evolvement from national banks (domestic), through international to world banks (global). The aim of this paper is to determine the distance to be covered by the Polish banking sector in order to achieve the highest form of its internationalization or its full involvement in the global banking system.

The internationalization of the Polish banking sector started, in fact, in 1990. Currently we can state that the Polish banking system has been included in the process of internationalization, but its role is mainly of passive character. Several banks are trying to enter foreign markets with their own activity, yet, at this stage, they cannot be referred to as international.

The process of internationalization and the inevitable inclusion of the Polish banking sector in a global net of financial institutions will prevent Polish banks from isolation and special separate treatment. The process of internationalization is largely connected with a growing influx of foreign direct investments. However, the banking sector is dominated by banks with majority of national capital share, (this group comprises all cooperative banks), yet in terms of assets value, the leading position is occupied by foreign investors operating on the Polish market.

We can predict that the developing process of globalization of the world financial sector (with Poland being mainly its passive participant), revealed through the intensified international flows of capital, will speed up the process of internationalization of the Polish banking sector.