CHAPTER 6.
THE INTERNATIONALISATION
OF PORTUGUESE
MANUFACTURING FIRMS

6.1. INTRODUCTION
The recent evolution of outward FDI flows was discussed in chapter 4. The picture presented was one of a very recent phenomenon. Only in the 1990s, and in particular in the second half, Portuguese investment abroad became relevant. But growth has been exponential and the enthusiasm was transmitted to the Portuguese authorities which made the internationalisation of domestically owned firms a political objective. It is interesting that these transformations happened at a time when foreign firms seem to be less inclined to invest in Portugal (see chapter 4). The result was a peculiar behaviour of the Portuguese IDP (section 4.6). It emulates the pattern of evolution of the most developed countries, suggesting that Portugal is joining the group of latecomers in foreign investment (together with Austria, Spain, and others). However, the Portuguese IDP conceals a loss of competitiveness in terms of the country’s ability to attract foreign investment (see chapter 5). In this context, the investigation of the internationalisation of the Portuguese firms may
yield important information. It is important, for example, to identify whether the growth of outward FDI results from a new strength of national firms or it represents “escape investment”, a response to an hypothetical reduced attractiveness of the domestic location.

The internationalisation process of the new Portuguese MNCs may also be important for international business theory. Foreign investors from newly industrialised countries like Portugal can be expected to be in many respects distinct from those from more developed nations. First, they are smaller than the long established MNCs they will compete with. Second, they tend to possess fewer ownership advantages, which are also likely to be very dependent on the characteristics of the home country (Dunning, 1981a, 1981b, 1986b). Third, as pioneers in their home countries in terms of internationalisation, they face explicit and implicit costs that do not affect firms from more developed nations. Following Dunning (1993a: p.64), it is not argued that the different characteristics, motivations and problems suspected to be typical of MNCs from newly industrialised small countries require a new paradigm or even new theories. But they certainly challenge existing theories in their emphasis and scope.

6.2. METHODOLOGY

The first problem that faces any researcher involved in studies of internationalisation is the definition of the concept itself. Welch and Luostarinen (1988: p.84) proposed a broad definition of internationalisation as “the process of increasing involvement in international operations”. Given this definition, the internationalisation of an increasing number of Portuguese firms represents no surprise. After all, Portugal is a very open economy integrated within the biggest trading block in the world. However, most Portuguese firms do no more than exporting through agents, often with little or no knowledge at all of the market conditions for their products. Sales and production subsidiaries are rare (Simões, 1997).

The aim of this project - to study the motivations and strategies of the nascent Portuguese MNCs - suggests, however, a restrictive definition of internationalisation. The choice was to limit the analysis to companies that possessed a productive foreign subsidiary, or manifested a clear intention to create one in the near future. It was hoped that this solution would concentrate the research on those firms with a more mature internationalisation process, believed to be more relevant for the objectives of the study. As in the previous chapter, services firms were not considered because of their rather distinct characteristics
(Buckley et al., 1992; Coviello and Munro, 1997). This may represent a limitation of the study. Contrary to other countries (Dunning, 1993a), the services sector was the first to internationalise in Portugal and accounted for 90 per cent of outward FDI flows between 1996 and 1999 (see chapter 4). However, this investment was concentrated in telecommunications, real estate and financial services, which were likely to provide few clues of the evolution of the country's competitiveness.

For the same reasons presented in chapter 5, a survey analysis was considered the best methodological approach to this study of outward FDI in Portugal. In this case, however, the small size of the population (see next) permitted the adoption of a different technique. The survey was supported by semi-structured interviews and secondary data. Despite being more resource intensive than a questionnaire based survey, this solution resulted in a better knowledge of the subjects being analysed as well as more flexibility. The latter was especially important due to the limited a priori knowledge of the subjects. In other words, interviews are more inductive than a questionnaire based survey (Gill and Johnson, 1991), making them in this case more suitable for the problem being analysed.

6.2.1. Population and sample

The population was identified from a mix of official (such as ICEP, FIEP and IAPMEI) and non-official sources (industry associations and business journals and newspapers). Only 27 manufacturing companies could be identified as having at the time (Spring/Summer 1998) production capacity outside Portugal or clear projects to do so in the near future. All were contacted by telephone and 18 accepted to participate in the study. In all but three cases the interviewees were members of the Board of Directors. A brief characterisation of the sample is provided in Table 6.1 (see over page).

Due to unavoidable time restrictions, only one interview was conducted at each firm. Interviews took place in September 1998 with only one exception, where the interview was conducted in January 1999. They were recorded on tape when permitted by the interviewee. All interviews were conducted by the same researcher, which guaranteed homogeneity of treatment between different companies, both during the interviews and in terms of reporting.

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1 Mainly, the companies' annual reports and assorted journal and newspaper news.
2 ICEP - Institute for International Trade and Investment; FIEP - Fund for the Internationalisation of the Portuguese Economy, a venture capital fund led by the Portuguese government with involvement of several financial institutions; IAPMEI - Institute for the Promotion of Small and Medium Size Manufacturing Companies.
Typically, the interviewees were invited to make a brief description of the company’s history and to provide basic figures on the firm. This allowed the cross checking of information with previously collected data, thus testing the reliability of the different sources. Next, the internationalisation process was discussed in more detail. The topics proposed were the reasons for the choices made and the alternatives considered, what operations existed in each host country, and how every step affected the whole organisation in Portugal. The interviewees were then required to assess the company’s competitive advantages and to describe other present or past international links of the company or its top managers.
6.3. THE INTERNATIONALISATION OF PORTUGUESE MANUFACTURING FIRMS

The eighteen companies analysed presented very distinct internationalisation processes. They covered a wide range of industries and had different motivations and choices of mode of entry. The regularities are stronger when it comes to the timing of the internationalisation process and the location of foreign production subsidiaries.

6.3.1. Industries

Empirical evidence compiled by Dunning (1993a, pp. 28-40) suggests that, worldwide, the industries that are favoured by MNEs are: (i) capital-intensive processing industries, often producing natural-resources intensive products, but also differentiated consumer goods with high income elasticity; (ii) technology and human capital intensive industries; (iii) industries that can benefit from large economies of scale. The relative importance of these industries will, naturally, vary across countries due to their idiosyncrasies; different natural and created endowments, different stages of development and different industrial traditions will result in distinct structures of outward FDI.

Portugal is not only a recent exporter of capital, as it is traditionally specialised in labour-intensive industries with little product differentiation, such as textiles, clothing and footwear (Castro, 1993). Henceforth, the industrial structure of outward FDI could be expected to be quite different from that of more developed economies, home to most MNCs. However, the data collected suggested an industry distribution of Portuguese manufacturing outward investment not very different from that of more developed small countries (see Table 6.1, above). Traditional labour intensive sectors were largely absent; only one firm in the sample operated in these sectors, and its management admitted that productive direct investment remained no more than a project\(^4\). In contrast, capital intensive industries with significant economies of scale were dominant. The use of highly skilled labour seemed to be the rule, and a majority of the industries represented can be considered to be technology intensive.

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\(^3\) An earlier version of this section was the basis for a referred article: “Outward FDI in Manufacturing from Portugal: Internationalisation strategies from a new foreign investor”, presented at the 25th Annual Conference of the European International Business Academy (Manchester, UK, December 1999). I would like to thank the referees and the participants in the conference for their comments and suggestions.

\(^4\) The population also included a footwear producer that invested in Cape Verde, and a clothing manufacturer with projects for Tunisia. Unfortunately, the management of both firms refused to take part in the study.
This characteristic of the Portuguese outward FDI is, however, only in part a surprise. Dunning (1981b: p.9) predicted that firms from countries in stage 3 of the IDP may “invest abroad in those sectors in which (...) their comparative location advantages are weakest”. In Portugal, capital and technology intensive industries that required a highly skilled labour force may fall into this category. However, Dunning (1981b: p.9) also predicted that these “enterprises invest abroad in those sectors for which their comparative ownership advantages are strongest”. And it is not clear why firms in these sectors should have stronger ownership advantages than those in sectors where domestic investors have a longer tradition.

More than the characteristics of the industry in terms of factor intensity or technological level, the internationalisation of the Portuguese firms seemed to be associated with the stage of maturity of the respective domestic markets. Over half the companies in the sample were domestic leaders in fully mature domestic markets. In itself this is evidence of strong ownership advantages. Even more so because in a small country the leader is likely to concentrate management and financial resources and to have a big market share (which explains why most industries were represented by only one firm).

Apparent exceptions to this were the auto-components producers, who comprised one third of the firms in the sample. However, auto-components is not exactly an industry, but an amalgamation of industries. Electric batteries, metal parts, plastics components, power cables and textiles are the segments represented in this sample. Auto-components producers have, nevertheless, several common characteristics. In particular, they share the final clients - the car assemblers - so they are all constrained by similar industry and market characteristics. In this global industry, Portuguese companies tend to play a secondary role, even in the domestic market. This combination of factors seems to have contributed to the internationalisation of rather small firms.

6.3.2. Location

The study of the location of foreign investment at the firm level has been strongly influenced by the works of the “Uppsala School” (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). These authors suggest a path of foreign expansion marked by the firm’s own past experience, the size of potential markets, and, most importantly, the firm’s psychic distance to each potential host country (cf. chapter 2). Psychic distance depends on factors such as differences in language, culture, political
systems, level of education, or level of industrial development. But in the case of production establishments Johanson and Wiedersheim-Paul (1975, p.29) argued that “it is hard to observe any correlation with psychic distance”. Cultural proximity is strongly associated with geographic proximity. This, normally, represents low transport costs, which encourage trade but discourage investment in production capacity.

The case studies presented here, however, suggested otherwise (see Table 6.2). Psychic distance seemed to be a very strong determinant of the location of the first foreign productive venture. In the sample, Brazil and Spain were the most popular destinations (respectively 47 and 20 per cent in terms of first choices). A revealing fact was that when asked why was Brazil the destination of the first foreign investment, a frequent answer was that Angola or Mozambique were first considered but political instability, small domestic markets (despite their potential for growth), and a very unskilled workforce discouraged investment. This reference to the PALOP\(^5\) was also common among the other firms in the sample. For those that invested in Brazil, the explanation tended to be complemented with references to language and cultural proximity\(^6\).

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Companies that expanded to Spain cited geographic and cultural proximity as the most important determinants. In this case, the language is not the same, but it is close enough to be understood by most Portuguese speakers. There are also strong similarities (stronger

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5 The Portuguese acronym for Portuguese-speaking African Countries. It comprises Angola, Cape Verde, Guinea-Bissau, Mozambique, and Sao Tome and Principe.

6 Neoplástica represents a notable exception. It was the only company in the sample to consider expansion to Brazil as “very risky, because you will be dealing with a very different culture”. Neoplástica expanded first to Europe, where its owners and top managers studied and lived for long period of their lives.
than with Brazil) in terms of political system, level of education, and level of industrial
development. But geography seems to be unquestionably relevant. “The whole Iberian
Peninsula is our natural market”7 was the expression used by at least 5 of the managers
interviewed and sometimes printed in the Annual Reports.

Nevertheless, it seems that, as suggested by Johanson and Wiedersheim-Paul (1975, p.29),
geographic proximity was negatively affecting the number of Portuguese firms creating
production establishments in Spain. Although with different levels of engagement, all 18
firms in the sample exported to Spain. For most, Spain was the first foreign market. Hence,
the fact that only 22 per cent of the firms in the sample established their first productive
foreign investment in Spain seems to be an underestimate of the importance of the
Spanish market for the Portuguese firms. The data suggest that only when economies of
scale are strong and economic resistance to transport is high does it make economic sense
to supply the Spanish market from Spanish plants, very much as suggested by Johanson
and Wiedersheim-Paul (1975, p.29).

There is however a strategic element to be considered. It was pointed out during some of
the interviews that the acquisition of an existing firm in Spain was not simply to acquire
production capacity or to reduce transport costs. Often more important was that it also
permitted the acquisition of market share and the elimination of a competitor, or the
prevention of competitors from expanding. In the presence of increasingly integrated
economies and growing international awareness by the Portuguese firms, these strategic
moves can be expected to be more frequent.

One fact that must be discussed is why other European countries have such a small
presence in the sample. The explanation may be a combination of location advantages and
weak ownership advantages. In the European Union, which accounts for some 80 per cent
of the country’s international trade, Portugal remains the lowest cost location. In labour-
intensive industries, exports and sub-contracting have been growing in recent years,
resulting in stronger comparative advantages. One of the ceramics producers interviewed
stated that expansion in Europe (including Eastern Europe) had been considered but
abandoned due to relative costs: “European retailers are sub-contracting their production
in Portugal more then ever before (including to our firm). We must infer that it does not
make economic sense for us to produce anywhere else in Europe”.

7 All the citations are translations from Portuguese.
On the other hand, the economic, social and political changes registered in Portugal in recent years (cf. chapter 4) are too recent to permit the full development of local firms. Ownership advantages are still very much dependent on locational factors. This prevents Portuguese firms from engaging in expansionary strategies in the more mature European economies. Evidence comes again from the reactions when the interviewees were asked about alternative locations. Europe was immediately ruled out by a substantial number of managers with the argument that it is impossible to compete in markets dominated by long established firms from the more developed European countries.

Another interesting fact was that, despite the importance given to cultural proximity, all companies that expanded either to Spain or to Brazil confessed to problems in understanding the local markets and business culture. “Spain is a completely different market”, “you do not sell in Spain the same way you sell in Portugal”, were frequent comments. The interviewees seemed to agree that consumer behaviour and business practices are in Spain quite distinct. Markets also tend to be less concentrated than in Portugal, with obvious implications in terms of strategic behaviour. Similar observations were made for Brazil (“in Brazil, everything is different”), along with references to the problems generated by red tape and economic structures still trying to adapt to the end of hyper-inflation.

This suggests two comments. First, psychic distance may influence the location choice, but it is no guarantee of problem-free investments. In fact, proximity (geographic and/or cultural) may induce companies into overlooking the differences between host and home countries. The risks involved are well documented by O’Grady and Lane (1996) for Canadian investment in the US. They concluded that “although cultural differences were perceived by the executives to be important, (...) it was the recognition of those differences, prior to entry, that differentiated performance” (p. 401). In our sample, the failure to recognise those differences explains the collapse of Cin and Renova’s first attempts in the Spanish markets, as the respective managers admitted themselves. Unfortunately, expansion to Brazil is too recent to be assessed in this respect.

A second comment concerns people’s assessment of cultural differences. As referred above, it is surprising how frequently cultural proximity with the host country was mentioned, but at the same time there were complaints about the difficulties posed by

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8 The managers interviewed tended to refer explicitly to German firms. French, British, Dutch, and Italian
different market structures, different consumer behaviour, different business practices, awkward attitudes by business partners or civil servants. This can only be explained because, regardless of its complexity, perceived cultural proximity is very much influenced by one single factor - language. A strong correlation between language and culture proximity is unquestionable, not least because language similarity is almost always associated with historic ties. Moreover, being able to understand and speak the language makes it easier to grasp alien cultures and reduces the risk of misunderstandings\textsuperscript{9}. However, when the same language is spoken, or when languages are close enough to be mutually understandable, a sense of familiarity is generated and cultural proximity tends to be overstated\textsuperscript{10}. The risk is an erroneous sense of “being at home”, reduced vigilance, and an increasing chance of cultural clash.

Among the few companies in the sample which did not start their internationalisation in Brazil or Spain, Efacec was probably the most interesting case. This producer of power generation and distribution equipment started its international expansion in the Far-East. Efacec’s management explained the choice as being based on market conditions. This was the fastest growing area in the world at a time (1989) when Latin America and Africa offered very risky environments. The European market, completely dominated by MNCs several hundred times bigger than Efacec, was not considered\textsuperscript{11}. However, Efacec had privileged contacts in the Far-East - the agents of its former (foreign) owners. Furthermore, Macao (which was returned to China in December 1999, after four centuries of Portuguese administration) was the place chosen to establish the regional headquarters and the first production subsidiary.

6.3.3. Timing

It is logical to expect that older firms start internationalisation earlier. That seemed to happen with the four cases studied by Johanson and Wiedersheim-Paul (1975), even if the more recent firms internationalised their activities faster - younger firms can learn from the experience of older firms. They are also pressed to internationalise from the earlier stages of their existence by their internationalised (domestic or foreign) competitors. These firms were also used as examples, but much less frequently.

\textsuperscript{9} That “it is necessary to understand what is said in the shop floor” was one manager’s explanation for ruling out expansion to Eastern Europe. The company invested in Brazil.

\textsuperscript{10} “Brazilian people like the Portuguese”; “It is easier for a Portuguese firm to understand the Brazilian way of life” were some of the comments recorded during the interviews.

\textsuperscript{11} Efacec’s assumed strategy is to avoid any direct conflict with the world leaders.
factors, nevertheless, should guarantee a more or less homogeneous distribution of international investment over time. However, firms’ internationalisation is influenced by the international political and economic conditions. There will be few new subsidiaries in periods of high protectionism (e.g. the 1930s) or economic crisis (the 1970s); the opposite will happen in periods of economic expansion and liberalisation (e.g. the 1960s). This contrast is quite clear in Johanson and Wiedersheim-Paul’s (1975) sample.

The home country’s level of economic development is another variable to be considered. The international expansion of companies from developed countries can be expected to be essentially dependent on the firm’s characteristics and strategy. However, firms from less developed countries are more dependent on national factors. To start with, their ownership advantages tend to be connected to the characteristics of the home country (Dunning, 1981a, 1981b, 1986b). Second, less developed countries normally do not have a tradition of outward investment, which increases the risks and potential costs of venturing abroad for the forerunners.

Our sample makes the relevance of this last element very clear (see Table 6.2). Bearing in mind the analysis is concentrated on production establishments, a striking feature is that all the firms in the sample started expanding abroad in the present decade, especially the second half. This coincidence in time made many in the country argue that the whole process is simply a “fashion”. This includes two of the managers interviewed, whose firms were among the first to venture abroad. Although the “band wagon” effect is a recognised internationalisation force (Aharoni, 1966, p.9), it is a limited explanation. The Investment Development Path (Dunning, 1981a, 1981b, 1986b) provides a more relevant justification.

The IDP suggests that, after several years as recipients of FDI, countries are likely to see the domestic firms developing the necessary ownership advantages to internationalise. This will eventually make the country a net foreign investor, first in terms of flows and later in terms of stocks. Portugal reached that transitional stage in the middle 1990s (chapter 4). That is, the wave of outward FDI was the result of economic development and the consequent maturity of markets, industries and firms. What must be stressed is that the influence of these changes is in the case of Portugal amplified by the small size of the domestic markets. In these conditions, market maturity and industry consolidation tend to happen rather quickly. If they are to retain the growth rates of previous years, firms from
small countries are forced to internationalise sooner than those with big domestic markets (Agmon and Kindleberger, 1977). In our sample, this applies to a substantial number of the industries represented.

The opinions of the managers interviewed support this interpretation. International investment was frequently explained as “natural on the face of market conditions” or “the obvious step following the position reached in the domestic market”. In the same line is the argument that international expansion was a way of making use of “managerial overcapacity”. The stability of operations in Portugal reduced the need for this intangible asset, leaving firms to find new uses for the capacity created during the years of domestic growth.

Another element that was particularly important in our research was the role of economic and political conditions in potential host countries. We saw above that Portuguese managers seem to have a strong preference for Portuguese-speaking countries. Together with the apparently weak ownership advantages of the firms studied, this largely restricts investment opportunities. This is even more true in the face of the economic and political instability that traditionally affects Brazil and most of the PALOP. It should be remembered that the 1970s flow of investment to Angola and Mozambique was not transferred to other locations when interrupted by these countries' independence.

On the face of it, the coincidence between the recent growth of outward FDI and the economic stabilisation of Brazil after 1996 assumes particular relevance. Almost all firms in the sample that chose a destination other than Brazil started their expansion before that year. All firms that expanded to Brazil did so after 199613. This dependency highlights the weakness of the Portuguese industrial structure and that of the firms in the sample as well. The automotive components producers are a case in point. They tend to explain their expansion by their clients’ decisions to invest in Brazil (see next). Nevertheless, the car manufacturers have long been expanding to other markets. It seems that few Portuguese suppliers were able (possessed the ownership-advantages?) to follow their clients to other, more distant, locations. The few that managed to do so (Tavol, Simoldes) expanded first to Brazil.

12 Membership of the European Union may have made a substantial contribution to the remarkable speed at which economic structures adjusted and developed.
13 The very recent emergence of Brazil as a destination of Portuguese FDI explains, for example, that Simões (1997: p.72) reported a very different map of the location of the subsidiaries of Portuguese firms from the one obtained here.
6.3.4. Motivation

There was a general belief in the sample that internationalisation was critical for a company’s long term survival. All the interviewees seemed to worry about the limited potential in the domestic market and the need to gain weight to face suppliers, clients, and competitors. There were, nevertheless, different patterns of motivations among these firms. It was possible to distinguish five groups, not all equally homogeneous (see Table 6.3).

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One group is formed by those firms that started internationalisation in response to the saturation of the domestic market. This group of ‘leaders in mature markets’ includes Autosil, Cimpor, Cin, Colep, Efacec, and Vista Alegre. With the exception of the last, these are the companies that seemed to have a surplus of management capacity after years of expansion and consolidation in the domestic market. Despite their position in the domestic markets, these companies are fairly small in international terms, which represented in itself a powerful motivation for international expansion: the need to improve the relative position vis-à-vis competitors, clients, and suppliers. That is, these firms’ internationalisation was as much motivated by market expansion as by strategic asset-seeking. It is interesting, however, that despite their relatively small size few of these firms relied on networks (Vahlne and Nordstrom, 1988) for their internationalisation (the exception being Colep). This contrasts sharply with the results of previous studies on the internationalisation of SMEs (see, for example: Coviello and McAuley, 1999; Chen and Chen, 1998; Gomes-Casseres, 1997).
For Efacec, internationalisation is just another vector of the company's growth strategy. For many years, Efacec was restricted to the domestic market. In this period, its management anticipated the maturity of the domestic market for the company's traditional products by diversifying to related but less mature businesses. When the restrictions to internationalisation disappeared, at the end of 1987, product diversification was complemented with market diversification. The first division to be expanded abroad was power equipment, the most competitive of the mature businesses, but diversification to less mature products is now part of the strategy for foreign markets as well.

Contrary to Efacec, Cimpor, Cin, and Vista Alegre stuck to their core businesses (respectively, cement, paint, and ceramics), but expanded internationally through acquisitions. Cimpor has now over 50 per cent of its production capacity outside Portugal, largely in developing countries (cf. Table 6.3). The similarity with Efacec is that the strategic solutions adopted at home were also applied in the foreign markets. That is, being located in a foreign country is almost the only element that distinguishes international activities. Cin is another good example. Its leadership in the Portuguese market is still recent, and requires further consolidation. It has been doing so with a mix of organic growth and acquisitions. After acquiring the third biggest Spanish producer of paint, Cin transposed to Spain the mixed strategy adopted in Portugal.

A different case is Autosil. This producer of electric batteries was in the early 1990s the leader in the Portuguese market for replacement equipment for automobiles, with only a small presence in the segment of new equipment and in industrial batteries. The strategy initially drawn was to expand the main business through exports, to be supported with a small plant in France. However, the opportunity, in 1994, to buy a company in France (at the time 3.5 times bigger than Autosil) radically changed Autosil's future. Three quarters of the group's turnover is now produced in France, while the new equipment segment represents an important percentage of the sales. The initially planned greenfield investment in France has been adapted to produce industrial batteries.

Chance also played a decisive role in Colep's internationalisation strategy. As Autosil in its main investment in France, Colep (a producer of metal and plastic containers) had a largely passive role in its expansion to Spain. The suggestion came from one of Colep's clients, who had decided to sell its Spanish subsidiary. Colep has now a more pro-active attitude.

14 Until 1987 Efacec was a subsidiary of the Belgian group ACEC, which did not allow the company to sell
which has resulted in a recent investment in Poland. But its clients still maintain a relevant role, with the guarantee of contracts since the very early stages of the project.

A second group of companies that can be identified in the sample comprises the car parts manufacturers\(^{15}\). As referred to above, this is a highly heterogeneous lot, united by the share of the downstream activities of their value chains. Their strategies are intrinsically dependent on the global trends of the automobile industry, which they do not control, and they are subjected to a fiercely competitive environment. These are the firms for which international expansion is more critical in terms of medium/long term survival. The car industry is going through a process of global concentration (Simison, 1999), and the firms’ ownership advantages, including dimension, will be crucial. It must be noted that before considering production abroad, most of the car parts manufacturers already exported a very high percentage of their production to other European countries (essentially France, Spain and Germany). By and large, the interviewees attributed their competitive advantage to technical ability. But data collected by ICEP (cited in Coutinho, 1998) suggests that low Portuguese labour costs have to be considered. The importance of Portugal’s specific competitive advantages seems to be supported by the growth of exports also registered by foreign firms established in Portugal. However, despite the general market success, only Simoldes created a productive subsidiary in Europe. Symptomatic is that Simoldes’s investment in France does not seem to be financially motivated. Simoldes’s management explained that the aim was simply to make the company more visible to its clients, and to demonstrate its technological and financial capacity. As with many other firms in the sample, Simoldes still has to fight Portugal’s image as a low-tech country largely dependent on cheap unskilled labour.

The trouble with the Portuguese car parts manufacturers is that they are very small compared to the big multinationals that dominate the industry. It was a general belief among this group of firms that they were unable to defy the German or French competitors “in their backyard”. This seems to include other EU countries, but also non-EU Central and Eastern Europe. In this context, the opening of Brazil to FDI was momentous. When the car manufacturers started to invest in Brazil, the Portuguese suppliers seemed to be well positioned to follow them. Psychic distance - as assessed by the

\(^{15}\) Autosil was excluded from this group because its main market prior to internationalisation - replacement car batteries - is very much a final product, oriented towards individual consumers, not car assemblers.
Portuguese companies but also by their clients - and the role of language similarity (see above) seem to have played a very important role. Unlike other firms in the sample (see above), the importance of the firms’ network relationships in these expansionary investments seem to have been relevant (see section 2.4.1). The industry’s structure is certainly a relevant element in explaining the role of networks in the internationalisation of the Portuguese car-manufacturers. Most of these internationalisation processes are still too recent to be evaluated. It is also too soon to know if the experience in Brazil will facilitate expansion to other countries, but there are already positive signs. Simoldes has a joint venture in Argentina, while Tavol is expanding to Argentina and Mexico. Not surprisingly, Simoldes and Tavol are the only companies in the group that sell directly to the car assemblers. All the others are subcontracted by the direct suppliers, normally big MNCs themselves.

Defensive investment seems to be the best description of the internationalisation of Dan Cake, Renova and Riopele (cookies and pastries, tissue paper, and textiles, respectively). The move was largely a response to the erosion of their traditional markets, under attack from cheaper imports (the main competitors are Spanish for the first two, from the Far East in the case of the latter). As could be expected, this group includes some of the companies in the sample with less successful internationalisation strategies. The problems faced in the domestic markets absorbed important - and scarce - managerial and financial resources. Renova is the exception. It met with serious problems in its first approach to the Spanish market, but it seems to have been able to correct it with the adoption of a new market strategy.

Faiart, Neoplástica and Quintas & Quintas are the last three cases to be discussed. Quintas & Quintas is the only firm in the sample which had a clear objective of reducing labour costs. Portugal is one of the last producers of ropes in Europe, and the sector’s cost competitiveness is still eroding. Quintas & Quintas management believes the solution to be the progressive delocalisation to Brazil, a source of raw materials with much lower labour costs than Portugal, and the development of more value added products for the plant in Portugal. Brazil’s market was, nevertheless, a secondary motivation in the investment decision. The country’s population is 17 times that of Portugal, and Petrobras (the main oil producer and distributor) is one of the world’s biggest consumers of the most value added

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16 In both cases the companies are following their main client in Europe, respectively Renault and General Motors.
products manufactured by Quintas & Quintas. This includes anchorage cables for oil
platforms, the firm’s newest and most promising product.

Faiart’s motivation was very similar to that of the companies in the first group identified -
market expansion in a mature industry. The difference for that group is that Faiart is not
market leader in Portugal. A medium size ceramics producer, it preferred foreign expansion
to acquisitions in Portugal, where it would have to face some of its bigger domestic
competitors. Neoplástica’s is also an original case. It is one of the few Portuguese
companies that expanded to Europe before considering other locations. Equally atypical
was that its first foreign investment, in the Netherlands, had a very strong emphasis on the
marketing function. The creation of productive facilities was essentially for visibility. As
Simoldes realised several years later, having a plant “in the heart of Europe” (sic) is the
most efficient way of overcoming the barrier that Portugal’s image often represents.
Neoplástica’s expansion is a clear example of strategic-asset seeking investment (Dunning,
1993a), even if an intangible one - marketing capacity.

6.3.5. Constraints

“The first foreign investment decision is to a large extent a trip to the unknown. It is an
innovation and development of a new dimension” (Aharoni, 1966). For that very reason, it
is management intensive (Buckley, 1989, p.105), which may be a serious liability, in
particular for small firms (a classification that applies to most of the firms in the sample).
First, small firms rarely have specialist managers to face the new conditions. Second,
limited management time and personalised decision making processes limit their ability to
evaluate all the possible investment alternatives both in terms of location and of mode of
entry. This may lead to sub-optimal decisions. Third, smaller firms are normally family
owned and run. Reluctance to loosen up family control is normally a restriction on the
expansion of management skills and to the very growth of the firm.

Shortage of capital is another factor that may affect foreign investment by smaller firms.
Access to the capital markets is much more difficult than for big firms, while self-financing
is limited by the size of the firm. When they do receive financial support, smaller firms are
often made to pay a premium, the cost of being less known to the markets and potentially
more vulnerable to competitors. Nevertheless, Buckley (1989) argues that financial
constraints tend to be secondary to managerial constraints.
This was clearly supported by our sample. Capital constrains were considered much less important than skilled management shortages by almost all the managers interviewed\textsuperscript{17}. There was, nevertheless, a close association between the two: when financial restrictions were considered relevant, management constraints were normally assessed as very restrictive. In general, those firms classified above as “defensive” in their motivation to internationalise were more severely affected by financial restrictions. The same can be said of those auto components manufacturers which had less stable relationships with their customers. Not surprisingly, there seems to be a strong negative correlation between success in the domestic market and the impact of capital constraints on the internationalisation of the firm. This does not mean, however, that financial restrictions were irrelevant to the other firms in the sample. Two examples seem to be the entry strategies of Vista Alegre, assumedly on a less than optimal scale, and Efacec, based on minority participation (see below).

The shortage of skilled management seems to have been far more important in the sample. However, the bigger firms, identified above as “leaders in mature domestic markets” (Autosil, Cimpor, Cin, Colep, Efacec, but also Neoplástica and Simoldes) represent exceptions. In fact, excess management capacity was among the motivations for internationalisation (see above). For the remaining firms, however, internationalisation created a management problem. International expansion stretched the often already overloaded management function. Many had grown very fast in the three or four years before international expansion, and few have fully adjusted their management teams to the new conditions. A recurrent complaint in the interviews was that internationalisation had either diverted management’s attention from the domestic market or was not being followed as efficiently as it ought to be because of the management’s concentration on domestic affairs.

Part of the problem is that many companies are reluctant to hire locals for top management positions in the foreign subsidiaries. This may represent weaknesses that can be associated with earlier stages of internationalisation. Lacking international experience, new MNCs may find it too expensive and risky to recruit locally. These costs include the time needed to efficiently identify and evaluate potential candidates and to monitor their

\textsuperscript{17} It must be borne in mind that the firms in the sample are those that managed to gain the funds necessary to internationalise. That is, the sample is naturally biased against those firms that could not overcome financial restrictions to their expansion.
performance. On the other hand, there seems to be a shortage of experienced managers in Portugal, even more so when the position involves working as an expatriate. Companies like Simoldes chose to provide in house training for recent graduates, apparently more keen to work abroad. But this is necessarily slow and time consuming for the other members of the management team.

Other restrictions to international expansion were identified from the sample, but were almost always ranked much lower than the two mentioned above. Most were in fact a consequence of managerial and/or capital constraints: difficulties in obtaining information on potential destinations or on potential targets for acquisition; deficient support by government institutions; the almost non existence of true venture capital in Portugal. Another important constraint often mentioned was the prevailing image of Portugal as a poor backward country dependent on low labour costs. This was normally dealt with by inviting potential partners, potential customers, and government officials to visit the plants in Portugal and to witness the changes that the country has made in recent years. This represents a hidden cost that does not affect companies from countries long established as outward investors (and with a longer industrial tradition). The costs were well demonstrated by the investments Neoplástica and Simoldes were “forced” to make in the Netherlands and France, respectively. It may also represent a substantive cost in terms of missed opportunities for the Portuguese economy.

6.3.6. Mode of entry

The choice of the mode of entry is the subject of a vast body of research. Of particular influence have been the studies at the University of Uppsala (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, Johanson and Mattsson, 1988; Vahlne and Nordstrom, 1988). They suggest that internationalisation is an incremental process. Firms fight restrictions in terms of resources (e.g. capital or management) and knowledge with progressive exposure to international markets. Hence, the first internationalisation move can be expected to be exports through agents, which will successively evolve to the creation of sales subsidiaries and production subsidiaries. Each new step represents a deeper commitment and is associated with a better knowledge of foreign markets. It is also suggested that firms with international experience may be able to jump stages. The knowledge acquired in one country may facilitate the involvement in other locations.
This internationalisation path is only partially found in our sample (see Table 6.4). All firms contacted seem to have started exporting through agents, although in some cases exports were not very significant due to the resistance to transport of largely standardised products. This was normally followed by the creation of sales subsidiaries in the most important markets, often through the acquisition of the agents or in association with them.\textsuperscript{18} However, this picture holds essentially for Europe and Asia. In the case of expansion to Brazil, the internationalisation path is much less linear.

Despite this being the most popular destination in the sample, none of the companies analysed had a sales subsidiary in Brazil before the creation of the production subsidiary. Most had never exported to that country at all. Three reasons explain this. First, exports were, and still are, discouraged by geographic distance and a punitive tax system. Second, Brazil’s economic instability until 1996 made the country unattractive. Third, psychic proximity - being able to speak the local language, and a strong sense of common heritage and cultural proximity - may have permitted firms the jumping of stages in the internationalisation process.

\textbf{Table 6.4: Mode of entry in foreign markets}

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\textit{Exp: Regular exports}  \textit{CS: Commercial subsidiary}  \textit{PS: Productive subsidiary}

\textsuperscript{18} A number of these acquisitions were forced by the need to avoid the agents’ closure due to bankruptcy or personal problems. In at least two cases this represented the firm’s first foreign venture, which reflects rather passive internationalisation processes in these earlier stages.
It is important to highlight the fact that only one example of licensing (Efacec) was registered in the sample\(^{19}\), which reflects the characteristics of the firms involved and their motivations to internationalise. As discussed above, many internationalisation processes were defensive reactions to the concentration forces in the industry or to the penetration of imports. In these conditions, internationalisation was not a means to maximise ownership-advantages, but simply a way to avoid their degradation or eventually to create them\(^{20}\). Neither is licensing a solution when ownership-advantages are based on intangible assets, such as management capacity, as was the case with other firms in the sample. In fact, even Efacec is not a pure case of licensing. Its licensees are joint-ventures with local partners (usually the main customer), and are seen by Efacec’s management as subsidiaries. Although the company’s stake rarely exceeds one third of the joint venture’s capital, Efacec’s management argue that control is exerted through the firm’s role as supplier of the technology.

Efacec’s mode of entry seems to support the internalisation model (Buckley and Casson, 1981), even if with adjustments\(^{21}\). Efacec follows an explicit strategy of progressive involvement in each foreign market that always starts with exports through agents and evolves to the establishment of sales subsidiaries in the most promising markets. In this strategy, licensing seems to be an intermediate solution between the sales subsidiary and the production subsidiary. The choice of minority joint ventures as licensees allows the investing firm to obtain a certain degree of control with a minimum of capital requirement\(^{22}\). Efacec’s management argue that a local partner is absolutely necessary in an industry where the major clients are normally government controlled utilities. But the strategy adopted also suggests a limited financial capacity, unable to sustain the high fixed costs associated with a majority stake in a production subsidiary.

Another characteristic of the sample was that acquisitions were preferred to greenfield developments (see Table 6.5). However, this seems to be determined more by industry characteristics than by the firm’s choice. First, the sample includes a substantial number of

\(^{19}\) This is not very different from Simões (1997), who found none. Efacec was part of the sample, but its foreign involvement was not considered to be licensing.

\(^{20}\) Which stresses the intrinsic dynamic nature of the concept of ownership advantages (Buckley, 1990; Dunning and Rugman, 1985).

\(^{21}\) Buckley and Casson’s (1981) reference to licensing and FDI seems to imply only production. Consequently, the model does not distinguish between exports through agents and through a sales subsidiary.

\(^{22}\) In fact, Efacec rarely transfers capital to the subsidiaries. Its shares normally result from technology transfers.
firms operating in mature industries, where overcapacity is frequent. Second, it is biased by the conditions in Brazil. Several years of hyper-inflation created an industrial structure completely oriented towards the financial function, where production, stock management, and sales were almost irrelevant. Most of these companies could not adjust fast enough to the new economic conditions, and in just two years many were facing bankruptcy. Several managers in the sample claimed to be studying the possibility of a greenfield investment when they came across the opportunity to buy an existing firm in favourable conditions, even after paying off the huge debts (which most did immediately). In at least one case the initial project was not even to invest in production capacity but to create a sales subsidiary. It was abandoned when an existing company with a reasonably efficient plant turned up for sale.

A different aspect of the mode of entry is the choice between joint ventures and wholly owned subsidiaries. The former was only chosen by four companies (see Table 6.5), and capital restrictions were always the main reason given by their managers. The Portuguese firms provided the technology, while local partners were expected not only to provide capital but also to supply information on labour markets, bureaucracy and the product markets. That is, a local partner was a short cut to avoid the time consuming task of acquiring the necessary information to invest and market in a foreign country.

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GF: Greenfield Investment  
Acq.: Acquisition  
JVm: Joint Venture (minority participation)  
Jve: Joint venture (equal partnership)

(a) 100% ownership since 1998

23 A fifth - Arjal - aborted its internationalisation program.
The small size of the firms involved may explain the limited number of joint ventures registered in the sample. That was the suggestion of Buckley et al. (1988), who found a similar result for a sample of small UK firms. Buckley (1989, p.107) claims that “whilst such operations [joint-ventures and licensing] economise on capital outlay, they tend to be management-intensive and this may choke off the ability of small firms to enter into the more complex forms of such arrangements”.

One last point is the frequent claim in the sample that internationalisation started well before exports took place. This belief is particularly common among those firms that have or had as clients big MNCs established in Portugal (e.g. the auto-components segment) and is also reported by Simões (1997, p.139). In fact, sales to the subsidiaries of leading MNCs can be compared with exports, given that these supply contracts are normally obtained in purely international markets. Even the advantage of being a local firm is frequently just theoretical, since the competitors are often Portuguese subsidiaries of foreign firms.

The suspicion is that this “extra-light form of internationalisation” will be common in countries long established as hosts of FDI. Its importance may even be growing with the increased relevance of business networks in the world economy (Buckley and Casson, 1998). The case of Simoldes is paradigmatic. Its present success is based on the position acquired as direct supplier to Renault. This was gained before exports were significant, when Simoldes’s produced essentially for Renault’s assembly plant in Portugal. Most auto-components producers in the sample claimed that if they are internationally competitive today it is because, to become suppliers of MNCs in Portugal, they were forced long ago to improve quality and to develop products and technology.

Autosil and Cin argued that their internationalisation began well before their products started crossing the Portuguese border. The argument presented by both firms is that they always had to face the competition from multinationals in the domestic market. In other words, they had to become internationally competitive before they compiled the capital and management resources necessary to sell their products across borders. In both cases the claim was that the benchmarking they were able (and forced) to make against those foreign competitors was a major determinant of the development of the competitiveness (ownership advantages) that later allowed them to enter foreign markets.
6.3.7. Government policies

The attitude of the Portuguese authorities towards the internationalisation of the local firms has always been very positive. In a 1996 speech, the prime minister António Guterres (cited in Simões, 1997: p.37) claimed, for example, that “it is necessary to strengthen our own economic groups and to facilitate their presence in international markets. (...) The conditions must be created for their effective internationalisation, supporting the acquisition of distribution networks and other forms of international expansion”. The following year the Portuguese government defined the basis for a “new internationalisation policy” (Presidência do Conselho de Ministros, 1997). In the introduction to the document it could be read: “[I]nternationalisation represents a strategic vector of Portugal’s economic development. (...). The Portuguese firms, facing new and mounting competitive pressures, need to build and acquire a new international initiative and a permanent presence in the most dynamic international markets and decision centres”.

The “new economic policy” suggested a passive role for the government in this new process. The government’s task was defined as being to develop the necessary infrastructure and to create a stable macroeconomic environment in order to facilitate the internationalisation strategies of individual firms. However, a new set of mechanisms to actively support the internationalisation of domestic firms were created and existing ones restructured. In particular, the activity of ICEP was reorganised, a new venture capital fund for internationalisation was created (FIEP), and internationalisation was made a priority in the context of the existing (EU financed) structural funds (Presidência do Conselho de Ministros, 1997). A more active ‘economic diplomacy’ was also put in practice, with the ministry of the economy organising business trips to “strategic countries” led by the minister himself and to include Portuguese entrepreneurs with a potential interest in the country.

The institutional approach to the internationalisation of local firms suffered, however, an interesting strategic adjustment. In 1995/1996, when the phenomenon was still a novelty, the official view was that the Portuguese firms should expand commercially to more developed countries and invest in production capacity in the PALOP and other ACP countries (ICEP, cited in Simões, 1997: p.37). However, the document defining the “new internationalisation policy” (Presidência do Conselho de Ministros, 1997) mentioned

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24 All citations in Portuguese in the original.
explicitly the need to “abandon the frequently artificial distinction between productive and
commercial projects” (p.7) in the promotion of the internationalisation of domestic firms.

More important was, probably, the evolution in terms of the geographic priorities. Brazil,
in particular, went from being totally ignored in the official approach to internationalisation
in 1995/96 to an intermediary position in the list of priority markets and regions in the
“new internationalisation policy”. The mention of Brazil was in the latter preceded by
references to the European Union (with an emphasis in Spain), the new democracies in
Central and Eastern Europe, and the United States/NAFTA (Presidência do Conselho de
Ministros, 1997: p.5). By 1999, however, Brazil was considered by the Minister for the
Economy “the new priority of the Portuguese external policy” (Pina Moura, 1999).

What was not clear from this evolution was whether it corresponded to a dogmatic
adjustment of the government’s strategy or it was evidence of a reactive attitude of the
Portuguese authorities to internationalisation. The latter was the opinion of Bessa (2000).
He claimed that the government has long been simply following the investors in the
definition of Portugal’s geostrategic priorities. The evolution of the references to the
PALOP and to Eastern Europe in official sources in recent years seems to be further
evidence of this passive behaviour.

The opinion of the interviewees regarding the efficiency of government policies was mixed.
In general, they considered that the existence of public funds to support
internationalisation strategies was important. However, all were keen to say that their firm’s
internationalisation was not dependent on these funds. Public financial support was
welcomed and did contribute to reduce the risk of the investments made abroad, but the
internationalisation processes would apparently have been very much the same even
without those funds. The claim was that the funds available for internationalisation were
too small to have a significant impact upon the overall internationalisation of Portuguese
firms\(^\text{25}\).

Nevertheless, the managers interviewed normally (but not always) agreed that other forms
of public support had a positive even if indirect effect on the internationalisation of
domestic firms. The support that all firms in the sample seemed to have received (with
more or less extent) in the context of programs of quality certification, training of the

\(^{25}\) Two managers considered that they should not exist at all. They claimed that private financing was more
efficient because it forced a rational use of capital and avoided the adoption of very risky projects.
labour force, or the modernisation of productive equipment, on the one hand, increased their local and international competitiveness and, on the other hand, freed valuable financial resources that were used in the internationalisation process.

One important institutional element in the internationalisation of the Portuguese firms seems to be ICEP delegations abroad. In the opinion of many of the interviewees ICEP delegations played an important role in their firms’ expansion, although several considered they could often do more. ICEP delegations have often helped to identify potential partners or services providers (e.g. local lawyers) and to obtain information on the local business environment. In general, the opinions on ICEP’s efforts were rather positive and were considered to have improved in recent years. However, there were several complaints about the way some of the delegations worked. It was a general opinion that the delegations were too dependent on the personal commitment and proficiency of the respective directors and that not all the local directors were sufficiently motivated for the tasks they were given. This latter criticism was even more acute in the case of the Portuguese embassies, accused of being “too political, with no interest in business whatsoever”. A substantial number of the managers interviewed compared the attitude of the Portuguese diplomatic representations with that of Spanish diplomats, apparently much more aware of local business conditions and ready to lobby in favour of Spanish owned firms. US embassies were also frequently pointed as being very good role models.

6.3.8. Summary

The results presented above can be summarised in a few points:

1. Most Portuguese nascent MNCs operate in capital-intensive industries. Internationalisation in traditional labour-intensive industries is incipient.

This is a partial surprise given the specialisation of the Portuguese economy in labour-intensive industries. It seems that the success the latter enjoy as passive exporters discourages international expansion. As for the former, internationalisation may be a way to overcome relatively weak location advantages.

2. Efficiency-seeking FDI is still rare in Portugal.

Portugal seems to maintain a cost-advantage in the European context, which is supported by the sustained success of traditional exporters (Portuguese or foreign owned). So far, few
Portuguese firms found it necessary to move operations to lower costs locations. There was only one case of an efficiency-seeking investment in the sample, in Brazil.

3. The concept of asset-seeking investment must be broadened

There was only one company in the sample clearly engaged in strategic-asset seeking investment. However, in other cases, it proved very difficult to distinguish this from market-seeking FDI. Internationalisation was often presented by the managers interviewed as a question of survival for their companies. That is, market expansion provided an important strategic asset - size. At least for those firms that expanded to more developed countries, there seems to be an unavoidable element of strategic asset-seeking in their market oriented investments.

4. Portuguese firms are increasingly engaging in market-seeking investment in less developed or adjacent territories.

As predicted by Dunning (1981a, 1981b, 1986b), the most common destination of market-seeking investment are countries less developed than Portugal or neighbouring territories, notably Brazil and Spain. However, the firms involved are small in international terms. As argued above, it is never clear whether they are seeking to maximise their existing resources, or they seek in new markets the size on which they will build their competitive advantages in the future.

5. Psychic distance, and language in particular, proved to be a major location determinant of FDI.

It is strongly suggested by the statements made in the interviews that, more than any other element, language determines psychic distance. Furthermore, language and cultural distance were critical determinants in the location of foreign subsidiaries. With very few exceptions, the managers interviewed had a very strong preference for Portuguese-speaking countries. Spain and Spanish-speaking Latin America, in that order, were next in this ranking.

6. Political and economic stability are critical location determinants of FDI. Once a certain level of stability is attained they cease being deterrents to FDI (Tu and Schive, 1995).

Although assessed as relevant location determinants in the sample, political and economic instability only overshadowed psychic distance or market size when risk was very high. Before the stabilisation program of 1996, economic and political risk were indeed deterrents to foreign investment in Brazil. The same can be said of present instability in Angola, another much favoured location. Brazil is now perceived has a much more stable
location, but the interviewees seemed to agree that risk remains high. Despite that, they now prefer Brazil to less risky alternatives.

7. Labour skills are relevant as location determinants of FDI.

The attractiveness of Brazil is very much influenced by its huge potential market (see number 4), but also by its long industrial tradition. This is attested to by acquisitions in the sample, and the good assessment made of the subsidiaries’ production capacity. By contrast, Mozambique is still attracting little manufacturing FDI despite its recent economic and political stability. The explanation seems to be in part its small domestic market, but also the very low skills of the labour force.

8. Inward FDI had an important role in the development of the ownership advantages of Portuguese firms.

Several firms in the sample highlighted the role of foreign firms operating in Portugal in the development of their international competitiveness. Foreign subsidiaries can force the Portuguese firms to develop new capacities and strengths when they buy their products, but also when they compete with them for the Portuguese market.

9. Portugal seems to be following an investment path similar to the one proposed by Dunning (1981a, 1981b, 1986b).

The simultaneous internationalisation of a substantial number of Portuguese firms seems to coincide with the maturity of domestic markets and industries. This is consistent with Portugal being in stage 3 of the IDP (chapter 4). The relevance of the IDP is further supported by point number 8.

10. The major constraint to internationalisation faced by small firms is the shortage of skilled management (Buckley, 1989).

Most companies in the sample agreed that a shortage of management skills was the major obstacle to internationalisation. Nevertheless, this opinion was not shared by a small number of (bigger) firms which saw internationalisation as the way of making use of the management overcapacity created during the years of rapid domestic growth.

11. Psychic proximity (language?) allows firms to ‘jump stages’ in the internationalisation process, in particular when geographic distance is relevant.

Very few of the companies in the sample that invested in Brazil had ever exported to the country. Distance and tariff barriers seem to have been an effective deterrent. However,
this does not seem to have affected their ability to invest in production subsidiaries. In the case of European and Asian countries, however, firms seemed to follow a more traditional internationalisation path.

12. Licensing and joint-ventures are not popular among small firms new to internationalisation. There was only one case of licensing in the sample, and just four firms were involved in joint-ventures. That both are management intensive deals (Buckley, 1989) may be the explanation. Nevertheless, for smaller firms, licensing seems to be an entry mode that represents an intermediary stage between the establishment of commercial and productive subsidiaries (Buckley and Casson, 1981).

6.4. CONCLUSION

A first interesting conclusion was that Portugal’s nascent MNEs were not associated with the country’s traditional industrial structure. Labour intensive industries, which dominate Portuguese exports, seem to be largely absent from the internationalisation process that is gaining momentum among Portuguese manufacturing firms. This probably explains why efficiency-seeking investment is still rare. The first Portuguese companies to expand production abroad operate in capital intensive industries with small mature domestic markets. Especially in the case of the market leaders, this came to represent a threat to their very survival because of the difficulties associated with an efficient use of the resources available to the firm. Internationalisation was, before anything else, the solution to reach a critical scale in terms of the ability to compete with foreign firms, both abroad and at home.

The current internationalisation process needs consolidation. Several elements revealed that the firms involved still possess few ownership advantages. First, the number of countries chosen as a destination of FDI was very small. Two thirds of the firms expanded either to Brazil or to Spain. Second, psychic distance, and language in particular, assumed a powerful role in the choice of those locations. The managers interviewed manifested in general a very strong preference for Portuguese-speaking countries, followed by areas where Spanish is the official language. Third their was in the sample a recurrent shortage of management skills, especially among smaller firms. The risks of this constraint on the internationalisation process cannot be underestimated. These firms are likely to rely upon less than optimal
decision-making processes, ignoring more profitable alternatives and/or not assessing all the costs and risks associated with their decisions.

That Brazil concentrated such a high percentage of the investments represents an additional threat. This is a country prone to economic and political instability. Despite recent successes, the definitive stabilisation of the country is still not guaranteed. In the event of a very negative evolution of the Brazilian economy, no matter how unlikely it seems today, the whole process of internationalisation of the Portuguese economy could suffer severely. Many of the firms in the sample invested in Brazil a substantial percentage of their resources. A failure of their Brazilian subsidiaries could put the whole company at risk. Furthermore, one of the implications of the limitations described in the previous paragraph is that investments in Brazil might not be easily transferable to other countries. Regardless of the differences, this brings to mind the scenario of the failure of the first process of internationalisation of Portuguese firms, in the first half of the 1970s (see chapter 4).

As for other results, an important conclusion was that psychic proximity does help firms to ‘jump stages’ in the internationalisation process. Contrary to Europe or even Asia, investment in production establishments in Brazil was in most cases the first form of involvement in the country. It is true that geographic distance and high tariffs often reduced the alternatives to: (A) ignore the Brazilian market; or (B) establish a production subsidiary. Nonetheless, psychic distance facilitates entry in foreign markets when exports or sales subsidiaries are not efficient solutions or are not possible at all.

Another result regards the concept of strategic-asset seeking FDI (Dunning, 1993a). The study clearly suggested it must be broadly interpreted when analysing investment by relatively small firms. For big MNEs, market oriented FDI enables the firm to maximise the use of proprietary assets, such as technology, international brands or management skills. However, smaller firms, and in particular those from small countries, possessing few ownership advantages often internationalise from a vulnerable position. Frequently, international expansion is the means to gain the size necessary to be competitive, both abroad and at home. Despite being market oriented in essence, these investments fit better the concept of strategic-asset seeking than that of market-seeking.

Finally, the sample provided support for the interaction between inward and outward FDI, and between these and the level of economic development of the country (the investment
development path, Dunning, 1981a, 1981b, 1986b). The importance of foreign firms in the development of the ownership-advantages of Portuguese firms was clearly assumed by a very high percentage of those interviewed. Foreign subsidiaries represented that role not only when they were clients but also when they were the main competitors of local firms. In both cases Portuguese firms were forced to upgrade products, technology, and production and management processes. When the stagnation of demand due to the maturity of domestic markets was matched with this ‘forced’ development of internationally competitive Portuguese firms, the recipe for foreign expansion was assured. A more direct relationship was revealed by three of the eighteen firms interviewed, which were created as subsidiaries of foreign companies.