

Decentralization of public policies for the promotion of firms' internationalization. A proposal.

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Abstract: Despite the extensive investigation regarding decentralization, the role of local governments in promoting firms' internationalization doesn't seem to have received adequate attention from literature, neither from the area of regional science nor from studies of international business. The present work intends to overpass this gap, establishing a bridge on the review of the literature about firms' internationalization, decentralization and internationalization promotion policies. The study focuses on Portugal, a not very explored country from the scientific point of view, where small and medium firms represent the most part of the entrepreneurial reality and their internationalization is presented as a solution to fight the economic crisis and where decentralization is a process that still requires more deepening. Analyzing, based on direct enquiries, the involvement of Portuguese municipalities in activities promoting economic development and/or internationalization of local firms and the firms' evaluation of these activities, the aim of this research is to rethink internationalization promotion policies on a territorial/local basis. This study will gather evidence that will allow assessing whether municipalities can also play an active role on the promotion of local enterprises on the global market.

Keywords: Decentralization, local policy, exportation, firms

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1. Introduction

Governments have an increasingly active role in supporting small and medium enterprises' exportation through public policies that promote their internationalization (Gil *et al.*, 2008; Lederman *et al.*, 2010). Bearing in mind the growing process of decentralization (Litvack and Seddon, 1999; Azfar *et al.*, 2001; Marinetto, 2003; Taylor, 2007) and the appearance, in the last thirty years, of studies that focus local economic development (DeFilippis, 1999; Cox, 2004; Barberia *et al.*, 2010), it becomes important to assess to which point local space, through local municipalities, can and/or should also assert itself as a fundamental action scale for a policy that promotes local enterprises in the global market.

Notwithstanding the important and fairly wide scientific production on the promotion of exportation and public policies and programmes on that area, namely as to their results (Wilkinson and Brouthers, 2006; Shamsuddoha *et al.*, 2009) and the degree of satisfaction by the beneficiary firms (Gillespie and Riddle, 2004; Calderón *et al.*, 2005; Cassey, 2007), by the best knowledge of the author, there are no studies that deal with a local view or with the investigation of the decentralization of firms' internationalization promotion.

In this context, this study aims to contribute to a reflection around export promotion and internationalization policies on a territorial/local basis, based on the factors that according to literature may contribute to, or restrict, the development of such measures/policies at the local level.

The present work involves a hybrid methodology which combines quantitative analysis of surveys carried out to municipalities with qualitative analysis of some case studies of municipalities that are found to have implemented such policies, using, in this case, the assessment made by enterprises which resorted to such actions.

The study focuses on a little explored reality, Portugal, a small EU country that has received a lot of European funds to develop its infrastructures, where the plan of internationalization, in particular of SME, is in agenda as a solution to the overcome the economic crisis (Portugal – Governo, 2010) and where regional decentralization is still an unresolved issue (Portugal – Governo, 2009).

The present work is organized as follows: in Section 2 we present a review of literature on SME's internationalization and the role of local municipalities (the obstacles that small and medium enterprises face on their internationalization process, entities and policies that support that process, decentralization of public policies and the role of local municipalities in that context). Afterwards, in Section 3 we provide some methodological considerations about the concerned research. Finally, in Section 4 we present a provisory timetable regarding the development of this study.

2. Internationalization of SME and the role of municipalities. A theoretical review

2.1. Internationalization process of small and medium enterprises (SME): what obstacles?

One of the biggest trends of the entrepreneurial environment on the XXI century is the phenomenal

growth of globalization (Pinho and Martins, 2010). In fact, the market has never been so globalized and interdependent as it is today, opening the reach and scale of opportunities to firms (Leonidou, 2004) that, favoured by significant and continual improvements in production, transport, information technologies, financial systems, regulating environments and business networks, regardless of their dimension, have reached more and more their operations to the international market, as a way to gain, support and improve their competitive advantages (Aulakh *et al.*, 2000) and to diminish their costs (Young *et al.*, 1989; Griffin and Pustay, 1996, in Pinho and Martins, 2010). In a similar way, operating in cross-borders markets may allow firms to benefit from international competition and to increase their involvement in foreign markets, thus becoming important actors in their own domestic market (Czinkota, 1996; Lages and Montgomery, 2004, in Pinho and Martins, 2010).

According to several studies, internationalization in general, and exportation in particular, allow firms to increase the probability of survival and to diminish the failure rate (Czinkota, 1996; Bernard and Jensen, 1999); attain gains of scale (Czinkota, 1996; Czinkota, 2002; Rocha *et al.*, 2008); access to new technologies and new products, or even have the opportunity to anticipate strategic movements of future rivals (Rocha *et al.*, 2008); distribute business risks by different markets and projects (Barker and Kaynak, 1992; Czinkota, 1996; Bernard and Jensen, 1999; Czinkota, 2002; Terpstra and Sarathy, 2000; Czinkota and Ronkainen, 2001, in Leonidou, 2004); improve technological, quality, processes and services patterns in the organization (Bertschek, 1995; Kumcu *et al.*, 1995, in Morgan and Katsikeas, 1997; Terpstra and Sarathy, 2000; Czinkota, 2002; Czinkota and Ronkainen, 2001, in Leonidou, 2004); generate more profits and funds to reinvest and continue to grow (Czinkota, 1996; Barker and Kaynak, 1992; Terpstra and Sarathy, 2000; Czinkota and Ronkainen, 2001, in Leonidou, 2004; Smith *et al.*, 2006); explore wasted operational capacity and improve production efficiency through the more efficient allocation of resources (Barker and Kaynak, 1992; Bertschek, 1995; Kumcu *et al.*, 1995, in Morgan and Katsikeas, 1997; Terpstra and Sarathy, 2000; Czinkota and Ronkainen, 2001, in Leonidou, 2004; Smith *et al.*, 2006); learn from competition and obtain sensibility to different structures of search and cultural dimensions (Czinkota, 1996); and attract and reward stakeholders and employees by means of creating a better revenue base.

Additionally, the strategy of exportation is the most common and most attractive entry modes in the international market for firms and their products to gain visibility in foreign markets (Rugman and Hodgetts, 1995, in Morgan and Katsikeas, 1997; Burgel and Murray, 2000, in Pinho and Martins, 2010), as exportation implies a smaller commitment of financial and human resources and smaller risks when in comparison to other entry modes in foreign markets, such as joint-ventures or subsidiaries (Barker and

Kaynak, 1992; Leonidou, 1995; Morgan and Katsikeas, 1997; Pinho and Martins, 2010), while at the same time offers a great flexibility of movements (Leonidou, 1995; Pinho and Martins, 2010).

However, many managers see only the risk involved in internationalization and not the opportunities that international market may provide (Czinkota, 1996), so many firms do not dare to cross their national borders to sell their products and services, what causes them to be in disadvantage when in comparison to their competitors that chose to follow a more global business perspective (Leonidou, 2004; Acs *et al.*, 1997, in Wilkinson and Brouthers, 2006). Effectively, the path to internationalization presents, to many enterprises, several obstacles that firms cannot overcome alone and that difficult the accomplishment of an internationalization strategy (Morgan and Katsikeas, 1997), which restricts their international expansion (Calderón *et al.*, 2005). Those obstacles, real and/or perceived, may appear to firms so extreme that they may even cause them to, on the one side, see exportation with scepticism and refuse to get involved with activities abroad, inhibiting the entry in foreign markets (Olson and Wiedersheim-Paul, 1978; Wiedersheim-Paul *et al.*, 1978, in Leonidou, 1995; Czinkota, 1996; Young *et al.*, 1989, in Pinho and Martins, 2010), and, on the other hand, in the case of recent exporters, to developing a negative attitude towards exportation, restricting the development of international activities and causing their premature retreat from external operations (Welch and Wiedersheim-Paul, 1980, in Leonidou, 1995). Those obstacles tend also to affect experienced exporters that see their performance deteriorated, threatening inclusively their survival in foreign markets (Miesenböck, 1988; Leonidou and Katsikeas, 1996, in Leonidou, 2004; Leonidou, 1995a, in Rocha *et al.*, 2008). It is, in fact, largely recognized that such barriers may exist in any phase of the internationalization process, even though their nature tends to differ in every step (Cavusgil, 1984; Kedia and Chhokar, 1986; Burton and Schlegelmilch, 1987; Katsikeas and Morgan, 1994, in Shaw and Darroch, 2004; Morgan, 1997, in Pinho and Martins, 2010).

It may be argued that the competitiveness of a firm depends on its desire to compete and its position facing competitors. To succeed in international commerce, a firm has to 'enter the game', that is, to compete. Being obvious that only participants can expect to win, participating by itself alone does not guarantee victory – that depends on the competitors (Frederick, 1990).

For several reasons, small and medium enterprises (SME) are more vulnerable to the effects of export barriers than big enterprises. If the latter possess the resources to minimize the risks of internationalization by several means (diversifying operations, having departments of domestic and/or international commerce and creating economies of scale, among other factors), the first tend to have limited resources and less capacity to absorb risks, especially when operating in highly competitive markets. In this context, when facing export barriers, SME may have to leave a market

completely on the side, wasting an opportunity to make their business grow; may have difficulty in changing production in response to fix costs barriers; may suffer variable additional costs that lead to the decrease of their competitiveness; and may be incapable of benefiting from the participation in networks of global value (Fliess and Busquets, 2006).

As a way to efficiently motivate enterprises, particularly SME, to enter foreign markets, it is not only necessary to understand the factors that stimulate SME to export (Leonidou, 2004) but also the barriers they face to succeed in entering and operating in a sustainable and efficient manner in foreign markets (Morgan and Katsikeas, 1998; Leonidou, 2004). Specially, as Rocha *et al.* (2008) state, understanding export barriers may help to adopt government policies that stimulate domestic enterprises to export, by eliminating or minimizing the biggest impediments to international expansion.

Export barrier can be portrayed as attitudinal, structural, operational and other constraints (Morgan and Katsikeas, 1997) that hinder the firm's ability to initiate, develop or sustain international operations (Bauerschmidt *et al.*, 1985; Kedia and Chhokar, 1986, in Leonidou, 1995; Leonidou, 1994, 1995, in Morgan and Katsikeas, 1997).

In a general way, export obstacles can be classified as internal, associated with organizational resources/capabilities and to the company's approach to exportation, and external, that derive from the domestic and foreign environments where the firm operate (Leonidou, 1995a, in Leonidou, 2004). Besides this classification, internal barriers can also be characterized as strategic (Morgan and Katsikeas, 1997) or functional (Leonidou, 2004), informational (Morgan and Katsikeas, 1997; Leonidou, 2004) and operational (Morgan and Katsikeas, 1997) or of marketing (Leonidou, 2004), while external can be described as procedural, governmental and environmental (Leonidou, 2004) (cf. Table 1).

The difficulty in overcoming these barriers, although important, is not a sufficient reason to prevent a firm's involvement or progression in the internationalization process (Leonidou, 1995). Several other factors, normally associated to the idiosyncratic characteristics of the manager - competence, degree of openness, experience in foreign markets, cultural orientation and propensity to take risks (Simmonds and Smith, 1968; Simpson and Kujawa, 1974; McConnel, 1979; Cavusgil and Nevin, 1981b; Roy and Simpson, 1981; Cavusgil, 1982b; Joynt, 1982; Cavusgil, 1984b; Barrett and Wilkinson, 1986; Gripsrud, 1990, in Leonidou, 1995; Rosson and Ford, 1982; Aaby and Slater, 1989, in Aulakh *et al.*, 2000; Bilkey and Tesar, 1977; Abdel-Malek, 1978; Dichtl *et al.* 1990, in Leonidou, 2004) -, the organization - maturity, dimension, international experience and sector (Bilkey and Tesar, 1977; Cavusgil, 1982a; Moon and Lee, 1990, in Leonidou, 1995; Rosson and Ford, 1982; Aaby and Slater, 1989, in Aulakh *et al.*, 2000; Alexandrides, 1971; Kedia and Chhokar, 1986; Barker and Kaynak, 1992; Katsikeas and Morgan, 1994; Leonidou, 2000, in Leonidou, 2004) -, and the

environment - infra-structures, logistic system, economic, political and sociocultural factors (Garnier, 1982, in Leonidou, 1995; Leonidou, 1995a, in Leonidou, 2004) where the firm operations, are responsible for amplifying these obstacles (Barrett and Wilkinson, 1985, in Leonidou, 1995) and therefore are key factors in explaining export initiation and performance (Rosson and Ford, 1982; Aaby and Slater, 1989, in Aulakh *et al.*, 2000).

Focusing, at the internal level, the informational and strategic (or functional) issues, SME internationalization and their success in the international market are influenced by and depend on elements connected to human capital, which determine the performance of firms' international activities and influence potential exportation opportunities (Ruzzier *et al.*, 2007; Borchert and Ibeh, 2008, in Shamsuddoha *et al.*, 2009). Among these we can find the managers' attitude and perception towards the risks and rewards of international market, their experience, their commitment and their strategy (Barker and Kaynak, 1992; Bloodgood *et al.*, 1996; Andersen and Kheam, 1998; Crick and Batstone, 2001, in Wilkinson and Brouthers, 2006).

This kind of internal resources, as well as knowledge and information about foreign markets, is sparse in most of the SME (Ramaswami and Yang, 1990; Acs *et al.*, 1997; Wolff and Pett, 2000; Alvarez, 2004, in Wilkinson and Brouthers, 2006), which increases the perceived risk in exporting and makes these enterprises avoid the uncertainties of the international market (Acs *et al.*, 1997, in Wilkinson and Brouthers, 2006). Effectively, in terms of empiric proof, literature shows that it is the managers' attitudes towards exportation the most critical aspect in the enterprises' performance of exportation and, therefore, the main reason why a big part of enterprises doesn't export is because managers aren't motivated or determined to do so (Pavord and Bogard, 1975; Bilkey and Tesar, 1977; Wiedersheim-Paul *et al.*, 1978; Cavusgil and Nevin, 1981; Czinkota and Johnson, 1983, in Wilkinson and Brouthers, 2006; Aaby and Slater, 1989, in Rocha *et al.*, 2008; Sommer, 2010). Thus, the biggest part of SME has been left behind in exportation, despite they represent a significant potential that should be availed to reach biggest exporting sales (Barker and Kaynak, 1992).

In this way understanding how managers understand export barriers is particularly important, since managers' attitudes and preferences are in the centre of internationalization activities (Zahra *et al.*, 2000, in Shaw and Darroch, 2004). From the idea that the manager's perception on the macro-environment is more important than facts when it comes to decide internationalization strategies (Andersson, 2000, in Shaw and Darroch, 2004), it can be argued that his perception on export barriers will influence his decision, not only to enter foreign markets, but also the markets and the level of international involvement to choose (Shaw and Darroch, 2004).

The general consensus between researchers is that understanding export obstacles and their impact on enterprises' performance is crucial, both at the micro

and at the macroeconomic level (Leonidou, 1995; Patterson and Cicic, 1995; Chung, 2003, in Julian and Ahmed, 2005).

Besides helping to determine why some exporters are incapable of exploring their full potential and what makes many enterprises fail or suffer financial losses in their international activities (Chung, 2003; Leonidou, 1995, in Julian and Ahmed, 2005), understanding export

obstacles provides Governments with strategic guidelines and knowledge to prepare their policies (Katsikeas, 1994; Julian and O’Cass, 2004, in Julian and Ahmed, 2005) and may help to minimize their negative effect and to improve their exporting performance, both of individual enterprises and countries themselves (Leonidou, 1995, in Julian and Ahmed, 2005).

Table 1. Export barriers

Type of Barriers	Framework	Factors	Conditions	Authors
Internal	Informational	Problems in identifying, selecting and contacting international markets due to inefficiencies of information	Locating/analyzing foreign markets, finding data on foreign markets, identifying international business opportunities and contacting foreign clients	Katsikeas, 1994; Katsikeas and Morgan, 1994; Morgan and Katsikeas, 1997; Leonidou, 2004
	Strategic or functional	Inefficiencies in several of the firm’s functions, such as human resources, production and finance	Limitations in managerial time, inadequacies in export staff, unavailable production capacity, and shortages of working capital	Vozikise Mescon, 1985; Morgan and Katsikeas, 1997; Leonidou, 2004
	Operational or of marketing	Firm’s marketing mix	Product, price, distribution, logistics and promotion	Kedia and Chhokar, 1986; Moini, 1997; Morgan and Katsikeas, 1997; Leonidou, 2004
External	Procedural	Operating aspects of transactions with foreign customers and interaction with other organizations (public and private)	Unfamiliarity with techniques/procedures, communication failures, and slow collection of payments	Kedia and Chhokar, 1986; Moini, 1997; Morgan and Katsikeas, 1997; Leonidou, 2004
	Governmental	Actions or inaction by the home government in relation to its exporting companies	Limited interest in supporting and providing incentives to real and potential exporters and restrictive role of the regulatory framework on export management practices	Morgan and Katsikeas, 1997; Leonidou, 2004
	Environmental	Economic, political–legal, and sociocultural environment of the foreign market(s) within which the company operates or is planning to operate	Poor/deteriorating economic conditions abroad, foreign currency exchange risks, political instability in foreign markets, strict foreign country rules and regulations, high tariff and nontariff barriers, unfamiliar foreign business practices, different sociocultural traits and verbal/nonverbal language differences	Kedia and Chhokar, 1986; Moini, 1997; Leonidou, 2004

Source: Author’s own elaboration, based on Morgan and Katsikeas (1997) and Leonidou (2004).¹

¹ Regardless of the model adopted by the author, as Rocha *et al.* (2008: 107) state: *[t]here is little uniformity in the barriers studied by different authors. Each researcher tends to use his or her own list, extracted from the literature and from exploratory work in such a way that it is difficult to compare the results from different studies. Even when barriers are similar, the way in which they are presented to respondents is different, permitting a variety of answers and interpretations.*

2.2. Entities and policies that support SME's internationalization process: what level of action?

As countries keep getting more and more involved in world economy, it is critic that States, in their efforts of economic development, explore their economies' structure of foreign commerce to obtain a better understanding of their industrial competitive advantages. With this knowledge, a State will be able to maximize the benefits of commerce, directing in a more efficient way their limited resources for economic development (Stagg, 1990).

From a region's point of view, exporting to a foreign country or exporting to other regions inside the same country represent equally adequate means of creating wealth (Stagg, 1990), that is, both activities bring additional incomes that wouldn't otherwise be possible if that region only served the local market. Nonetheless, depending on domestic market to generate wealth may lead to the profit of a region at the expenses of others. Exporting to foreign markets can solve this potential problem, because by reaching new markets regions (at the local or national scale) can enhance their economic potential instead of simply compete with each other in the existing markets (Stagg, 1990). This fact underlines that a healthy export sector is of extreme important to Nations, States and communities (Lewis, 1990), so nowadays "developing a strong export base has become a major public policy concern" (Lesch *et al.*, 1990: 25).

From a general perspective, it has been amply considered that the Government plays a vital role in establishing, developing and maintaining export activities, as a stimulating factor (Sullivan and Bauerschmidt, 1988; Kotabe and Czinkota, 1992; Katsikeas and Piercy, 1993) or as an impediment (Rabino, 1980; Kedia and Chhokar, 1986; Sullivan and Bauerschmidt, 1989) for the internationalization process (Kaleka and Katsikeas, 1995).

Notwithstanding the obstacles enterprises have to face in their internationalization process (cf. Section 2), external operations can be a necessary step for many firms in their struggle for survival, as globalization pressures increase (Dawar and Frost, 1999; Bartlett and Ghoshal, 2000, in Rocha *et al.*, 2008; Mittelstandsbarometer, 2007, in Sommer, 2010). Based on that and bearing in mind the export obstacles for SME previously presented, public organizations create policies to promote exports with the aim of collaborating in the process of these firms' international expansion (Calderón *et al.*, 2005; Cassey, 2007). In this way, governmental programs to promote exportations help SME to develop their organizational abilities and competences to explore internationalization opportunities (Francis and Collins-Dodd, 2004, in Shamsuddoha *et al.*, 2009).

Facing global competition and the need to overcome obstacles associated to asymmetric information and other market failures (Gil *et al.*, 2008; Lederman *et al.*, 2010), public organizations formulate policies to promote exportations with the aim of helping firms to develop their internationalization process (Calderón *et*

al., 2005). This has led, in the last two decades, to the triplication of the number of national export promotion agencies (Lederman *et al.*, 2010) and, in the Spanish case, even to the creation of networks of regional representation abroad, so as to support enterprises which want to commercialize and invest in foreign markets (Gil *et al.*, 2008). In this context, the services of the Government, a normally 'aggressive' player in the field of export promotion (Wilkinson and Brouthers, 2006), tend to be beneficial for SME to overcome their limitations (Wilkinson and Brouthers, 2006). This consideration has been translated into the general recognition of the importance of export promotion programs (Shamsuddoha *et al.*, 2009) and into the notion that agencies dedicated to this activity are a crucial instrument to support SME (Gillespie and Riddle, 2004; Gil *et al.*, 2008).

As such, measuring and improving the national strategy of export promotion are "emerging issues in international business research" (Czinkota, 2002, in Gillespie and Riddle, 2004: 462) and Governments have taken a more and more important role in export promotion. In fact, although export promotion programs can differ in their structure or magnitude, all States have recognized the need to contribute to the success of their business sectors (Lesch *et al.*, 1990).

In spite of literature presenting ambiguous results (e.g. Pointon, 1978; Seringhaus, 1986a,b; Cavusgil and Jacob, 1987, in Wilkinson and Brouthers, 2006), the existing studies indicate that export promotion organizations and agencies conducted by Governments, although not being the 'perfect recipe' aren't a complete waste of resources (Gençtürk and Kotabe, 2001, in Gillespie and Riddle, 2004) and may even be advantageous (Wilkinson and Brouthers, 2006). In fact, the study by Shamsuddoha *et al.* (2009) indicates that governmental programs to support SME's internationalization influence internationalization in a direct and indirect fashion and play an important role in the internationalization process of these firms, by contributing to the already mentioned factors that determine a firm's international performance. This corroborates the conclusion of Wilkinson and Brouthers (2006) that the level of results depends on the activities included in these programs and in the ability and/or will of these firms to reunite and organize the appropriate resources and take advantage of the services provided by public export promotion agencies, of which these services can complement the internal resources of these enterprises and enable them to become effective in international markets (Wilkinson and Brouthers, 2006). Also the study by Lederman *et al.* (2010) demonstrates that national export promotion agencies have, on average, a positive and statistically significant effect on national exportations and seem to be particularly effective when most needed, as when there are trade barriers and asymmetric information.

Broadly speaking, there are indications that governmental agencies dealing with export promotion give little attention to the adequacy of export promotion programs to the exporters' various needs. The States normally use a universal [sic] strategy rather than a

strategy targeted [sic] more effectively, so therefore a major deficiency of export promotion programs has been the lack of information about which [sic] services are needed and by whom [sic] (Weil, 1978, in Lesch *et al.*, 1990).

Thus, regarding recommendations, Seringhaus and Botschen (1991) (quoted in Gillespie and Riddle, 2004), state that public organizations should be aware to the different needs of the various potential users and should develop or change their activities according to them. Based on this assumption, export promotion policies should be differentiated according the groups of enterprises that share common features, regardless of whether they belong to the same sector (Calderón *et al.*, 2005).

The study by Lederman *et al.* (2010) suggests that ideally national export promotion agencies should be managed by the private sector and financed by the public sector. The positive effect on exportations is also superior if there is a single strong national export promotion agency, rather than the proliferation of small agencies within countries (Lederman *et al.*, 2010), since the efficiency of public organizations dedicated to this activity seems to diminish with the lack of coordination between them (Calderón *et al.*, 2005).

In turn, Elvey (1990), on a study comparing eight States, found that the form of export assistance and coordination varies greatly between countries. Commerce promotion is managed by the public or private sector, with or without coordination between all the participants. Similar strategies, however, do not produce the same success, as large differences do not necessarily originate divergent results.

Although there are studies on the impact of national and state trade missions (in the American case) on national and state exportations (Cassey, 2008), respectively, and although there has been measured whether Spanish regional representations abroad contributed more strongly to the increase in exports than Spanish Embassies or Consulates (Gil *et al.*, 2008), there is no research, by the author's best knowledge, research into the possibility of being more effective and efficient to carry out export promotion activities on a decentralized basis, that is, at the municipality or local power level. Thus, this study aims to establish a bridge between these two questions (SME's internationalization support and decentralization of public policies on this domain), since it is important to analyze the possible contribute of decentralization to export promotion.

2.3. Decentralization of public policies and local economic development

Global events show that decentralization is nowadays a reality, as a reconstruction of the public sector's model and as a development strategy (Azfar *et al.*, 2001).

Political decentralization can be vertical (the authority is transferred from the central government to the local government) or horizontal (the authority is shared between the executive, judicial and legislative systems) (Taylor, 2007). This process can be understood as "an

increase in both the number and equality of centres of political power and policy making" (Taylor, 2007: 233) and is reflected on the idea that "[t]he state, although not impotent, is now dependent upon a vast array of state and non-state policy actors. The state is regarded as the first among equals; it is one of many centres" (Marinetto, 2003: 599).

Decentralization can be understood as transference of functions, where politics, finances and administration are under the direct and exclusive control of subnational governments. However, this transference always has its difficulties, which are, according to Azfar *et al.* (2001: 13), "not only (...) local constraints such as budgetary resources and provincial charters, but also (...) central disciplines embodied in national constitutions and oversight jurisdiction". This means that the local government units may lack of the administrative power to adjust the services and the budgets to respond to preferences, direct and sanction employees to improve the performance or respond to critics and changes (Azfar *et al.*, 2001).

According to Litvack and Seddon (1999: V), "[s]imply put, with decentralization, as with many complicated policy issues, the 'devil is in the details'". The matter depends on several factors, among which are policies and institutions, as well as their interaction within a given country (Litvack and Seddon, 1999).

In this context, the debate on decentralization has evolved from theoretical arguments to the empirical demonstration and from general to specifics (Azfar *et al.*, 2001), having emerged, in the last thirty years, a current of studies that investigates the development and the impact of local economic development initiatives, giving major importance to the role of institutions (and specifically local governments) on local economic development (DeFilippis, 1999; Barberia and Biderman, 2010). In fact, in the last years, economists and politicians have paid more and more attention to models of local development and to policies of local intervention (Camarero Izquierdo *et al.*, 2008) and "[l]ocal economic development has become one of the major public policies emphasized in many countries during the past several decades" (Liou, 2009: 29).

As part of this trend, the perspective of endogenous development is based on the assumption that every region possesses an intrinsic set of resources (economic, human, environmental, institutional and cultural) which constitute the potential for a region's development, in that investing in them, in a sufficient and adequately coordinated manner, can turn the region into a more attractive one to the actors of economic growth (Camarero Izquierdo *et al.*, 2008).

According to this perspective, the entities responsible for the territorial development should first detect the endogenous resources of their region; invest in their development; and finally communicate their existence to the actors (internal and external) that may be interested in them (Camarero Izquierdo *et al.*, 2008).

One of the objectives of a territorial policy is to increase the economic development level of a region and one can

identify in this process of economic growth and structural change two dimensions: economic, where the local entrepreneur, using his ability to organize local resources, reaches a sufficient level of productivity to be competitive on markets; and sociocultural, where values and local institutions serve as a basis for a process of development. A strategy of local development should still consider a third dimension, the political-administrative dimension, where territorial policies enable the creation of a local economic climate, encourages the development of the local potential and protect all the process of external control (Vázquez-Barquero, 1992, in Camarero Izquierdo *et al.*, 2008).

Sengenberger (1993) (quoted in Camarero Izquierdo *et al.*, 2008) defends that the local development should be framed in a more broad political framework that includes supra-local considerations and objectives, as well as links with supra-national actors. This author indicates that development requires coordination of policies at several organizational levels, cooperation between regions and minimal patterns which prevent destructive competition (Camarero Izquierdo *et al.*, 2008).

According to DeFilippis (1999: 976), “[l]ocalities are (...) continuously being constructed and reconstructed, both by their relationships with the rest of the world, and by the struggles that take place within them”. In fact, the local is constituted and produced by local government actions (and its policies) and by the actions of structures and actors of wider scales, that is, localities are defined by their positioning in the relations with the external world and by the relations that exist within it. Still within this type of studies, Barberia and Biderman (2010: 4) confirm that “[t]he LED [local economic development] policies that emerged in recent decades are rooted in the recognition that initiatives must be territorially based and locally managed.” These authors sustain that the number of actors involved in local development initiatives has grown significantly, including entities as different as the different levels of Government (local, regional and national), private sector, non-profitable organizations and even community development organizations.

This recognition goes to the encounter of tendencies that, in the words of Cox (2004: 179), show that “an important element of a local and regional development policy appropriate to the times and circumstances would be one that decentralizes powers and responsibilities to very local levels.”

2.4. Decentralization of public policies and the role of local municipalities in the promotion of enterprises' internationalization

Based on the idea that decentralization is a valid development strategy (cf. Section 4), investigating whether export promotion would benefit from being managed and implemented from a decentralized point of view, for example, by local municipalities, is a matter that is perfectly framed in the current economic and political context. Although there is no literature that

investigates this analysis perspective, it will be attempted in this study to extrapolate results in other already decentralized areas to possible impacts also in this specific field.

The contribute by Taylor (2007) is of extreme interest, for he has tested the advantages of political decentralization to technological innovation. By systematizing the opinions of several authors, Taylor (2007) refers that there is no consensus on the potential contribute of decentralization to technological innovation. Some researchers (e.g., Rosenberg and Birdzell, 1985; Mokyr, 1990, 2002; Nelson, 2005, in Taylor, 2007) argue that, because decentralization is necessary to competition and promotes variety, it can, in the long term, be one of the main factors for technological change occur. Other authors (e.g., Drezner, 2001, in Taylor, 2005) sustain that decentralization is necessary, but not sufficient, to innovation and, despite observing the utility of governmental decentralization, they also invoke “conditional variables such as factor endowments, level of development, size, and just plain luck, in order to explain outlier cases” (Drezner, 2001, in Taylor, 2005: 236). Additionally, it is also stated that decentralization is neither necessary nor sufficient to innovation, since a big fragmentation can lead to a complete absence of cooperation, violent competition and conflicts, what, in the long term, hinders innovation (Mokyr, 2002, in Taylor, 2007). Also Peterson (1995) and LeRoy (2005) (quoted in Lobao and Kraybill, 2009), in a different aspect, agree that a relentless competition between local governments to attract businesses and residents of higher incomes can be achieved to the detriment of other more beneficial activities for the citizens. All gathered, a cautious opinion claims that “all the same, some measure of decentralization is probably desirable” (Mokyr, 2002, in Taylor, 2007: 236).

Despite the results obtained by Taylor (2007) indicating that it is not possible to identify a direct positive relationship between political decentralization and technological innovation, the author establishes a possible sequence due to a process of decentralization that may also be extrapolated to export promotion (cf. Figure 1).

Returning to the idea of Barberia and Biderman (2010) about the execution and management of initiatives at the territorial and local level, several authors recognize that decentralization has for main benefits more agility, competitiveness and flexibility to adapt to changes (Taylor, 2007; Osborne, 1988; Oates, 1999, in Lobao and Kraybill, 2009); creation of a geographical focus at the local level, coordinating national, state, district and local programs more effectively (Litvack and Seddon, 1999); and formulation of more creative, innovating and adequate programs that enable local experimentation (Litvack and Seddon, 1999). It can therefore be assumed that decentralizing export promotion to a local scale, specifically, local municipalities, could result in a continuing process that would have as final impact higher efficiency and higher effectiveness of these policies and, consequently, a higher degree of benefit for the targeted local enterprises (cf. Figure 2).

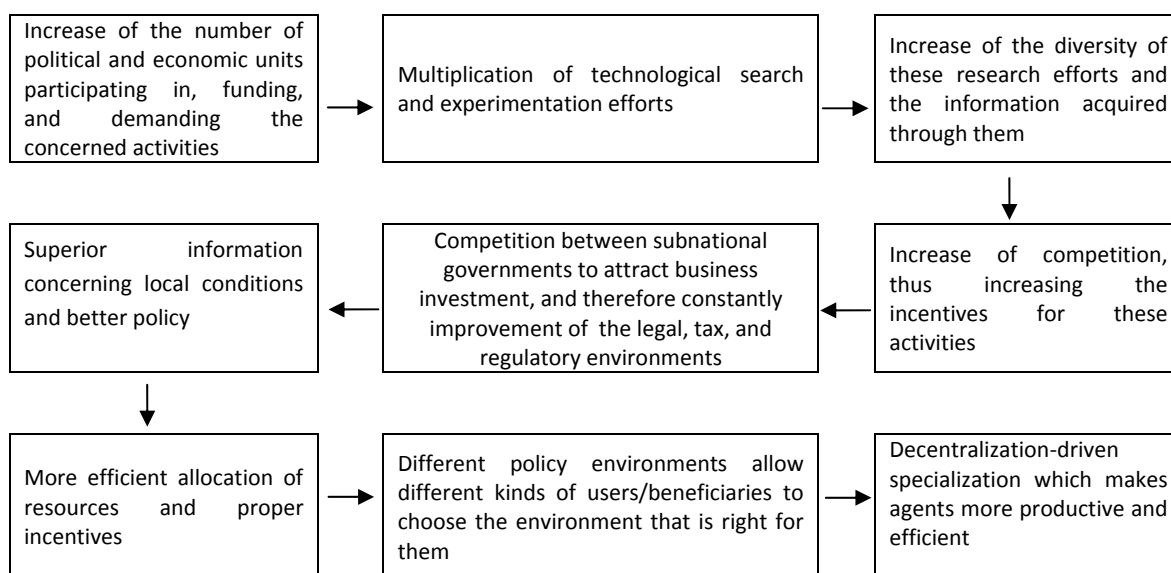


Figure 1. Possible sequence due to a process of decentralization

Source: Author's own elaboration, based on Taylor (2007).

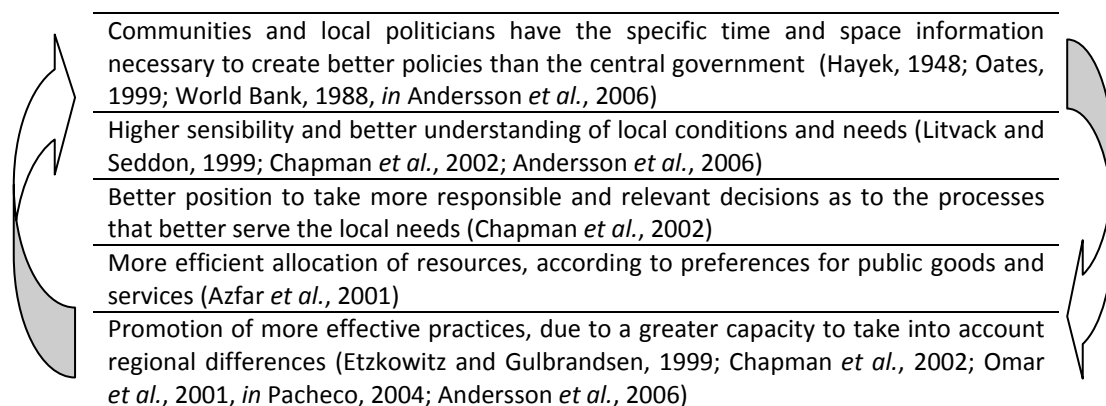


Figure 2. Decentralization and higher efficiency and effectiveness of policies

Source: Author's own elaboration, based on Etzkowitz and Gulbrandse (1999); Litvack and Seddon (1999); Azfar *et al.* (2001); Chapman *et al.* (2002); Pacheco (2004) and Andersson *et al.* (2006).

A closer scrutiny shows that the benefits attributed to decentralization reside mostly in greater accountability of governments to local needs (Oates, 1999, in Lobao and Kraybill, 2009), adapting policies to the preferences of smaller and more homogeneous groups (Tiebout, 1956, in Lobao and Kraybill, 2009; Wallis and Oates, 1988, in Balaguer-Coll *et al.*, 2010), or in best ability of governments to accommodate differences in tastes for public goods and services (Tiebout, 1956; Oates, 1972, in Balaguer-Coll *et al.*, 2010), factors that justify decentralization from the economic efficiency point of view.

Another positive effect of decentralization in terms of efficiency is that, in a centralized system, politicians make decisions with the aim of reflecting the country's interests (Rodríguez-Pose and Gill, 2005, in Balaguer-Coll *et al.*, 2010). Nonetheless, this practice would be inefficient if interests were different among regions,

since some regions would not benefit from national policies. If the preferences change from one region to another, it would be more efficient to geographically alter the provision of public services. Within these circumstances, the provision of public services by the public sector could be more efficient in a structure of decentralized government (Balaguer-Coll *et al.*, 2010). That is the case of export promotion policies, since local municipalities may have as competitive advantages branches of economic activities that vary between regions.

That said, the efficiency considerations in which the discourses of decentralization are based (Balaguer-Coll *et al.*, 2010) also constitute the main argument defended by the present study as the main factor in favour of the decentralization of export promotion policies into local municipalities.

Or the other side, from the point of view of the possible losses caused by decentralization, the presented arguments are directly linked to the very local scale, such as: lack of administrative or technical capacity, or even the transference of authority to individuals who have limited experience in management and, in some cases, little interest in taking those responsibilities (Chapman *et al.*, 2004; Andersson *et al.*, 2006; Faguet, 2004, in Balaguer-Coll *et al.*, 2010), can lead to less efficient and effective services (Litvack and Seddon, 1999; Azfar *et al.*, 2001; Agrawal and Ribot, 1999; Boone, 2003; Gibson, 1999 in Andersson *et al.*, 2006); transference of responsibilities to the local level without the adequate financial resources can make the equitable distribution and provision of services more difficult (Litvack and Seddon, 1999; Cox, 2004; Agrawal and Ribot, 1999; Boone, 2003; Gibson, 1999 in Andersson *et al.*, 2006; Faguet, 2004, in Balaguer-Coll *et al.*, 2010); and agents can back away from new strategies that they do not fully understand, perpetuating the conservatism of the communities and the strangulation of improvement efforts (Chapman *et al.*, 1997; London, 1997; Chapman, 2000, in Chapman *et al.*, 2004).

These arguments are in line with the notion of Litvack and Seddon (1999) in what regards the importance of the institutions' details and characteristics, implying that there should be a basic knowledge of the strengths and weaknesses of organizations in the performance of various types of functions, since the success of decentralization depends on these characteristics and also on an appropriate preparation of the agents of decentralized administration (Litvack and Seddon, 1999). Also Rodden (2003) (quoted in Kauneckis and Andersson, 2009) argues an emergent generation of studies about decentralization that focuses not only the scale of provision and the type of service, but also the policies' and institutions' fundamental nature. This emergent literature shows that it is the complex mixture of institutions that generates receptive local agents.

What defines the final result of decentralization will be, besides specific factors, the interaction between the type of decentralization and the conditions under which it takes place. Simplifying, the conditions that influence the success of a decentralization process can be grouped in

two areas: the local municipalities' attributes (at which point local authorities are motivated to support the process and the availability of financial and technical resources) and the structural variables such as the kind and magnitude of the concerned resources, the relationships of local power and the local economy (Pacheco, 2004).

Following this idea, several authors agree that decentralization works differently depending on the kind of powers which are decentralized (Rondinelli *et al.*, 1989; Litvack *et al.*, 1998; Cohen and Peterson, 1999; Ribot, 2002, in Andersson *et al.*, 2006). Others, still, sustain that decentralization can work, but only in the context of specific institutions which include mechanisms of accountability, supervision and transference of resources (Fiszbein, 1997; Agrawal and Ribot, 1999; Blair, 2000; Larson, 2002; Andersson, 2003; Gibson and Lehoucq, 2003, in Andersson *et al.*, 2006).

It is more and more recognized that to decentralization reach the potential benefits of a efficient and equitable provision of public goods, it is necessary for citizens to be able to send appropriate information to the local actors, so that local politicians can respond appropriately or, when that does not happen, be accountable for. It is claimed that for these conditions to exist, several institutional and social characteristics have to be reunited. More specifically, the incentives for a local political to respond to the demand of the constituents are understood as being conditioned by institutional incentives within the framework of national policy, by constraints of the local political system, and by the formal representation and articulation of the citizens' preferences in the political structure (Kauneckis and Andersson, 2009).

In the model by Kauneckis and Andersson (2009), formal political institutions and the local society's structure generate several incentives and constraints to the municipalities' action. Thus, the structure of the local political action is conceptualized as being composed by two levels: the impact of local political institutions at the national level and the influence of the local municipalities' specific institutional and socioeconomic characteristic (cf. Figure 3).

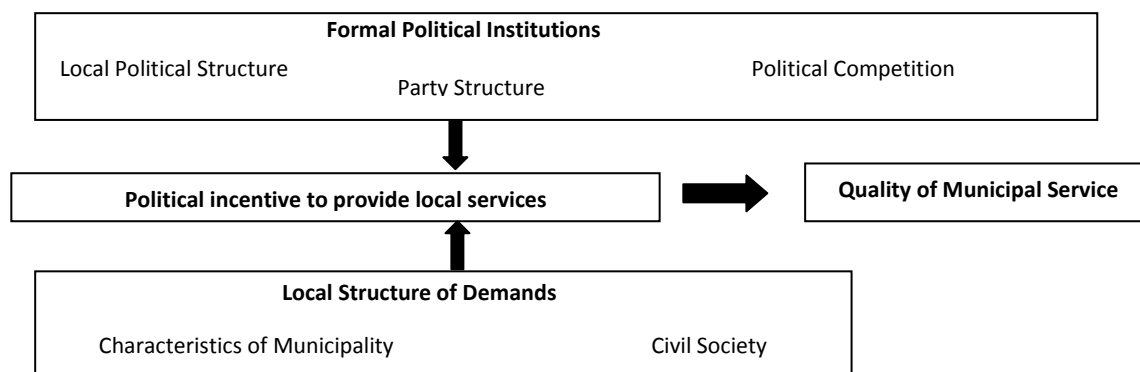


Figure 3. Interaction of national political institutions and local incentive structure

Source: Kauneckis and Andersson (2009: 42).

In this context, analyzing under which circumstances decentralization is more effective places emphasis not on the merits [sic] of decentralization (as opposed to centralization), but on the manner and conditions in which it is undertaken. The theoretical previsions suggest that decentralization depends on institutional regulations and their interaction with social practices, influencing the achievement of decentralized governance (Azfar *et al.*, 2001). These factors, according to Azfar *et al.* (2001), include the distribution of powers among levels of Government (central government supervision towards local government operations), the disciplines operating from within and outside government (management of the involved elements) and the principal-agent information flows (ability for all agents to participate in the decision-making process). In other words, Agrawal and Ribot (1999) (quoted in Pacheco, 2004) sustain that the relationship between decentralization and its results can be better understood if it is analyzed in terms of actors, powers and accountability, which makes it relevant to analyze the relationships between the central government and local governments and between these and local populations (Ribot, 1999, 2001, in Pacheco, 2004).

3.3. Methodology

Due to the very nature of this study, and bearing in mind the notion that the government's formal mechanisms are important only when it comes to their interaction with local conditions, we will give special attention to the local structure of demand regarding the municipalities' characteristics and not only a mere analysis of the relations between central government and local governments.

In this context, according to Kauneckis and Andersson (2009), the characteristics of municipalities that influence the quality of the service provision the most include the municipality's area, population (education and literacy and population density) and financial capacity. According to these authors, the bigger the area, the harder it will be to provide quality services (Kauneckis e Andersson, 2009). Additionally, more instructed population, clustered in population centres with few demands for the services in question, should be easier to satisfy than low density groups with population less instructed and high demands for these services (Rowland, 2001, in Kauneckis and Andersson, 2009). On the other hand, Lobao and Kraybill (2009) ascertained in their study that localities with more population and lower literacy rate get more involved in local economic development activities. Finally, local governments are constrained by their financial capacity to respond to local demand. In some cases, this is connected to a failure in devolution to local government; in others it reflects the relative health of a local economy. The municipal budget is used as a measure of the local governments' capacity to respond to citizens' demand (Kauneckis and Andersson, 2009).

On the other hand, the hypothesis about the potential efficiency and effectiveness of export promotion by local municipalities also implies that we investigate the

relation between these and local enterprises. Therefore, beyond the main arguments that constrain a decentralization process, introduced on the previous Section, it is also argued that a healthy export sector is of extreme importance to the Nation, the States and the communities (Lewis, 1990). Moreover, the number of person working at a division may indicate the municipality/State commitment to export development (Lesch *et al.*, 1990) and the local government's capacity (measured in resources and networks) is a big determinant to the achievement of activities promotion economic development (Lobao and Kraybill, 2009). At last, business competition with other localities pressures governments to attract businesses (Lobao and Kraybill, 2009) and by reaching new markets regions can increase their economic cake, instead of only competing among themselves in the existing markets (Stagg, 1990).

On this regard, the empiric gathering of this work is subdivided into three stages: firstly, we will implement an enquiry to the 308 Portuguese municipalities (including Azores and Madeira), to find out whether they perform export promotion activities; secondly we will treat the municipalities which respond affirmatively as case studies, interviewing them to better assess the characteristics which may be on the origin of a more proactive attitude on this domain by these municipalities. Finally, we will implement an enquiry to the enterprises which have benefited from such actions, as a way to examine their level of satisfaction and, consequently, if they agree that municipalities can also play an active role on the promotion of local enterprises on the global market.

The enquiry for municipalities will be completed by people who due to their position and their functions on the City Hall have knowledge of the activities led by the institution on economic development/support for local enterprises' internationalization.

This enquiry is composed of three sections: the first will allow to assess whether City Halls have a organic unit which deals with this matter (and if so, characterize it based on its dimension, the academic training of the staff and its autonomy); the second section will inquiry whether City Halls have contact with local enterprises (and if so, the regularity and typology of such contacts); the last section particularizes whether City Halls perform activities with the characteristics here analyzed and allows to investigate the factors which can inhibit or encourage City Halls to get involved with such actions.

Based on the interviews to municipalities which perform activities to support local enterprises' internationalization, we will gather information about the enterprises that participated in these activities. This will allow us to proceed to the third phase of this study's methodology, that is, the implementation of a enquiry to these enterprises, which will be completed by people who due to their position and responsibilities in the enterprise, have knowledge of the set of elements characterizing the participation on such activities promoted by City Halls.

This last enquiry is composed of five sections: the first allows to characterize the enterprise based on its

economic activity, number of workers and total of sales; the second section intends to characterize the regularity and typology of the contacts established and its origin; the third section will characterize the enterprise's participation in activities promoting internationalization (assessing in which and in how many the enterprise has participated, which have had positive impact on the enterprise and whether the enterprise would participate

on these actions again); the fourth section evaluates the contribute of the participation on these activities and the level of satisfaction with the City Hall regarding their performance on this matter; finally, the last section opposes the centralization of these action against their decentralization, which will aloe to investigate whether enterprises see municipalities as a added value to their internationalization process.

4. Provisional chronogram of the research work

	Jan.	Feb.	Mar.	Apr.	May	Jun.
Defense of thesis proposal	█					
Preparation of the enquiry for municipalities and implementation of the pilot enquiry	█	█				
Implementation of the enquiries to municipalities		█	█			
Treatment of results			█			
Preparation of interviews to selected municipalities			█	█		
Treatment of results				█		
Preparation of enquiries to enterprises				█		
Implementation of enquiries to enterprises				█	█	
Treatment of results					█	
Discussion of results and conclusion						█
Submission of thesis						█

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