

# **Approaching international markets – inducing factors that can affect the success of internationalization- comparative study for Portuguese firms between 2014 and 2019**

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## **Abstract**

The challenges that companies face in their internationalization strategy are naturally demanding. If we think that this strategy is no longer exclusive to large companies, we can easily understand all the research that has been carried out on this subject and more specifically on the approach to SMEs. Even so, little has been discussed about the relationship that can be established between the different strategic approaches to internationalization and the factors that entrepreneurs most value in this entrepreneurial process. Based on an exhaustive literature review, in addition to determining the driving factors of the internationalization strategy that Portuguese entrepreneurs most value, this research aims to assess, through a comparative study between the entrepreneurs' perspectives in 2014 and 2019, the possible oscillations in the international strategies of Portuguese entrepreneurs during the period of economic crisis (2014) and a post-crisis period (2019). To achieve these objectives, we used data from a questionnaire sent to "exporting companies and/or companies interested in exporting" from the AICEP - Portugal Global Database, in 2014 and later in 2019.

## **1 Introduction**

Companies' internationalization and its research is of increasing importance today. Internationalization has become, more than a matter of choice, a matter of survival in a changing world. According to Dana and Wright (2004), international business has for a long time been dominated by large firms with smaller firms tending to remain local or

at most regional. The traditional theories of internationalization thus focused mainly on multinational and not on entrepreneurs with small firms. However, the development of the business world has been breaking all frontiers, with the increasing internationalization of firms regardless of their size, activity sector or geographical origin (Teixeira, 2003). There is also a growing need to understand internationalization in the context of entrepreneurship as much as it existed in the context of large multinationals. Knowledge of who, when and why firms become international have become an important research topic in the field of International Entrepreneurship.

Among the various forms of internationalization that have registered a higher growth stands out, according to Teixeira (2003), franchising, strategic alliances and other forms of cooperation, reflecting a change in companies way of competition that has been shifting from direct competition to the collaboration, from the individual strategy to the network strategy. Integration into a network enables access to knowledge and a broad set of physical, technical, financial and reputational resources that favour adaptation to the various economic, political, legal and cultural dimensions of international business environments, facilitating the internationalization by reducing the psychic distance perceived by companies (Santos, Ferreira, & Reis, 2012). Nowadays, firms have to find new ways to develop competitive advantages what implies the acquirer of new skills, resources and capabilities (De Clercq, Sapienza, Yavuz, & Zhou, 2012). In many cases companies can gain access to these resources, including specific knowledge of the market (market-specific knowledge), through alternative forms of management such as industrial networks.

Recent empirical evidence (Bruneel, Yli-Renko, & Clarysse, 2010) provides important insights on the internationalization of new business, showing that younger firms are able to compensate for their limited experiential learning at company level, through learning based on previous experience of the management team and through inter-organizational relationships, also suggesting that the age and the size of the company should be analysed, but not as a restriction to the beginning of internationalization. On the other hand, Brito and Lorga (1999) and Simões (1997) consider that governmental and associative incentives have for most companies a positive effect in the beginning of internationalization.

Many scientific papers on the determinants of internationalization and, more specifically, on its relation to the success/failure of internationalization, are found in the literature on business internationalization. In this work, on the other hand, an innovative study is presented on the perspective of the entrepreneur and the manager of the company, as well as his opinions on the internationalization problem, more specifically on the factors that contributed the most to make possible his company entry into markets beyond the domestic market, as well as its entrepreneurial initiatives of early internationalization. It is about the entrepreneur, the company characteristics, the market and the workers that this analysis is mainly focused.

Based on the objectives outlined, the following research question was defined: Which variables are responsible for inducing internationalization of Portuguese companies, in 2014 and later in 2019?

## **2. Literature review**

Many of the theories that focus on business strategy and internationalization give great prominence to learning and knowledge not only as fundamental companies' characteristics but especially of its entrepreneurs and their collaborators. According to the Human Capital Theory, the availability of qualified human resources is fundamental for the performance of companies and has a positive effect on their internationalization. Also in the Population Ecology approach, entrepreneurs are portrayed as individuals capable of identifying opportunities and finding the resources to explore them. Embracing these perspectives, the International New Ventures Theory (INV) draw attention to the importance that these factors have to companies' early internationalization, against the so-called *Behavioral view of internationalization*. This theory addresses learning as central for the companies' internationalization, but above all it emphasizes the importance of Relational Networks as a way for companies to acquire knowledge about the external market, filling the organizational inexperience. Additionally, it also emphasizes experience and individual knowledge as a way to recognize the importance of alliances and relational networks in the beginning of internationalization. It is clear, therefore, that the elements common to the most recent approaches to internationalization are the importance of Knowledge and Relational Networks, which we have chosen as the basic theoretical model for this work.

### **2.1 Relational Network Theory**

According to the network theory, depending on the position occupied by a company in the network, this will define its range of opportunities and constraints and thus develop its strategies. Thus, internationalization can be seen as the establishment and development of positions in relation to other partners belonging to foreign networks (Johanson & Mattsson 1988). Johanson and Vahlne (2009) report that these relationships have a strong impact on market selection, as well as entry mode because of the ease with which they identify and exploit opportunities. According to Rebocho (2010), cooperation networks undoubtedly favour the competitiveness of companies and have become an important instrument to support the internationalization of SME's and states that potentially conflicting relationships and divergent interests are seen by the parties as collaborative partnerships around a common goal. Networks provide companies with a set of resources and information about the market and customers, increasing the chances of survival and success. The contacts obtained in the network allow companies to have access to resources that they do not have and could not access otherwise. Santos et al. (2012) argue that networks are even more important for SME's lacking the human, technical and financial resources needed to internationalize their operations on their own. For Rebocho (2010) and Korsakienė and Tvaronavičienė (2012), SME's are characterized by their flexibility and adaptability and innovation, but establishing relationships in international markets requires more skills, management knowledge and long-term availability of human resources to develop an effective and consistent internationalization strategy. In particular, the smallest firms and those who are taking the first steps in internationalization need the resources and expertise to identify business opportunities abroad, potential partners, foreign business practices, etc.

## **2.2 Human Capital Theory**

According to Javalgi and Todd (2011), human capital is central to economic growth and entrepreneurial opportunities. Regarding internationalization, human capital consists of knowledge, skills, talent and experiences used to provide value to the company. Most human capital studies in the business strategy literature focus on human capital as a company resource but they can't find a direct causal link between human capital and companies' internationalization. Resource Based View- RBV states that the company specific features result in a sustainable competitive advantage, creating resources that are valuable, rare, inimitable and non - substitutable (Javalgi & Todd, 2011). The human capital resource includes the "training, experience, critical capacity, intelligence, relationships and individual perception of the managers and workers of a company" (Javalgi & Todd, 2011, p1005). For these authors, human capital theory suggests that companies with a higher degree of human capital developed through the availability of workers with higher education and personal experience achieve better performance. Summarizing, according to these authors, human resources are fundamental to companies and their study provide positive empirical support for the effect of human capital on the internationalization of SMEs.

## **2.3 Population Ecology Approach**

The motivation that drives entrepreneurs towards internationalization has also been assigned, as we have seen, to external forces. Proponents of the Population Ecology Approach argue that external forces, such as competition, drive the entrepreneur to look for other opportunities in foreign markets in order to survive. To gain a better understanding of the entrepreneur's decision to internationalize, we must understand his mind and entrepreneurial characteristics (Ibrahim, 2004). In fact, many schools of thought have offered studies on entrepreneurial characteristics. Most of them portray him as an individual driven by several environmental factors and also by personality traits. Research on entrepreneurship has identified a number of traits associated with entrepreneurs, such as the need for achievement, the propensity to take risks, the locus of control or self-confidence, and tolerance to contexts of uncertainty (Ibrahim, 2004). Family history has also been presented in the business literature to explain the motivations of the individual to start a business (Ibrahim, 2004). In the literature on entrepreneurship, entrepreneurs are portrayed as those individuals who are able to identify an opportunity and find the resources to explore it (Ibrahim, 2004; Ferhaber & Li, 2013). Thus, the entrepreneur's decision to venture abroad to analyse the market, detect new opportunities and organize the resources to exploit them should be valued as part of the entrepreneurial process (Oviatt & McDougall, 2005; Ibrahim, 2004).

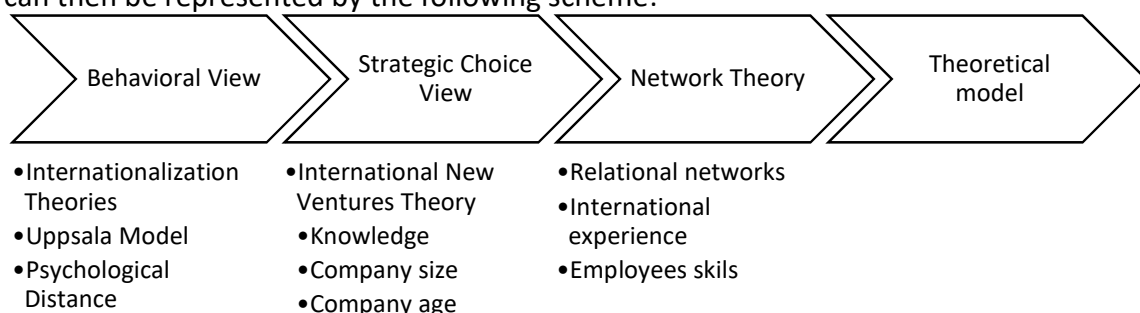
## **2.4 Theory of International New Ventures (INV)**

These perspectives and theories presented before are aggregate in the theory of International New Ventures (INV). Concerning the importance of learning and knowledge for firms with no great international experience, theories prior to the mid-1990's offered limited ability to explain how and for what reasons some companies were beginning to operate successfully across national boundaries "too early" in its life cycle, such as the so-called Born Global (Oviatt & McDougall, 2005; Knight & Cavusgil, 2004). McDougall, Shane, & Oviatt (1994) revolutionized thinking about the beginning of the internationalization process, challenging the broadly accepted stages perspective (stage

theory) (Johanson & Vahlne, 1977, 1990) and conceiving internationalization process as slow and incremental. Research on INV challenged the idea that new or small businesses could not internationalize early or they would do so only by proceeding incrementally (McDougall et al, 1994; McDougall. & Oviatt, 2000). Since then, a growing flow of research into INV has sought to understand the causes, processes, and outcomes of the decision to enter foreign markets early. A common thread concerns the role of learning and knowledge (Cumming, Sapienza, Siegel, & Wright, 2009; McDougall & Oviatt, 2000). Organizational knowledge was a central explanation for internationalization in original stage-based models (Johanson & Vahlne, 1977, 1990), but Oviatt and McDougall (2005) recognized that individual factors such as experiential knowledge of the external market (or international experience), can also influence the pace and the beginning of internationalization. Thus, knowledge plays a key role both for the Stages perspective and for the INV approach, but it does so in a significantly different way. The stages-based perspective uses the behavioural theory of the firm to argue that the lack of organizational knowledge about markets outside the company prevents international entry and expansion (Johanson & Vahlne, 1990). To this perspective, De Clercq and Sapienza Crijns (2005, p. 409) call the Behavioural view of internationalization. On the other hand, the INV perspective emphasizes the role of individual knowledge (Oviatt & McDougall, 2005) to argue that international entrepreneurs do not need organizational experiences, routines or early entry skills to enter their first external market. On the contrary, the past experiences of founders and other key managers can replace such shortcomings. The individual organizational knowledge about the markets outside the company can thus help the company to "jump" the incremental processes suggested by the stages approach (Oviatt & McDougall, 2005). To this approach, De Clercq et al. (2012, p. 410) call the Strategic choice view. The growing popularity of this new perspective on INV has created a body of literature on the problem of the beginning of internationalization.

## 2.5 Theoretical model

Based on the literature review of the most significant internationalization theories we established the theoretical model on which this empirical study will be based, and which can then be represented by the following scheme:



**Figure 1** - Theoretical model  
Elaborated by the authors

## 3. Methodology and Results

Based on our literature review we intend to evaluate entrepreneurs' opinions, in order to determine which variables they consider as enhancers of their firms'

internationalization. It is important to know how the companies were able to achieve internationalization or, more specifically, to know the factors that allowed or facilitated the process of internationalization of their company's operations. For this purpose, a questionnaire was elaborated: "Factors that contribute to the effectiveness of corporate internationalization" and sent by e-mail to the responsible for the internationalization of exporting firms and firms that intend to export, of the AICEP-Portugal Global database, in 2014 and later in 2019. Given the nature of the database to be explored and the objectives of the research, we analysed the data through exploratory statistics methods.

#### 4. Exploratory data analysis - descriptive measures (simple statistical analysis)

##### **2014**

Based on the answers collected in the survey, the data were processed, the mode and percentiles were calculated, and the diagram of extremes and quartiles presented below was drawn up. Regarding the question: "What is the degree of importance that you attach to each of these factors for the accomplishment of the internationalization of your company?" the results obtained on a response scale from 1- "nothing important" to 5- "extremely important" were the following:

**TABLE 1 - Mode and percentils (2014)**

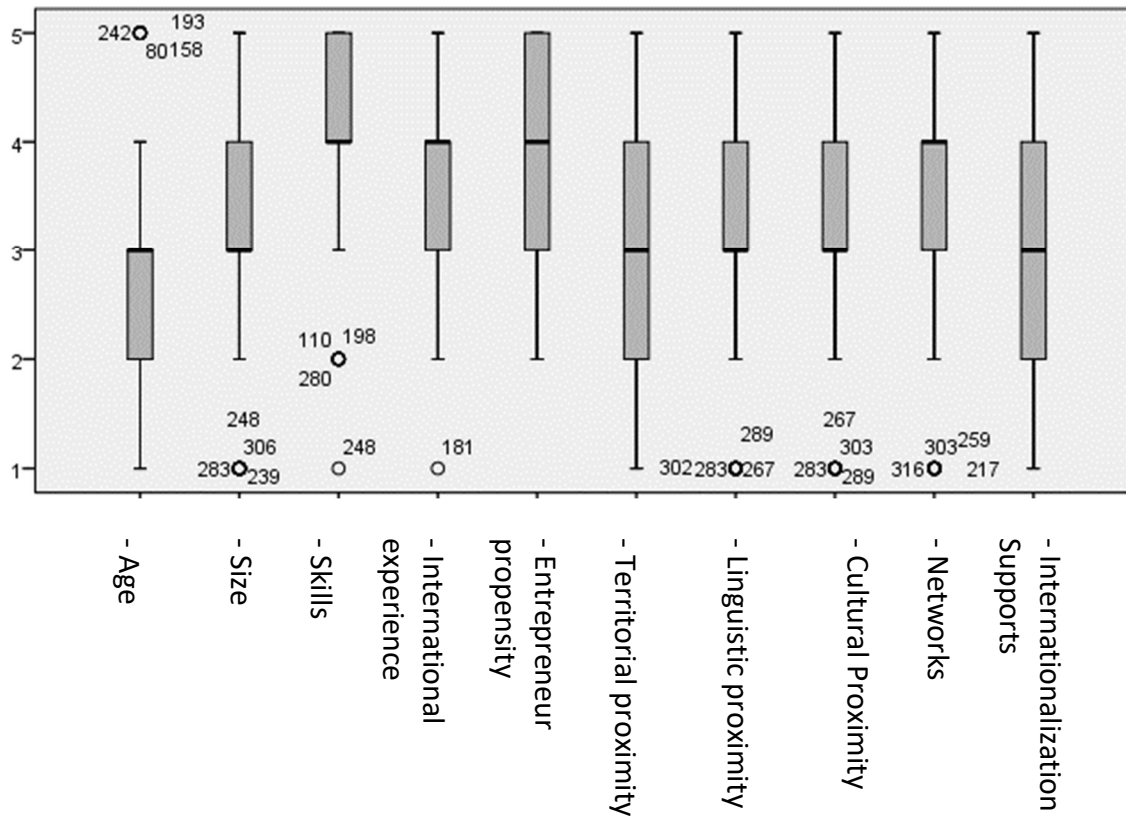
		Age	Size	Skills	Internat. Experience	Networks
N	Valid	317	314	320	319	319
	Miss.	3	6	0	1	1
Mode		3	4	4	4	4
Percentiles	25	2.00	3.00	4.00	3.00	3.00
	50	3.00	3.00	4.00	4.00	4.00
	75	3.00	4.00	5.00	4.00	4.00

Elaborated by the authors

It can be concluded that for the variables Size of the Company, Specific Skills of Employees, International Experience of Employees and Networks, the most frequent response of entrepreneurs is "very important" (Fashion = 4).

On the other hand, the factor considered by the entrepreneurs as being of less importance, although "moderately important" (Modal Value = 3) is the Seniority of the Company.

In addition, the 50th percentile (median) shows a value of 4 (very important) for the variables International Employee Experience and Networks, meaning that 50% of the companies surveyed consider these variables to be "very important" at most, but even more relevant, the other 50% consider these variables to be "extremely important". The Specific Skills of Employees variable can also be highlighted, since the 25th Percentile (1st Quartile) shows that 75% of the companies surveyed consider this variable to be "extremely important".



**Figure 2 – Box-Plot (2014)**  
 Elaborated by the authors  
 (Source: Output SPSS)

It can be ascertained from this graphical representation, that the variable that presents more homogeneity (less dispersion) in relation to the responses of entrepreneurs is the variable Specific Skills of Employees. Moreover, all entrepreneurs consider this variable to be "medium important" (3) to "extremely important" (5). Finally, we can see that the variables International Employees' Experience and Networks behave in the same way, with the Median at 4 (very important), which means that 50% of the surveyed entrepreneurs consider these variables between "very important" and "extremely important", as is the case with the Specific Skills of Employees.

After the descriptive analysis of the statistical data obtained in 2014, we will present below the results for 2019.

**2019**

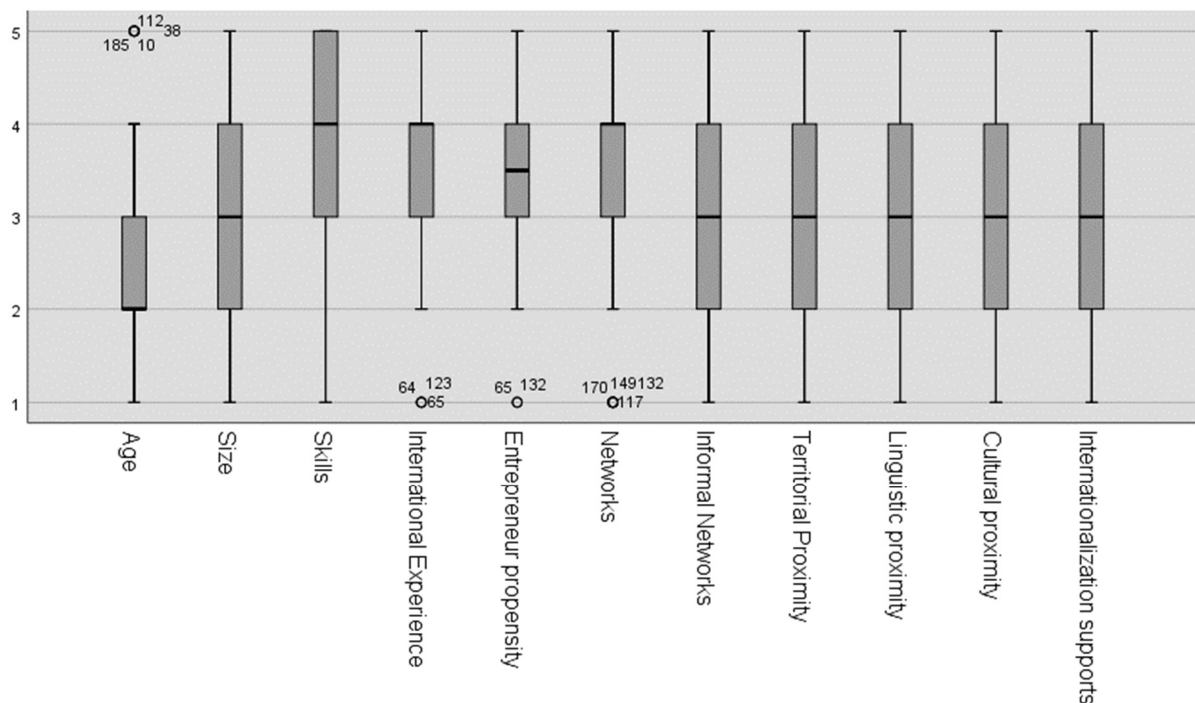
**TABLE 2 - Mode and percentiles (2019)**

		age	size	Skills	International Experience	Networks
N	Valid	193	193	193	193	193
	Missing	0	0	0	0	0
Mode		3	3	4	4	4
Percentiles	25	2,00	2,00	3,00	3,00	3,00
	50	3,00	3,00	4,00	4,00	4,00
	75	3,00	4,00	5,00	4,00	4,00

Elaborated by the authors

It can be stated that for the variables Specific Skills of Employees, International Experience and Networks, the most frequent response of entrepreneurs is "very important" (Fashion = 4).

On the other hand, the factors considered by the entrepreneurs as being of less importance, (Modal Value = 3 – "some importance") are the Age and Size of the Company. Additionally, the 50th percentile (median) shows a value of 4 (very important) for the variables Skills, International Experience and Networks meaning that 50% of the companies surveyed consider these variables to be "very important" at most, but even more relevant, the other 50% consider these variables to be "extremely important".



**Figure 3 – Box-Plot (2019)**

Elaborated by the authors

(Source: Output SPSS)

We can assess from this graphic representation that the variables that present greater homogeneity (less dispersion) in relation to the entrepreneurs' responses are the International Experience, the Entrepreneurial Propensity and the Relational Networks. In addition, we can see that the variables International Experience and Relational Network have identical behaviours', with the Median standing at 4 (very important), which means that 50% of the surveyed entrepreneurs consider these variables between "very important" and "extremely important", as is the case with the Specific Skills of Employees exactly as it happened in 2014. Also, regarding the Skills variable, its median is also located at value 4 (very important), also similarly to 2014.

## 5. Conclusions

The variables Age, Networks, International Experience, Territorial Proximity and Internationalization supports, have the same valuation by entrepreneurs in 2014 and 2019. However, the Skills, Cultural Proximity and Linguistic Proximity variables present a greater variability in 2019, since the responses range from "nothing important" to "extremely important". Regarding specifically the Skills variable, however, its Median remains at 4 ("very important"). Also, in 2019, the variable Size has a value of 3 ("some importance") as Median, in other words, it diminishes its importance.

Although with some, but small, differences, it can be stated that entrepreneurs still value the following variables: Networks, Skills and International Experience, as the main drivers of the internationalization of their companies. It can also be observed that in 2019, after the recession period of the Portuguese Economy, entrepreneurs attach less importance to the size of the company. Therefore, it can be asserted that the size of the company, now, isn't considered as a constraint, when the strategy is Internationalization.

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