Instituto Superior de Ciências do Trabalho e da Empresa

THE IMPACT OF INTERNATIONALIZATION ON FIRM'S PERFORMANCE - A QUALITATIVE STUDY OF PORTUGUESE SMEs

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Abstract

This study identifies the impacts of internationalization on firm's performance.
More specifically, drawing on the relevant literature, this study suggests a broad-spectrum positive effect of internationalization in the overall performance of the Portuguese SMEs in the financial area, human resources, corporate certifications, marketing program and organizational culture changes.
Empirical research proceeded in two phases. In the first phase, a questionnaire was administered to thirty Portuguese SMEs to obtain an initial understanding of the managers' behaviour towards internationalization: the internationalization drivers, the foreign markets chosen and the foreign market service modes. In the second phase of this study, in order to increase the knowledge related to the specifics of the research, six face-to-face semi-structured interviews were conducted with the Managing Directors of six SMEs, all of them with international business activities, but from different industries, with different degrees of internationalization and operating in different regions. The overall objective of these semi-structured interviews was to qualitatively acknowledge and examine the major changes over the internationalization process.
Findings suggest that internationalization has led to improved financial results, higher productivity, increased know-how and teamwork ability, implementation of ISO standards, changes in the marketing program both by adaptation or standardization, higher capacity to adapt to new environments and less resilience to change. In the overall, internationalization has allowed the interviewed firms to currently achieve higher levels of performance.

Keywords: Internationalization, SMEs, Performance,

JEL Classifications: F14 - Country and Industry Studies of Trade;
F23 - Multinational Firms, International Business

Resumo

Este estudo identifica os principais impactos da internacionalização na performance das organizações.

Com base na revisão das teorias relevantes para o tema da pesquisa, este estudo sugere que a internacionalização tem um impacto positivo na performance global das PMEs portuguesas ao nível financeiro, recursos humanos, certificações internacionais, marketing e cultura organizacional.

O estudo foi realizado em duas fases. Na primeira fase, foi realizado um questionário junto de trinta PMEs portuguesas de forma a permitir compreender o comportamento dos gestores das PMEs face à internacionalização, sobretudo relativamente aos motivos para internacionalizar, aos mercados de destino e às formas de presença nesses mercados. Na segunda fase do estudo, de forma a permitir identificar os principais impactos relacionados com o objectivo desta tese, foram realizadas seis entrevistas semi-estruturadas com gestores de topo de seis PMEs portuguesas de sectores distintos, com diferentes graus de internacionalização e de diferentes regiões do país. Todos os gestores tinham responsabilidades ao nível do marketing internacional nas suas firmas. O objectivo destas entrevistas semi-estruturadas foi identificar as principais alterações provocadas pela internacionalização nas firmas dos gestores entrevistados.

Os resultados sugerem que a internacionalização permitiu obter melhores resultados financeiros, maior produtividade, aumentar o conhecimento interno da organização, promover a capacidade de trabalho em equipa de todos os colaboradores, implementar certificações internacionais, sobretudo os standards ISO, melhorar as actividades de marketing, aumentar a capacidade de adaptação a novas situações e diminuir a resistência à mudança. De uma forma global, a internacionalização permitiu às empresas entrevistadas aumentarem os seus níveis de performance.

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1. Executive Summary

Internationalization is a common buzzword in every Manager's vocabulary. Most firms consider the possibility of conducting international business and many prepare carefully their internationalization plan before going into new foreign markets. But do managers consider the effects that internationalization will have on their firms? What are the most common changes in a firm caused by internationalization? How will these changes become clear to managers and how will they affect their firms' performance?

The main purpose of this research is to identify, for the internationalization of Portuguese SMEs, the major financial, human resources, corporate certifications, marketing program and organizational culture developments and their impact on the firm's overall performance.

In order to achieve the objectives of this thesis – to identify how internationalization impacts on firm's performance - the researcher conducted a review of the relevant literature about the topic followed by the administration of an email questionnaire for a sample of thirty SMEs. In addition, six case studies were set up based on six semi-structured interviews with the managing directors of their respective SMEs. The research work is presented in this document in four main chapters: 1) review of literature on internationalization and its theories; 2) review of literature on the impact of internationalization on firm's performance; 3) design and description of the research methodology and presentation of the data collected; and 4) Conclusion and recommendations.

This thesis contributes for the scientific knowledge by adding information on how a group of Portuguese Managers perceived the impacts of internationalization on their firm's performance and how these perceptions are aligned with existing relevant literature. This particular insight may allow other managers from different firms to better understand the internationalization process and to better prepare their firms for their international venture. By identifying possible impacts caused by the internationalization process, managers can proactively prepare their firms to approach international markets more effectively. By addressing international ventures better prepared, firms may have a higher probability of succeeding.

2. Internationalization and its Theories – an Overview

2.1. Internationalization Drivers

In a company's life, the step towards Internationalization is taken after becoming aware of the international business opportunities. Acknowledging the potential of international markets may be the result of several different factors. In fact, there are many determinants that can push and/or pull companies to this path of internationalization.

Yep (1992) defines five classes of variables that would move forward companies toward globalization: Market, Competition, Cost, Technology and Government variables. In this context, Czinkota, Ronkainen and Moffet (1996) and Czinkota and Ronkainen (1998) have divided the factors that lead into internationalization into two major categories, proactive and reactive.

In similar vein, Stewart and McAuley (1999) defined that the factors influencing companies' internationalization are first divided into internal and external factors, and then, these can be defined as proactive and reactive factors as well.

Similarly, Beamish *et al.*, (2000) suggest that the decision to internationalize may be motivated by either reactive or proactive reasons.

Other studies have shown that most firms decide to internationalize in reaction to initiatives from abroad (Kaynak *et al.*, 1987; Brush, 1993; Thibodeau, 1994; Joyal, 1996).

In this context, Table 2.1 presents a synthesis of some influential contributions relative to internationalization triggers:

	Internal Environment	External Environment
Proactive	▪ Profit and Growth Goals ▪ Unique Advantage Technology / Product / Process ▪ Managerial Urge ▪ Global Orientation	▪ Foreign Market Opportunities ▪ Exclusive Information ▪ Tax Benefits ▪ Government's aid ▪ Economies of Scale
Reactive	▪ Declining Domestic Sales ▪ Overproduction ▪ Excess Capacity ▪ Extend Sales of Seasonal Products	▪ Competitive Pressures ▪ Unsolicited Orders ▪ Domestic Market: Small and Saturated ▪ Proximity to International Customers

Table 2.1 - Internationalization triggers, adapted from Czinkota and Ronkainen (1998), Stewart and McAuley (1999) and Hollensen (2007).

2.1.1 Proactive Drivers

Proactive motivations stimulate strategic changes or adaptations that lead managers and companies to search for new markets with the sense of getting the necessary skills to succeed while achieving a competitive advantage in relation to their competitors. Often, it is company's internal forces that drive it towards internationalization (Czinkota and Ronkainen 1998).

The following factors explain how they proactive motives influence the internationalization strategy.

Profit and Growth Goals

According to Czinkota and Ronkainen (1998), the most stimulating proactive motivation to become involved in international marketing is profit advantage. Managers may perceive international sales as a potential source of higher profit margins or of more added-on profits.

Hollensen (2007) justifies the profit and growth goals as drivers towards internationalization. The desire for short-term profits is especially important to SMEs which are at a stage of initial interest in exporting. The motivation for growth may also be of particular importance for the firms starting exports.

Unique Advantage Technology / Product / Process

For Czinkota and Ronkainen (1998), a second major stimulus results either from unique products or from a technological advantage. A firm may deliver goods or services that are not widely available to its international competitors or may have achieved technological advances in a specific industry sector. Nevertheless, for Czinkota and Ronkainen (1998) is also extremely important to differentiate between real and perceived advantages. If products or technology are unique they can certainly provide a competitive edge and result in major business success abroad. In other cases, firms may believe that their products or services are unique, but that may be not the reality in international markets. Czinkota and Ronkainen (1998) suggest that intellectual property rights protection is key in maintaining competitive advantage.

For Hollensen (2007), a firm producing superior products is more likely to receive enquiries from foreign markets because of perceived competence of its offerings. Also, a firm producing goods or services that are not widely available to its international competitors or that may have made technological advances in a specialized field is more likely to achieve success in foreign markets.

Managerial Urge / Global Orientation

For Hollensen (2007), managerial urge is a motivation that reflects the desire, drive and enthusiasm of management towards international marketing activities. This enthusiasm can exist simply because managers like to be part of a firm that operates internationally. Often, managerial urge to internationalize is simply a reflection of general entrepreneurial motivation of a desire for continuous growth and market expansion.

Czinkota and Ronkainen (1998) also consider that managerial urge reflects the management commitment for international business activities.

In a slightly different perspective, Hollensen (2007) posits that the internationalization process may also be encouraged by the cultural socialization of the managers. Managers who either were born or have the experience of living or travelling abroad may be expected to be more internationally minded than other managers. Prior occupation in exporting companies, or membership in trade and professional associations, may also reinforce key decision-makers' perceptions and evaluations of foreign market environments.

More recently, as the number of expatriates increase all around the world, companies take advantage of their multicultural workforce to target new markets.

Tax Benefits / Government's aid

Tax benefits also play a major motivating role in foreign operations. Tax benefits allow the firm either to offer its products at a lower cost in foreign markets or to accumulate a higher profit. This may therefore tie in closely with the profit motivation (Hollensen, 2007).

In nearly all countries, governments try to stimulate international business, through providing global marketing expertise (e.g., export assistance programmes). For example, government stimulation measures can have a positive influence not only in terms of any direct financial effects that they may have, but also in relation to the provision of information (Hollensen, 2007).

Additionally, Chambers of Commerce and similar export associating organizations are interested in stimulating international business, both exports and imports. These organizations seek to motivate individual companies to get involved in foreign market activities and provide incentives for them to do so. These incentives include putting the prospective exporter or importer in touch with overseas business, providing foreign market information and referring the prospective exporter or importer to financial institutions able of financing global marketing activity (Hollensen, 2007).

Economies of Scale

Becoming a participant in international market activities may enable the firm to increase its output and therefore climbing more rapidly on the learning curve. Increased production for international markets can therefore also help in reducing the cost of production for domestic sales and make the firm more competitive in the domestic market as well. This effect often results in seeking market share as a primary objective of firms both in the domestic and foreign markets (Hollensen, 2007).

At an initial level of internationalization, it may mean an increasing search for export markets. Later, the firm may decide to expand to international markets through foreign direct investment or wholly owned subsidiaries (Czinkota and Ronkainen, 1998).

Through international activities, fixed costs arising from administration, facilities, equipment, staff work and Research and Development can be spread over more units. For some companies a condition for exploiting scale effects on foreign markets to the fullest extent is the possibility to standardize the international marketing programme (Hollensen, 2007).

Foreign Market Opportunities / Market Information

Czinkota and Ronkainen (1998) consider unique market information as another proactive stimulus. This indicates knowledge about foreign customers, marketplaces or market situations that are not widely shared by other firms. Such tacit knowledge, obtained through experience on foreign countries may be the result of specific insights based on firm's own international market research, social or business networks of contacts that a firm may have or simply being in the right place at the right time (e.g., identifying a business opportunity during a vacation trip). Although exclusivity can serve as an initial stimulus for international market activities, it will only seldom provide a motivation over time because competitors – at least in the medium run – can be expected to obtain that initial information advantage.

Hollensen (2007), considers that market opportunities act as stimuli only if the firm has or is capable of securing the assets, skills and capabilities necessary to address the foreign market opportunities that may arise. Currently, decision-makers are likely to considerer a rather limited number of foreign market opportunities in planning their foreign entry. Moreover, such decision-makers are likely to explore first those overseas market opportunities perceived as having some similarity with the opportunities in their domestic market (Johanson and Vahle, 1977).

In addition, the marketing knowledge or access to information can enhance the performance of an exporting firm relative to their less successful competitors (Hollensen, 2007). This includes knowledge about foreign customers, market environments or market situations that are not widely shared by other firms. Competence in one or more of the major marketing activities can act as a catalyst for a company to begin or to expand abroad.

2.1.2 Reactive Drivers

A second type of motivation, primarily characterized as reactive, influences firms to respond to changes and pressures in the business environment rather than attempt to blaze trails (Czinkota and Ronkainen 1998).

Competitive pressures

A primary type of reactive motivation is the reaction to competitive pressures. A firm may fear losing domestic market share to its competitors that have benefited from economies of scale gained by international business activities. Furthermore, it may also fear losing a competitive position in a foreign market relative to domestic competitors that decide to focus on those markets, knowing that market share is most easily retained by the firm that obtains it initially (Hollensen, 2007).

Also for Czinkota and Ronkainen (1998), Competitive Pressures act as a primary type of reactive motivation towards internationalization.

Domestic Market: Small and Saturated

A company may be pushed into exporting because of a small domestic market potential. For some firms, domestic markets do not have enough potential to allow achieving current and future economies of scale and scope. In these situations, firms may decide to move to foreign markets as part of their business strategies. This type of behaviour is more common for industrial products that have few and easily identified customers located throughout the world, or for producers of specialized consumer goods with small domestic markets (Hollensen, 2007).

Stable or declining domestic sales, either or both in volume or in terms of market share, have a similar motivating effect. In this context, products marketed by the firm domestically may be at the declining stage of the product life cycle. Instead of attempting a push-back of the life cycle process domestically, or in addition to such effort, firms may decide to extend the product life cycle by moving to foreign markets, mainly in developing countries. In the past, such efforts often met with success because customers in many countries only gradually reached a level of need and sophistication already attained by customers in developed economies. This motivation still holds, particularly in the context of developing nations, which often still have very good use for products for which the demand in developed markets is already on the decline stage (Czinkota and Ronkainen, 1998).

Another perspective on market saturation is also relevant for understanding why firms may expand overseas. Home market saturation suggests that unused productive resources (such as production and managerial slack) exist within the firm. Production slack is a stimulus for securing new market opportunities, and management slack can provide those knowledge resources required for collecting, interpreting and using market information (Hollensen, 2007).

Overproduction

Overprodution may be considered as a major reactive motivation for international business activities. Often, during downturns in the domestic business cycle, foreign markets, at least in early stages, may present a more stable economic environment. In addition, international foreign markets may provide an ideal starting point of sales when inventories are significantly above desired levels. Often, international market expansion motivated by overproduction may not represent full management commitment. Therefore, it may not represent a long-term strategic perspective. On the contrary, instead of developing an international marketing perspective by adjusting the marketing mix to market needs overseas, firms using this strategy typically are short-term oriented (Czinkota and Ronkainen 1998). Often, export sales are stimulated via short-term price cuts (Rao *et al.*, 1990). As soon as the domestic market demand returns to previous levels, international marketing activities are reduced or even terminated. Firms developing and implemeting this type of strategy may find strong difficulties when conducting again international activities, mainly because often foreign customers are not interested in temporary or patchy business relationships (Czinkota and Ronkainen 1998).

Excess capacity

Hollensen (2007) argues that excess production capacity arises due to changing demand in the domestic market. As domestic markets switch to new and substitute products, companies producing less appealing products may develop excess capacity while looking for overseas market opportunities.

Czinkota and Ronkainen (1998) also identify excess capacity as a powerful motivation to international marketing activities. If equipment for production is not fully utilized, firms may see expansion into international markets as an ideal possibility for achieving broader allocation of fixed costs. In the same vein, if all fixed costs are allocated to domestic production, the firm can penetrate international markets with a price policy focusing mainly on variable costs. Although such a strategy may be useful in the short term, it may result in the offering of products in foreign markets at a cost lower than at home, which in turn may trigger dumping charges (i.e., firm fines by selling products bellow production costs). In the long run, fixed costs have to be recovered to ensure placement of production equipment that growing international marketing activities may overtax. Market penetration strategy based on variable costs alone is therefore not feasible over the long term.

Extend Sales of Seasonal Products

Seasonality in demand conditions, as a result of weather conditions or specific market conditions (e.g., fashion), may be different while comparing the domestic market with other international markets. In order to guarantee a more stable use of all production means, firms may search for international markets as a way to guarantee a more stable sales period and production planning. This persistent stimulus for foreign market expansion may result in a more stable demand over time (Hollensen, 2007).

Unsolicited Foreign Orders

For Hollensen (2007), many small companies have become aware of opportunities in export markets because their products generated enquiries from overseas. These enquiries may result from advertising in trade journals which have a world-wide distribution, through exhibitions or by other means. As such, a large percentage of exporting firms' initial orders were unsolicited orders, indeed.

Proximity to International Customers

Short geographical or psychic distance to international markets may often play a major role in the export activities for a firm. Looking at the European scenario, European firms automatically become international players simply because they may have customers in geographically close countries. In this situation, foreign markets may be considered as an extension of the domestic market (Czinkota and Ronkainen 1998).

In this context, the concept of psychic distance needs to be understood. For Johanson and Wiedersheim-Paul (1975), psychic distance represents the factors that may prevent or disturb the flow of information between the host country and the home country. Factors such as differences in language, culture, education, political systems and level of economic development are factors influencing psychic distance. However, psychic distance is not always correlated with geographic distance nor is static, as it can change over time (ibid).

2.2. Entry Modes for Internationalization

Traditionally, foreign market entry modes are seen as methods employed by firms to gain access to international markets (Young *et al*, 1989; Root, 1994). Foreign market entry modes can be classified in export, contractual and investment modes. Export entry modes include indirect and direct exports either through distributors or sales subsidiaries. Similarly, contractual entry modes refer to a variety of contractual agreements such as licensing, franchising, contract manufacturing, service contracts, turnkey contracts, contractual joint-ventures, etc. Finally, investment modes include wholly owned subsidiaries and equity joint-ventures (Young *et al*, 1989; Root, 1994).

In export modes products are manufactured in the home country or in a third country and then sold in the host country. Thus, the emphasis of exports is just on sales of products in the target market. By contrast, contractual modes involve not simply the transfer of products across national boundaries, but also the transfer of intangible assets, skills and know-how to national companies in their home markets. Lastly, FDI entry modes can be conducted with full ownership and control over foreign operations through wholly owned subsidiaries or either by sharing ownership and control with partners by using equity joint ventures (Jones, 2001). Overall, this classification of modes has emerged from analysis and comparison between individual entry modes types, mainly from research on multinational manufacturing firms (Jones, 2001).

Currently, each entry mode determines, to some extent, the degree of control that the firm has over foreign business activities (Anderson and Gatignon, 1986; Root, 1994), the level of risk and resource commitment to the foreign market (Hill, Hwang and Kim, 1990), the level of fixed costs, variable costs and return on investment (Buckley and Casson, 1985) and the level of organisational commitment and market involvement (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988; Erramilli and Rao, 1990; Burgel and Murray, 2000). In addition, the traditional view of foreign market entry modes also states that the initial entry mode may be changed over time, even though it may require considerable investment of time and money (Hill *et al*, 1990; Root, 1994). Therefore, the selection of the appropriate entry mode is a strategic and potentially long-term decision for the international firm (Agarwall and Ramaswami, 1992).

Over the years different definitions of entry mode were put forward. International business researchers tend to considerer the foreign market entry mode as an arrangement allowing the entry of a firm's products or services into a foreign market associated with the transfer of finance, human, technological or others resources (Root, 1994) in order to organise firm's business activities in that target country (Hill, Hwang and Kim, 1990). Within this context, some researchers emphasise aspects such as control defining an entry mode as a governance structure giving a firm the purpose to exercise control over its international activities (Anderson and Gatignon, 1986; Gatignon and Anderson, 1988). In fact, a firm has a set of foreign market entry modes available on a continuum from high (e.g., wholly owned subsidiaries) to low control (e.g., indirect exports).

To sum up, the foreign market entry encapsulates two key strategic decisions that are the location of different value chain activities (e.g., R&D, Production, Marketing and Sales), within or outside the foreign market and their ownership (full, partial or no ownership).

Figure 2.1 summarizes the main entry modes:

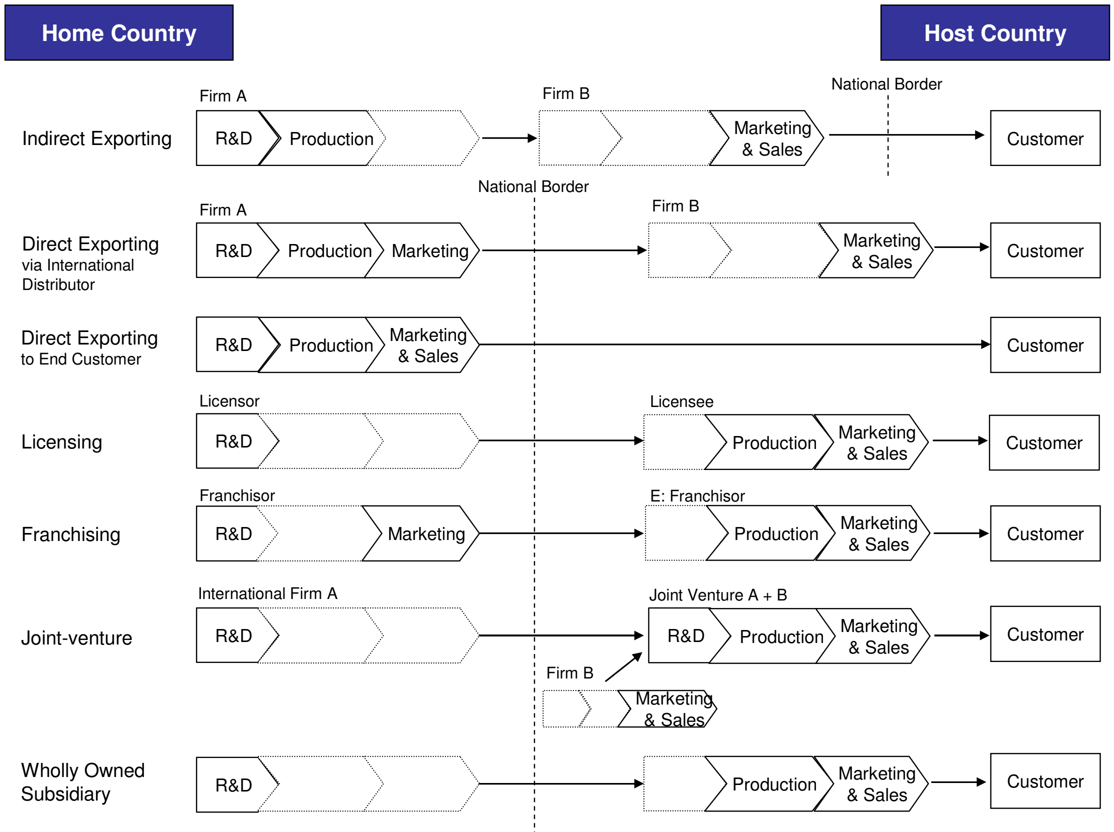

Figure 2.1 - Main Outward Cross-Border Activities

2.2.1 Indirect Exporting

In indirect exporting the company in itself is not an active exporter. Instead, the company uses middlemen to sell their products and uses intermediaries abroad. Indirect exporting has a much reduced resource commitment and it is the least risky entry mode (Root, 1994).

Currently, indirect exporting is used to test the target market, since provides little control and low possibilities of revenue – usually prices are similar to the ones used in the home country. The information flow is also remittent and access to the local information is limited. The company is seen as an outsider in the target market, the speed of entry is very low and this mode maximizes the scale of activities because existing facilities are used (Root, 1994).

2.2.2 Direct Exporting

Direct exporting represents a higher level of commitment compared to the indirect exporting. In this entry mode, firms establish a foreign market sales channel either by an international distributor or via sales subsidiary. Sales potential in direct exporting tend to be higher than using indirect exporting. However, direct exports represent an allocation of more time, resources and costs. To some extent, these factors make direct exports also a riskier service mode relative to indirect exports (Root, 1994).

2.2.3 Licensing and Franchising

Licensing

Licensing is a contractual agreement in which the licensor provides an admission for a local partner to produce, to use a trademark or rather to get a patent of a product / process against payment by the partner called the licensee. Payments may include royalties as well as a lump sum often associated with the transfer of technical advice, manufacturing equipments and know-how. Usually, an agreement determines the area where the partner is allowed to produce and market the product in return of specified royalties (Hollensen, 2007). When licensing is used, only small investments are required. Therefore licensing may lead to large return on investment (Arona and Fosturi, 2002).

Franchising

Franchising represents a more comprehensive co-operation with a partner than licensing. Franchising is a contractual agreement in which the franchisor provides not only its brand and know-how, but also local exclusivity, management support, financial assistance and joint advertising to a franchisee (Lafontaine, 1999). There is a fee for all the services offered and the partner has to pay royalties. Franchising and licensing may have similar characteristics and they are used in similar cases. Even though franchising may provide a higher control and profit potential to the franchiser, it may also have higher risks than licensing. Finally, the franchiser may have an increased ability to learn about the foreign market conditions while comparing with the Licensor (Shane, 1996).

2.2.4 Joint-ventures

A Joint-venture is a partnership set-up for a specific project of limited duration or for a long-term co-operation to get a wider competitive advantage (Hill, Peter and Chan, 1990). There are five common objectives when using joint ventures: (1) market entry, (2) risk and reward sharing, (3) technology sharing, (4) joint product development and (5) product or service adaptation to government regulations. Joint-ventures may also provide other benefits like political connections or access to distribution channels. Both factors are extremely important and in most situations they are relationship dependent.

When using a joint-venture as an entry mode, high import barriers may be avoided without losing the control of the business. In some countries there may be some legal limitations for foreign ownership in some companies and joint-ventures may be a suitable way to circumvent that. If there are high political risks and high cultural differences in the target market, joint-ventures are one of the most suitable ways to approach properly a foreign market. In situations where target markets differ from domestic markets, for instance in terms of culture, the local company can provide very valuable skills, resources, know-how about distribution networks and may be a suitable brand name (Erramilli and Rao, 1990). On a different perspective, joint-ventures may generate synergies if the partners have similarities. Both may have or not similar goals. In the case of SMEs, venture partners may be characterized by size, market power and resources being small compared to the industry leaders. Partners should be able to learn from each other but at the same time they should be able to limit access to the most vital skills that each one may possess. The learning potential can represent an extremely valuable asset in a joint-venture, particularly when it combines resources of two companies that have a very complementary capabilities and strategies (Karel, 1991).

However, Joint-ventures may have some conflicting characteristics. When at the same time partners are trying to maximize the value gained from the joint-venture, they are also trying to secure and boost their own competitive position in the market. The joint-venture is trying to develop shared resources, but all the partners want to protect their core competences for achieving competitive advantage. Joint-ventures are controlled by negotiations between partners and agreements, which may be difficult to manage (Mazur, Hogg, 1993).

2.2.5 Acquisition of subsidiaries

An acquisition is a business operation where one company takes over up to one hundred percent control over another company with intent to make the acquired company to be a subsidiary business within its portfolio (Hitt, Ireland and Hoskisson, 2003). An acquisition provides the fastest and possibly the most resource demanding entry mode into to the target market. Acquisition of subsidiaries, evolving Foreign Direct Investment (FDI), can be seen as the most risky entry mode.

The primary reason to use an acquisition as a potential type of entry mode is to overcome entry barriers. Other reasons to acquire and install a subsidiary can be obtaining economies of scale by concentrating production facilities or by establishing long-term solid relationships with customers from the acquired subsidiary. Very often, the customer base may represent the most valuable asset for a firm when entering a new market. If the industry sector is in a mature stage where the total consumption does not grow at acceptable rates or the market is very difficult to penetrate, an acquisition may be one of the few ways to be successful on the market (Chang and Rosenzweig, 2001).

2.2.6 Greenfield investment

When a corporation is setting-up a new production or service facility from scratch it is called Greenfield investment (Shenkar and Luo, 2004). Woods (2001) points out that a Greenfield investment is a slower process compared to acquisition when entering a new market. The costs and risks are also higher than acquisition. One advantage however, when setting up a new plant is that core technology, manufacturing and marketing processes will be protected. As a downside, one can argue that it takes longer time to generate cash-flow (Shenkar and Luo, 2004). Furthermore, Daniels and Radebaugh (1995) argue that, if the firm is in need of local financing it may be easier to obtain capital at an early stage after its foundation. Kotler *et al.*, (2001) posits that another reason to build a new facility is that the corporation has full control over the investment.

A new establishment is a long operation, which affords maximum control to the company and provides possibilities to above-average profits (Harzing, 2002). This potential can be seen especially among companies that have strong intangible capabilities. A new establishment is a risky operation, in which skills and knowledge about the local market still may have to be acquired by hiring nationals or consultants (Brouthers and Brouthers, 2000).

A new establishment may be characterized by high start-up costs, long payback period and very difficult to harvest the business in the event of failure or change in strategy. In a new establishment, earlier knowledge about the target market and its local characteristics are key, because the entry process is mainly based on company's employee's earlier knowledge. A new establishment is a suitable entry mode for markets, which are growing rapidly and where are no abilities to set-up joint-ventures or acquisitions (Root, 1994).

2.3. Internationalization Theories and Models

There are many different theories and views about the factors influencing internationalization. Early economic literature focuses on a national level and discusses from an endowment of market factors how different nations had advantages that determine international trade and structure (Smith, 1776; Ricardo, 1817). The findings from Smith (1776) and Ricardo (1817) can be seen as a corner stone of the research of the internationalization. Over the years the focus has changed from a country perspective to a micro economical perspective that is a firm view of internationalization. Globalization has increased capital flows among countries and firms have adopted other types of international service modes than just exports. Along with this development, researchers' focuses have shifted towards internationalization and the reasons why companies internationalize their business operations (Czinkota, Ronkainen and Moeffet, 1998). Later theories on the internationalization of multinational companies focus on their process of expansion in foreign markets by their competitive advantage due to superior product technology, financial resources or management skills (Hymer, 1960; Johansson and Vahlne, 1977). Research on internationalization suggests that some theories and factors may be important to explain the early and later stages of a company's international development (Johansson and Vahlne, 1990). During the past few years many traditional theories (e.g., The Uppsala internationalization model) have been challenged by the new international entrepreneurship research, which has been analyzing internationalization from a new perspective: the international new ventures (Oviatt and McDougall, 1994).

Currently, three different internationalization theories and models are generally put forward and widely discussed: the Process Theory of Internationalization, the Network Theory of Internationalization and the New Venture Internationalization theory.

2.3.1 The Process Theory Internationalization

Process theory is based on early research conducted by Penrose (1958), using her resource (or knowledge) accumulation – business expansion framework as the basis for analysing international growth (Johanson and Vahlne, 1977, 1990; Calof & Beamish, 1995; Eriksson et al. 1997). In these models, the internationalization process is depicted as a learning process. The number of realistic opportunities available for the firm may be considered the outcome of the firm's resources and its ability to exploit these resources. As many resources are cumulative, e.g., experiential knowledge, the internationalization process is essentially viewed as incremental.

The incremental cycle is regulated by two main factors that are connected to each other through a positive feedback loop. Once an initial resource commitment to international markets has been made, this triggers a learning process, as the firm is exposed to foreign market conditions. This learning process results in the experiential accumulation of foreign organizing knowledge (Johanson and Vahlne, 1990). As this knowledge accumulates in the firm, it increases both the speed and size of further resource commitments to foreign markets, resulting in further accumulation of foreign organizing knowledge. As experiential knowledge accumulates slowly, it takes time for the feedback loop to gather significant momentum. The model is rooted in the behavioural theory of the firm (Cyert and March, 1963), and it therefore emphasizes the importance of the perceptions of the firm's management for internationalization decisions.

Companies' internationalization process is believed to start in countries with the lowest psychic and / or geographical distances and continue to those with larger psychic distance (Johansson and Vahlne, 1977). In the research by Johansson and Vahlne (1977), it is considered that markets differ in terms of cultural and economic structures and as a result, psychic distance exists among countries. Currently, psychic distance correlates with geographic distance, but not always. Later in their process of internationalization, when companies have already gathered enough international experience, it is foreseen to move in a straightforward way to more distant geographical or psychic markets (Root, 1994).

According to process theory, the internationalization of a company is not merely a linear increase of the company's sales and profitability. Managers are described as risk-averse and having imperfect access to information available about foreign markets. It is assumed that markets characterized by higher psychic distance means difficulties in gathering and correctly understanding information due to lack of knowledge and experience (Johansson and Vahlne, 1977). That is the reason why psychic distance may be used to explain the foreign market selection: Risk-averse managers privilege markets where they have more and accurate information and are more similar to their home markets (Laine and Kock, 2000).

A company's commitment to a specific market develops through a sequence of stages. In the internationalization process four different stages of commitment can be found. In the first stage, the firm has not regular export activities to the target market and it does not have any regular information channel to and from the target market. In the second stage, the firm has significant export activities with the help of independent representatives. In this stage, the company gathers information regularly about the market, but it is still based on external sources. In the third stage, the firm increases its commitment by establishing foreign sales subsidiaries. It can decide what information and how is collected. In the fourth stage, the firm establishes production and sales subsidiaries in foreign markets (Johanson and Wiedersheim-Paul, 1975). This latter stage increases the opportunities to gather more information and to increase the quality of the information (Johanson and Vahle, 1977).

The assumptions about the incremental process are not suitable for each and every firm. If a firm's management has previous knowledge of a foreign market it is possible to leapfrog stages. It is also possible that some firms with more available resources take larger steps to go straight into the fourth stage without any specific market knowledge. In these situations the risk of failure is also expanded (Johanson and Vahlne, 1990). Another possibility of leapfrogging stages is by using information already gathered about a specific foreign market in other foreign market which is closely-spaced (Johanson and Vahlne, 1990).

In the Uppsala Internationalization model (Johansson and Vahlne, 1977), there are two state aspects: market commitment and market knowledge of foreign markets. Market Commitment is defined as the company's perceived opportunities and risk for a specific foreign market. For example, investments in the market area, including investments in marketing and organization, are seen as market commitment (Johanson and Vahle, 1977). In similar vein, market knowledge, which is the driving force of the company's internationalization, relates to all the present and future knowledge about the markets and its conditions. These include demand and supply, competition and channels of distribution, payment conditions and the transfer of capital. All of these aspects vary significantly in different markets and over different periods of time. In other words: they are company and country specific (Carlson, 1974). The primary source for the experimental type of market knowledge is, in fact, the current activities. As a result of the two state model, internationalization of a company is seen as an incremental process in which, along with the commitments, market knowledge is increased and vice-versa (Andersen, 1993).

Uppsala Internationalization model is illustrated in Figure 2.2:

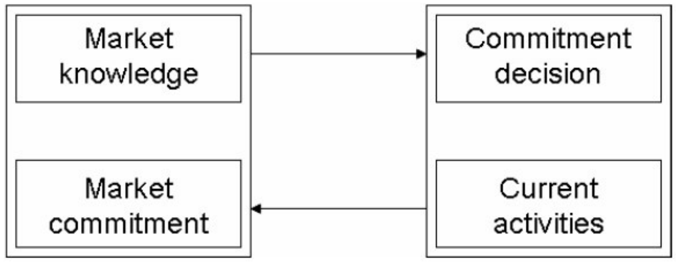

Figure 2.2 - The Basic Mechanism of Internationalization - State and Change Aspect. The Uppsala Internationalization model (Johansson and Vahlne, 1977: 26).

Although the Uppsala model has played a significant role in the internationalization research, it has also been criticized for several reasons: (1) the Uppsala model does not explain how internationalization process gets started. The Uppsala model is based on an assumption that companies do not try to find international opportunities for their business, but they should be willing to start exporting when a first order is awarded (Autio and Sapienza, 2000). (2) The to Uppsala model does not explain the use of any co-operative entry modes. Research conducted after the publishing of the Uppsala model suggests that a huge number of companies use entry modes that process theory does not accommodate (Andersen, 1997). (3) The Uppsala model is originally based on four case studies, which is not a sufficient sample to validate and generalise the model (Lehtinen and Penttinen, 1999).

The reason why process theory has been so appreciated is that it applies best to earlier stages of a company's internationalization (Welch and Luostarinen, 1988).

2.3.2 The Network Theory of Internationalization

Network theory of internationalization can be considered as an extension of the process theory of internationalization. The network theory of internationalization describes industrial markets as networks of companies. This theory has its roots in the resource-dependence theory. The assumption is that actors, including the company, are dependent on resources controlled by others. To gain the access to these resources, a company must build relationships, which represents a resource-consuming process. The goal of the company is to survive and internationalization is seen as a way to enhance the probability of survival, both in short and medium terms (Johanson and Vahlne, 1990).

The most significant difference between the process and the network theory of internationalization is that in the network theory the unit of analysis is not an individual company but a relationship between different actors like competitors, suppliers, customers and distributors, which all together is seen as a network (Johanson and Vahlne, 1992). All companies need external resources and one method of reaching this goal is through networking. Companies can freely form their own network, but the relationship between two parties will always need a bilateral agreement. These relationships are in continuous change: some of them are strengthened while some of them are weakened; new relationships are formed while others are terminated. There may be both direct and indirect relationships via some partners. These relationships form each company's own network (Johanson and Mattsson, 1988).

Not only the amount of relationships and their nature, but also the position of the company in its network is important. The position reflects company's importance and respect from the behalf of other members. A position point-of-view can be divided in two perspectives: Micro-perspective, which reflects a company's position against some specified member of the network and macro-perspective, which reflects the company's position in the whole network. Relationships take time to build and earlier activities among parties will have a significant role in the future.

The strength of the relationship determines the value of the network. Relationships, which can be seen as ties, determine the information exposure to the company. Strong ties mean close co-operation and weak ties more distant communication. In most cases weak ties need less care and that is why a company may have more weak ties than strong ones. If companies have totally different knowledge-bases, they can also deliver very valuable information. Ties, which are strong, usually connect similar companies, which have very similar knowledge bases and ways to act. These are the reasons why current companies, especially born global companies, seem to prefer weak ties in their own networks (Sharma and Blomstermo, 2003).

Domestic relationships have longer histories and they seem to be stronger than the international ones. The central position in the network, especially in the international one, offers an access to valuable resources. In that kind of position, a company can get more accurate information than companies in the boundary positions of the network. In this sense a network position can be seen as an asset for the company. When considering internationalization, network building should precede an entry to a target market.

According to the network theory of internationalization, company’s success in international operations depends more on a company’s network and its position in it, rather than the company’s specific factors (Johansson and Mattsson, 1992; Coviello and McAuley, 1999). When considering the company’s internationalization based on the network theory, current activities and strengths have more significant impact on the future, than strategic decisions. Also the network theory assumes that market knowledge strengthens company’s market commitment and vice-versa. In this case, market knowledge and market commitment are seen from a network point-of-view.

Because of the nature of the network theory of the internationalization, it is especially used when explaining the internationalization of small or middle-sized companies and applied also in the area of international entrepreneurship research (Young, Dimitratos and Dana, 2003). Small and middle-sized companies, although they do not own large amount of resources, they are able to use and deploy the resources that they own.

Network theory sees internationalization of a company as a phenomenon of creating, developing and using relationships within its network in foreign markets. There are three main ways to enter new markets and get access to new resources: (1) establishing a new relationship with an actor in a foreign country, where the company does not yet have any activities directly or via its network, (2) establishing additional commitments in foreign networks that already exist and (3) by increasing the harmony between the company’s positions in the variety of networks where the company is involved. The level of internationalization, according to the network theory, is determined by the number and level of relationships in company’s network (Johanson and Mattsson, 1988).

According to the network theory of internationalization, the degree of internationalization of a market is the degree of internationalization of the production networks, which in this case means companies whose production and distribution activity is related to a specific production scope. A company's relative network position and the degree of internationalization of the production network influence the internationalization process. The ability to create important international relationships varies a among different industry sectors. Figure 2.3 presents the four identified types of internationalizing companies. The degree of internationalization of the market reflects the international pattern of the production network.

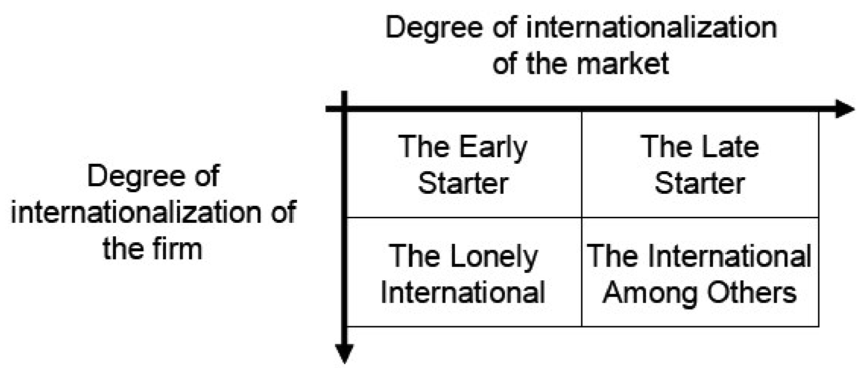

Figure 2.3 - Four types of internationalizing companies according to the network model of internationalization (Johanson and Mattsson, 1988: 298).

An early starter is a company that operates mainly in the domestic markets and has just a few international relationships, which do not play a significant role in the company's everyday business operations. Internationalization is usually started by selecting markets with low psychic distance and by building new international relationships and strengthening the current ones. If an early starter can develop its international activities significantly, it will usually move to the position of a lonely international quadrant.

A lonely international is in an excellent position in its own network to leverage its position in international markets. It has very valuable international market knowledge and by utilizing it the company can operate in both domestic and international markets to achieve sustainable competitive advantage relative to its competitors. However, this advantage is not permanent and without sustaining its position the company may lose it over time. After others have internationalized their operations, the lonely international company may move towards the direction of the international among others.

Often, a late starter does not have international activities, but other companies conducting activities in the market may have. From them it can get very valuable indirect market knowledge. Other companies in the network may even be the driving force behind the internationalization of a late starter. In this context, it may be difficult to enter psychically close markets for a late starter, since the networks may have been formed earlier. In this case the only way to enter mature markets is to differentiate and specialize; when the late starter is moving towards being international among others.

An "international among others" does not boost any sustainable competitive advantage. In this case the most important issue is not anymore the international extension, but the international integration. Companies need to focus on their international business relationships, build new ones to make their operations even more effective and strengthen their position in the current network. Strengthening position usually means some kind of structural acts like joint ventures, acquisitions or mergers. The success of a company depends on how well it can utilize its own resources and how it can take advantage of the resources via its network of relationships (Johanson and Mattsson, 1988).

2.3.3 New Venture Internationalization Theory

The need for new and modern approaches for company's internationalization was recognized mainly when process theory of internationalization was challenged by the emergence of new types of companies currently known as "*international new ventures*" (Oviatt and McDougall, 1994), or "*born-global*" companies (Knight and Cavusigl, 1996; Madsen and Servais, 1997). Indeed, recent research has identified a growing number of firms that do not follow the traditional path of stages throughout the internationalisation process. Their aim is to be active in international markets practically from the outset. Such companies have indeed been termed as "*infant multinationals*" (Lindqvist, 1991), "*born globals*" (Knight and Cavusigl, 1996; Madsen and Servais, 1997) and "*international new ventures*" (Oviatt and McDougall, 1994).

For example, Oviatt and McDougall (1994) consider an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. This represents a sharp contrast to traditional firms that develop business activities overtime from domestic to international through a gradual and increased commitment to foreign operations. In these circumstances, international new ventures have an international perspective practically from inception even though they may face shortages of different types of resources.

In this context, one must bear in mind that there are a couple of changes in the international business that may be the factors explaining firm's early internationalization. International communication has become faster and transportation costs have become cheaper. This has created new opportunities especially for the new ventures, which earlier did not have enough resources to conduct international operations. The markets are no longer that heterogeneous as it was the situation before and the ability to transfer technology, capital, work force and materials more freely among countries has fastened this development (Oviatt and McDougall, 1994). All these factors in the business have lowered the sustainable competitive advantage that large companies currently possess over small firms and the positive advantage that the former firms detain is nearly gone (Oviatt and McDougall, 1994). However, it is reasonable to assume that new ventures cannot have all the needed resources and they may have to use many different alternatives to internationalize. Therefore different hybrid structures may be used. Nevertheless, these operation modes based on trust and long-term commitment encompass also many risks. In this context, the new ventures have been extremely successful to develop innovative ways to internationalize even though they may be characterized by limited resources. They have found their place as niche players in different markets without any existing networks (Oviatt and McDougall, 1994).

The sustainable competitive advantage of International new ventures is based on specific knowledge which can create differentiation advantages or cost leadership that overcomes local companies in many markets, simultaneously. Entrepreneur's global vision and understanding about the international business plays an important role in the internationalization process. Most of the entrepreneurs have already a wide variety of skills. Many of the founders of new ventures have developed their international skills and global vision when working for companies that are already operating on a global basis (Oviat and McDougall, 1999).

New ventures have been successful to internationalize due to several reasons. Firstly, this kind of companies is very flexible. Their structure are often created taking into account the needs of the target markets. These companies have a very high proactive learning culture that boosts it for achieving higher performance (Autio, Sapienza and Almeida, 1999). Also, this type of companies have been able to make decisions much faster than larger enterprises and consequently not missed the internationalizing opportunities.

The new venture theory of internationalization has been developed to take the spirit of the twenty-first century into account. However, this framework is for the time being not a comprehensive theory. It does not explain how the internationalization is proceeded, does not have empirical evidence in the background and, currently, there is no widely used agreement about the definition of "instant international company".

2.4. The International Entry Strategy

Entry into foreign markets, initially and on a continuing basis, should be made using methods that are consistent with the company's strategic objectives. From a strategy perspective, entry mode choice is influenced by the international strategy pursued by the firm for its foreign venture or market expansion. All known market entries may not be motivated by the same international strategy. Furthermore, the choice of entry mode is chosen to enhance the firm's international strategy for a specific foreign market (Albaum, Duerr and Strandskov, 2005).

For the purpose of this study, and in order to address the internationalization challenges that firms may have to endeavour, the author chose Root (1994) elements of entry strategy. In fact, the elements of the analytical framework for the definition of the international entry strategy are alike despite the differences behind the theories and models of internationalizing of companies. The term "entry strategy" is used when meaning comprehensive plan about different phases of internationalizing for the company. It sets the objectives, resources and policies that will guide a company's international operations. Entry strategy is not a single plan, but a composite of several individual product market plans. When these individual plans are put together, corporate international entry strategy can be identified (Root, 1994).

Currently, the entry strategy consists of five elements: 1) the choice of the target market and target product, 2) the objectives and goals in the target market, 3) the choice of an entry mode to enter the target market, 4) the marketing plan to enter the target market and 5) the control system to monitor the performance in that target market. The elements of the entry strategy are presented in Figure 2.4.

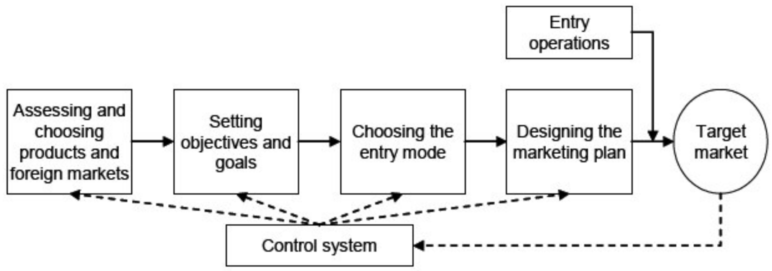

Figure 2.4 - The elements of an international entry strategy (Source: Root, 1994: 23).

Although the elements in the analytical entry strategy are presented in a logical sequence, there are several feedback loops, which may lead to restarting a previously finished stage, again. Strategic planning for international entry strategy is a continuing and open-ended process: a) Selecting a set of products; b) choosing the target market and c) choosing the foreign market service mode in that market (Root, 1994).

2.4.1 The International Product Portfolio

One of the most important elements, when considering the design of the internationalization process, is the choice of a product portfolio for foreign markets. Thus, these products should contain several features and attributes that could allow the firm to achieve a sustainable competitive advantage in the target market. At this point it is important that a company has a screening analysis to support decision making. Product screening can be started for example with the framework of products' life cycle - the product candidate should be in the early stages of its life cycle. When considering this, one should remember that a product can be in different markets in different stages of the life cycle (Onkvisit and Shaw, 1983).

Products may need to be adapted to meet the needs of the target market. These adaptations can be made in many different dimensions, including physical features and attributes such as packaging and services. At this stage also governmental regulations in different countries should also be considered. The goal of all the adaptations / customization is to better address the needs of consumers in the target market in acceptable financial terms (Root, 1994).

By contrast, a product policy that limits adaptation may be termed as a product standardization approach. Broadly speaking, this strategy aims to deliver the same products in foreign markets. There may be some differences among markets, but it is believed that these differences can be overcome and consumers will adapt the product accordingly (Root, 1994).

However, if a product needs adaptation or the firm's management considers relevant to adapt a product for a specific foreign market, then a production adaptation strategy must be put in practice. This strategy takes into account the differences among nations and consumers. For example, it divides the foreign markets into different national markets and, quite often, even further for local submarkets (Root, 1994).

2.4.2 The Foreign Market Selection

After a company has chosen the product portfolio for international markets, the screening of a target market should be started. Preliminary screening should be extended to all countries without any preconceptions and it should be a quick selection with accurately planned criteria. The core parameters of the preliminary screening are the availability of consumers, users' profile and direct estimates of market size (Jain, 1993).

When the preliminary screening is done, the following stage is a more comprehensive analysis of the market potential in different countries for the prospective product. Industry market potential or market size can be estimated by top-down or bottom-up approaches. Generally, market size would correspond to the estimation of the total sales of a product in the target market over a specific time-horizon. At this stage some decisions with trade-offs should be done, concerning the preference between size over growth or the other way around (Root, 1994).

The latest stage in target country selection is to forecast the firm's sales for a set of countries chosen based on their overall market potential. Firm's sales forecast is the most probable size of sales for the prospective product in the target market over a defined time-period. Usually the target market with the highest firm's sales potential should be selected, but also other aspects like overall rating of a country's attractiveness should also be taken into consideration (Root, 1994).

When defining the product portfolio for the foreign market, there are two factors that should be considered: What is the attractiveness of a specific target market for the prospective product and what are the resources that the company currently possess? There are five possible strategies for this strategic choice: (1) Single segment concentration, (2) Selective specialization, (3) Product specialization, (4) Market specialization and (5) Full market coverage (Kotler, 2000).

2.4.3 The Foreign Entry Mode Choice

The choice of an entry mode for a target market is quite often a sum of conflicting factors. The decision process of entry mode is complex due to difficulties in evaluating what will lead to the best result. To model this complex decision process it is recommendable the usage of an analytical process. The strategies in deciding the suitable entry mode can be divided into three main strategies: the naive rule, the pragmatic rule and the strategy rule (Root, 1994).

For a firm adopting the naive rule, it means that the firm uses the same entry mode for all foreign markets. It is usually the result of management's behaviour rather than a policy statement. The naive rule ignores the heterogeneity of different markets and entry conditions. Two kinds of mistakes may happen when using this tunnel vision: (1) firm will give up a promising foreign market because its entry mode does not work in it or (2) firm will enter the market with an inappropriate entry mode (Root, 1994).

For a firm using the pragmatic rule, it uses a workable entry mode for each target market. Firms prefer low-risk alternatives. However, after learning through experience about international business they may change their mode of market entry. In this situation, the risk mode when entering the market is minimized. Resources are saved because the time used in gathering information on alternative entry modes and the management time to assess it is needless. Nevertheless, the opportunity cost may be a weakness of the pragmatic rule. Notwithstanding, a high risky entry mode may lead to better performance, but according to the pragmatic rule, a workable entry mode may be preferred for each target market. In short, empirical evidence suggests that firms seem to prefer low-risk entry modes (Root, 1994).

For a firm using the strategy rule, the appropriate entry mode for each target market is carefully selected. It is more easily said than done. This strategy demands analytical and systematic analysis of the possible entry modes. The difficulty is due the multiplicity of entry modes. Comparison between alternative entry modes is complex, but absolutely essential (Okoroafo, 1989). Difficulties may arise in different areas, such as recognizing multiple objectives, identification of advantages/disadvantages or forecasting future cash flows and costs (Erramilli and Rao, 1990). Thus, the analysis among different potential alternatives should be done in three areas: (1) the availability of company resources, (2) risk and (3) non-profit objectives.

In order to model the complexity of the entry mode decision process, it is possible to divide the decision factors into two categories: external and internal factors. External factors encourage or discourage a certain entry mode. External factors include target country market factors, target country environmental factors, target country production factors and home country factors. A firm may respond to external factors depending on its internal factors. Internal factors include product's characteristics and attributes, firm's resources and commitment factors (Root, 1994). Figure 2.5 presents the factors affecting the entry mode decision, divided into external factors and internal factors.

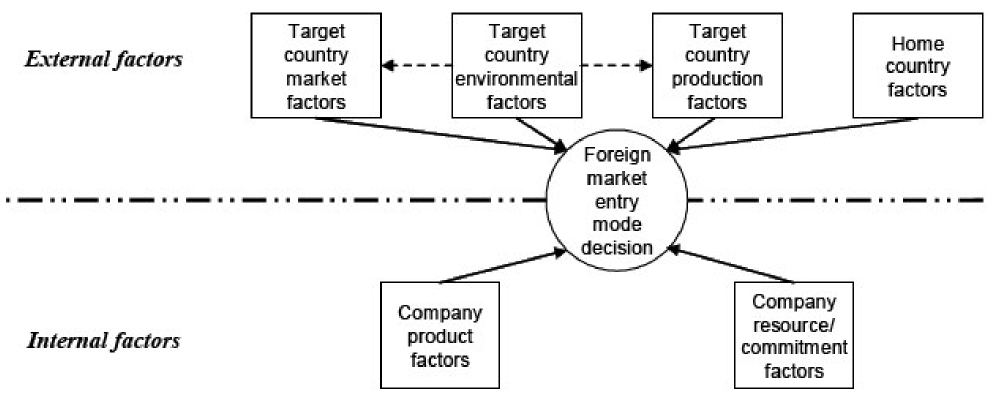

Figure 2.5 - Factors effecting on the entry mode decision (Source: Root, 1994: 29).

Target Country Market Factors

Target country market factors may include three dimensions that are size, competitive structure and marketing infrastructure. If the size of the market is small, usually entry modes with low break-even sales volumes are preferred. Suitable entry modes for markets with that kind of characteristics are for example exporting and licensing. Markets with high sales potential are usually entered by modes with high break-even like equity investment (Root, 1994).

A market competitive structure can be considered atomistic, oligopolistic or monopolistic. Atomistic competitive structure is more suitable for exporting, while oligopolistic and monopolistic markets are usually approached with equity investments. If the competitive structure of target market is too fierce, usually contractual modes are preferred (Root, 1994).

When deciding to enter a product in a foreign market it has to be made known in that target market. In addition, the development availability and development stage of marketing infrastructure has much impact on the entry mode decision. If, for example, all the agents and distributors are serving competitors, exporting as a entry mode does not work and the only way to reach that specific market is to establish a subsidiary. In some developing countries there may not even be a developed distribution system and, therefore, it has to be built from scratch (Albaum, Duertt and Strandskov, 2005).

Target Country Environmental Factors

Currently, there are four kinds of target country environmental factors affecting the entry mode decision: governmental policies and regulations, geographical distance, economic factors and cultural distance. Country environmental factors effect all international operations of a firm, but their effect can be more relevant when deciding on the entry mode.

Governmental policies and regulations may differ in between nations. High import barriers forestall exporting operations when at the same time regulations on foreign ownership difficult the possibilities to do direct investments. If the geographical distance is great and the transportation costs take a high share of products price, exporting finished goods may not be a profitable business. The economical factors, like the size of the economy, gross domestic product per capita, dynamics of target market economy and target country's external economic relations have to be analyzed and modelled, before deciding the entry mode. Companies prefer entry modes with low risks, especially in target markets that have large cultural distance (Onkvist and Shaw, 2004).

Target Country Production Factors

Production factors may have an impact on the entry mode decision process. The quality, quantity and cost of raw materials, labour and energy, as well as the availability and quality of economic infrastructure play an important part, when analyzing an optimal entry mode. If the production factors are low, entry modes that utilize these factors should be used by contractual modes or by direct investments. In this context, if the production factors are costly and the prices of end products are high, these markets should be approached by exporting. As a whole, analyzing the characteristics of target country production factors is a pure analytical process (Root, 1994).

Home Country Environmental Factors

For Root (1994), there are two main factors in the home country that affects the designing of entry modes. If the production factors are costly in the home country, companies prefer entry modes which do not suffer from this fact when competing in the foreign markets. In addition, another factor corresponds to governmental policies. If the home government offers tax and other benefits for exporting goods, companies prefer entry modes that hold these advantages.

If the home market is large, firms do not have to start to export in the early stages of their existence. When they start to internationalize they can take higher risks and their activities are in a larger scope. If the scope of the home market is limited, companies have to start planning internationalization earlier, when they have not yet grown large and prefer low risky entry modes (Lowe and Doole, 2004).

Company Product Factors

The nature of a firm's products has a major impact on the choice of entry mode. For example, some software products can be marketed globally over the Internet and then exported to target markets when at the same time computer services are normally delivered under contractual agreements. Generic products give higher freedom when deciding entry mode, allowing also exporting, while differentiated products give less room when deciding entry modes, leading, usually, to a local presence in the target market. Unit transportation costs may play a significant impact on entry mode decision (Czinkota and Ronkainen, 2003).

Products that demand a high degree of adaptation are usually seen favourable for entry modes, which provide much information about the target market. Know-how intensive products and services can be seen suitable for contractual agreements, allowing fast exploitation of innovations before competitors may develop even better solutions (Czinkota and Ronkainen, 2003).

Company Resource and Commitment Factors

The wider the scale of resources available to a company, the more diverse are its entry mode options. If a firm has relatively small resources available, they usually prefer low cost, low risk and low commitment entry strategies. These factors may lead to less control and lower long-term sales potential compared to the more risky and higher cost alternatives (Root, 1994).

If the internationalization is seen as an incremental evolution process, the market commitment may raise over time. Higher degree of willingness to commit also in the earlier stages of the internationalization increases the possible number of different entry modes (Root, 1994).

3. The Impact of Internationalization on Firm's Performance

The main aim of this study is to assess the impacts of internationalization on firm's performance. Thus, it is a key issue to put forward a definition of performance. Despite the not insignificant consideration given to this issue, this is a surprisingly open question with few studies using consistent definitions and measures. Nevertheless, there has been some consolidation in the views being taken by researchers and academics in this area of enquiry.

Woo and Willard (1983) in one of the earliest evaluations of the dimensionality of performance found that 14 indicators covering both financial and broader operational aspects of performance loaded onto four prominent dimensions that are profitability, change in profitability, market position and revenue growth. Even though Fryxell and Barton (1990) have reached the same findings, they also argue that it is not clear that accounting and market-based measures reflect a single latent performance construct.

Furthermore, the strategic choices that a firm makes will dictate which performance measures will reflect the latent performance construct, which, in the specific context of this research, can be understood as the long-term impact on the organization of previous strategic decisions taken overtime (Steers, 1975). This is a natural result of the influence that strategic choices have on these measures, where it is unlikely that changing strategies would leave the dimensionality of the performance indicators unchanged. Because different strategies may relate to different dimensions of performance, they may also alter the way these performance dimensions load onto the latent construct. For instance, Fryxell and Barton (1990) found different measurement structures of four common accounting and market-based indicators (that is, measures commonly regarded as objective and within the domain of financial performance), between groups of firms that had adopted two distinct strategic stances over time. The factor loadings changed materially and in counter-intuitive ways. Hence, not only does the appropriate measure of performance vary with the situation, but the measurement structure of indicators that capture the success of the strategies will change as well (*ibid*).

Developing a mean of summarizing the dimensions that allows researchers to compare these dimensions could be a tractable, but accurate, manner. Unfortunately, moving from a very narrow definition to include broader measures raises a number of conceptual issues. Firstly, it becomes difficult to distinguish firm performance from the antecedents of that performance. Indeed, depending on circumstances, a variable may find itself classed as either an antecedent or rather performance (Lewin and Minton 1986). For instance, market share, innovation rates and efficiency measures are often placed on a wider conceptual domain of organizational effectiveness (Venkatraman and Ramanujam 1986). However, other researchers often consider these same variables as means to achieve performance. Market share (and the related construct of industry concentration) is investigated as one such antecedent in industrial organization economics (Capon, Farley and Hoenig 1990) while innovation is often the performance measure of choice when examining the capitalization of knowledge (Hall *et al.* 1998). This, in and of itself, is not a concern, as long as the structural relationships between these variables are well understood. Indeed, it is this structural relationship that allows for more effective investigation of the construct validity of organizational performance.

In one such case involving an extensive meta-analysis of these determinants, Capon *et al.* (1990) found strong evidence for the hypothesized relationships between these underlying antecedents of organizational effectiveness and organizational performance as measured by accounting and market measures covering the level, variance and growth of profit as well as other outcomes such as market value, assets, equity, cash flow, sales and market/book value ratios. The consistency of these measures suggests that performance is being captured effectively.

For the purpose of this research, and in order to guarantee an alignment in between the research goals and an effective measurement model, it is the author option to use a more general construct of organizational performance, also know as ‘organizational effectiveness’ (Venkatraman and Ramanujam 1986). For Venkatraman and Ramanujam (1986), Corporate performance can be conceptualized on two core dimensions: financial and operational. Financial performance may be further divided into those measures based on accounting data (reflecting past performance) and those grounded in capital market values (reflecting investors’ expectations of future performance). By contrast, operational performance indicators do not reflect direct monetary outcome but determine core underlying processes that ultimately result in financial performance. These processes include all strategic and operational processes. By distinguishing between financial and operational performance, the analysis can be divided into two different approaches: financial changes (quantitative analysis) and operational changes (qualitative analysis).

For the purpose of this research, and taking into account the research goals, the analysis will focus on Profitability, Productivity, Human Resources Development, Corporate certifications, Marketing Program and Corporate Culture. In every academic research, authors have to make decisions on the scope of their study. Thus, the author considers the above factors as the most influential and fundamental to address this study's research goals.

3.1. Impact on Financial Performance

3.1.1 Impact on Profitability

The contribution of the various internationalization strategies to value creation has been the object of a number of empirical studies divided into specific areas of research, as stated in the following paragraphs. International business literature has focused mainly on the performance implications of FDI, following the surge in the multinational expansion of large firms (Wolf, 1975). Although it is possible to argue that higher levels of international involvement would lead to superior performance (Rugman, 1979; Daniels, Bracker, 1989), the results of empirical studies do not reach definitive conclusions (Ramaswamy, 1992).

Multinational operations frequently proved to be associated with higher performance (Beamish, daCosta, 1984; Shaked, 1986; Grant, 1987; Kim, Hwang, Burgers, 1989; Tallman, Li, 1996; Delios, Beamish, 1999). Some studies give evidence of the existence of a non-linear relationship, mainly due to a "liability of foreignness", beyond certain levels of foreign direct investments (Geringer, Beamish, daCosta, 1989; Hitt, Hoskisson, Kim, 1997), due to the rise in coordination and control costs, on the basis of Hymer's (1976) theory of FDI.

Some studies have shown a negative relationship between FDI and performance (Siddarthan, Lall, 1982; Kumar, 1984).

These findings were usually based on studies of large firms with a broad geographic scope and it is not possible to automatically apply their results to the case of SMEs (Dana, Etemad, Wright, 1999; Shuman, Seeger, 1986). The effects on profitability from the foreign expansion of SMEs have not reached a consensus among researchers due to the lack of sufficient empirical studies. In addition, performance implications of the various internationalization strategies adopted by SMEs remain far from clear (Covin and Slevin, 1991; Coviello and McAuley, 1999).

However, empirical studies on samples of SMEs have revealed the existence of a "liability of foreignness" at the beginning of the internationalization process via FDI (Beamish, Lu, 2001), even though the prevailing form of internationalization for SMEs is represented by exporting (Bilkey, 1978). Export activity effects on profitability are expected to be positive, due to scale and scope economies (Kogut, 1985; Grant, Jammine and Thomas, 1988) and increases in market power, the capacity to influence the market (Kim, 1993; Hwang and Burgers, 1993). However, empirical findings cannot be considered conclusive, due to scarce consistency in construct building and in the operational measures adopted (Shoham, 1998; Aaby and Slater, 1989). More recently, a research on a sample of Japanese SMEs has found a positive relationship between export activity and profitability (Beamish and Lu, 2001). In a similar vein, Hollensen (2007) posits that economies of scale result of accumulated volume in production and sales that will result in a lower cost price per unit due to 'experience curve effects' and increased efficiency in production, marketing, etc. Building a global presence automatically expands a firm's scale of operations, giving it larger production capacity and a larger asset base. However larger scale will create competitive advantage only if the company systematically converts this larger scale (represented by higher sales in volume) into economies of scale.

Economies of Scope, synergy effects and global scope can occur when the firm is serving several international markets. Economies of scope will occur when firms can reuse a resource from one business or country in additional businesses or countries (Hollensen, 2007).

Currently, it is key to focus on the profitability effects of other strategic options for the international growth of SMEs, since they may be able to establish or engage in strategic alliances, that is international networking. Strategic alliances allow SMEs to overcome many of the above-mentioned resource constraints to international growth (Jarillo, 1989; Zacharakis, 1997). In addition to the opportunities of sharing risks, alliances give access to complementary resources, like capital and information (Gulati, 1998; Gulati, Nohria and Zaheer, 2000) and reduce the time span necessary for a broad international expansion. On the other hand, engaging in strategic alliances involves organizational complexities and implementation difficulties (Hamel, 1991). According to the survey conducted by Beamish and Lu (2001) the effect of alliances on profitability is positive only when the small firm chooses a local partner, i.e. a partner of the country where the firm wants to establish business operations. This can be explained by the fact that an alliance with a local partner provides valuable resources in terms of foreign market knowledge (Makino and Delios, 1996), which tends to offset its implementation costs.

Hollensen (2007) also identifies an important issue on profitability. Some managers may have the idea when planning to enter international markets that there will be strong expectations of higher profitability. However, this perceived profitability is often quite different from profitability currently attained. Czinkota and Kotabe (1992) indicate that the initial profitability of international start-up operations may be quite low, mainly due to relatively high start-up costs.

3.1.2 Impact on Productivity

Comparative case studies of selected industries in the United States, Japan and Europe carried out by Baily (1993) and Baily and Gersbach (1995) suggest that competition (especially competition with best-practice producers in the global market) enhances productivity. Using micro-level panel data for the United Kingdom, Nickell (1996) and Disney, Haskel and Heden (2003) experimented with several indicators of competition in productivity regressions and concluded that competition has positive effects on productivity growth. Using a sample of 676 UK firms over the period 1975-86, Nickell (1996) found that competition was associated with higher productivity growth rates. Based on a more recent and much larger data set of around 143,000 UK establishments over the period 1980-1992, Disney, Haskel and Heden (2003) found that market competition significantly raised productivity levels as well as productivity growth rates. Controlling for R&D and other industrial characteristics and using unbalanced panel data for more than

10,000 Japanese manufacturing firms for the period 1994-2000, Okada (2004) also found that competition enhanced productivity growth.

Roberts and Tybout (1997) developed a model of exporting with sunk costs at entry. In the presence of such entry costs, only relatively productive firms will choose to pay the costs and enter the foreign market. The implied relationship between exporting and productivity is positive in a cross-section of firms or industries, but the causality directs from productivity to exporting. In other words, exporting firms show higher productivity mainly because only firms with higher productivity can enter the export market and survive there. The empirical findings of Clerides, Lach and Tybout (1998) based on plant-level data from Colombia, Mexico, and Morocco also support the self-selection hypothesis, according to which only the more efficient firms enter the export market.

Using companies' level of production data from the Longitudinal Research Database (LRD) in the United States, Bernard and Jensen (1999a) examined whether exporting had played a role in increasing productivity growth in US manufacturing. They found little evidence that exporting *per se* was associated with faster productivity growth rates at individual companies. The positive correlation between exporting and productivity levels appears to come from the fact that high productivity companies are more likely to enter foreign markets, as Roberts and Tybout (1997) suggest. While exporting does not appear to improve productivity growth rates, it is strongly correlated with increases in firm's size. In other words, trade contributes to productivity growth by fostering the growth of firms, though not by increasing productivity growth of those firms (Roberts and Tybout, 1997).

Hahn's (2004) findings based on the Korean data are similar to those of Bernard and Jensen (1999a and 1999b) using US data in several respects:

(1) Significant and positive contemporaneous correlations are observed between levels of exports and productivity.

(2) While exporting plants have substantially higher productivity levels and are of bigger size than non-exporting plants, empirical evidence that exporting increases plant productivity growth rates is weak.

(3) New exporters grow faster around the time when they enter the export market.

According to Bernard and Jensen (1999b), these findings remain controversial. In fact, exporting will contribute to aggregate productivity growth by facilitating the growth of high productivity plants, although such a reallocation effect would produce static rather than dynamic gains. In other words, Bernard and Jensen (1999a and 1999b) and Hahn (2004) appear to suggest that exporting cannot be an engine of sustained economic growth, either for an innovating technology leader like the US or for an imitating follower as South Korea.

3.2. Impact on Organizational Performance

3.2.1 Human Resources

Internationalization has become a corporate necessity because today businesses "are beginning to realize that the firm that isn't thinking in terms of international trade should start thinking about going out of business" (Zodl, 1995: 3). From a marketing context, the challenge has been one of "*restructuring domestic marketing operations to compete internationally in larger, more disparate markets*" (Denison and McDonald, 1995: 58). Appropriate training programs are required to meet the skill needs within a globally competitive environment; many organizations have prioritized employee-training efforts and have "placed skill and labour needs alongside product and service development" (Gibbs, Glendenning, and McCarthy, 1995: 4). Any company involved in cross-border business activities needs to keep its staff continually updated, both in terms of the skills needed to do their jobs and to further their careers (Nemes, 2005). Caution must be exercised in order to ensure that training remains appropriate, because *"training for training's sake*" offers little potential, and in order for training *"to be effective, it must be focused"* (Denton, 1995: 2).

Ohonsi (2006) identified sixty skills as necessary for effective international marketing, and were classified into, and analyzed within categories - (1) planning and operational skills; (2) pricing skills; (3) promotional skills; (4) product skills; and (5) distribution skills. Twenty-four of the skills were rated as being highly important, thirty-six were rated as being of medium importance, and none were rated as being of low importance. Possession ratings were compared across importance ratings, which identified twenty-four international marketing skills as training priorities. Table 3.1 presents the sixty skills and the level of importance identified in the Ohnsi (2006) study:

Skill	**Level** (0 to 10)
Planning and Operational Skills	
1. Evaluate the effectiveness and efficiency of your international marketing activities	7
2. Write and implement an international marketing plan	7
3. Assess foreign market size and potential	7
4. Conduct a global competitive analysis	5
5. Utilize electronic/library information sources and computer applications	6
6. Develop insights concerning foreign customer buying/technical decision-making behaviors	7
7. Assess international marketing training needs	5
8. Adapt to foreign business practices, cultural differences, and protocol	8
9. Communicate clearly with others when English is not their first language	7
10. Speak a foreign language	5
11. Analyze market share within specific foreign territories	5
12. Assess foreign market legal environment implications	6
13. Analyze import/export government regulations (costs/risks)	7
14. Segment international markets	6
15. Plan overseas market visits/tours/itineraries	6
16. Analyze key facts regarding political/economic/historic/cultural trends of a Country	6
17. Develop profit repatriation plans	5
18. Analyze human resources tasks and design appropriate organizational structure	5
Pricing Skills	
19. Evaluate and select international pricing strategies	7
20. Forecast profit contributions and revenue related to international markets	6
21. Evaluate and select appropriate international payment methods (L/C, D/A, D/P, Open Account, Counter trade, Off-set)	7
22. Evaluate and select appropriate trade financing programs (i.e., credit insurance)	6
23. Develop international quotations using a variety of INCOTERMS and foreign currencies	6
24. Utilize the most effective transfer pricing practices	6
25. Negotiate effectively in a multicultural setting	7
26. Determine costs associated with overseas customs duties and regulations	7
27. Assess foreign tax incentives (e.g., foreign sales corporations)	5
28. Identify and adjust for customer service costs	6
Product Skills	
29. Assess suitability of your products to foreign markets	8
30. Determine appropriateness of product adaptation versus standardization (e.g., use local language on product packaging)	7
31. Analyze local brands and devise international branding strategies	6
32. Review various numbering classification, packaging, packing, labeling & marking	7

Skill	Level (0 to 10)
requirements	
33. Secure foreign country/government approvals (product, safety, environmental and quality standards)	7
34. Protect intellectual property rights	6
35. Develop foreign repair and service system (warranty, repair, and spare parts policies)	6
36. Evaluate and select product sourcing strategies	6
37. Determine product life cycle strategy of the product in each market	6
Distribution Skills	
38. Evaluate and select appropriate foreign market entry alternatives	7
39. Assess and select appropriate international transportation alternatives (especially where there are no existing routes)	6
40. Evaluate and select a freight forwarder	6
41. Develop just-in-time inventory systems	5
42. Evaluate environmental factors/geography affecting physical distribution	6
43. Deal with foreign customs brokers/clearing agents	5
44. Effectively obtain export licenses	6
45. Assess appropriateness of joint ventures and strategic alliances	5
46. Identify, evaluate, qualify and select foreign distributors/agents/ETC	7
47. Select, recruit, compensate, train and manage an international sales force	7
48. Balance between distribution efficiency and distribution effectiveness	6
Promotion Skills	
49. Evaluate and select appropriate promotional mix	7
50. Evaluate and select appropriate international advertising agency	5
51. Evaluate and select appropriate telemarketing organization	4
52. Evaluate and select appropriate public/governmental relations specialists	5
53. Evaluate and select appropriate Internet marketing service providers	5
54. Identify and abide by legal issues relative to foreign promotion	7
55. Evaluate and select appropriate communication channels (internationally)	7
56. Develop promotional/presentation materials/product literature	7
57. Appropriately utilize Canadian Provincial and Federal export promotion programs	6
58. Use trade shows (domestic and international) to promote international trade	7
59. Explore other promotional alternatives that may be characteristic of given country	7
60. Evaluate and select appropriate direct mail company	5

Table 3.1 - Skills for International Marketing (Source: Ohnsi, 2006)

To address the above sixty skills required for international activities, companies will either increase their Human Resources Training Programs which will lead to a more competitive workforce, or will increase the recruitment of highly skilled individuals in order to meet these specific skills.

3.2.2 Corporate Certifications

Within the globalization, the requirement to establish stronger buyer-supplier relationships move forward companies to concentrate on standardization programs such as ISO 9000. In addition, these standards have been widely adopted in different sectors. ISO 9000 is largely based on the British Standard BS 5750 and was developed by International Standardization Organization in Geneva. ISO 9000 series help companies to demonstrate their abilities to design, to produce and to deliver products and services overtime with consistent quality.

According to ISO 9000 standard, the standardized definition of quality refers to all those features of a product or service, which are required by the customer (International Organization for Standardization, 2004). It is important to note that ISO 9000 is not a product standard and does not guarantee improved product quality. The focus is on managing core value-added processes to deliver quality. ISO 9000 establishes the requirements for what the company must do to manage its quality related processes (Briscoe, *et al.*, 2005).

On the other hand, it was found that most SMEs feel forced to apply for ISO 9000 and do not move further down the quality path. This shows that very few SMEs will be converted into quality believers and will move forward down on the Total Quality Management (TQM) journey (Van Der Wiele and Brown, 1997).

Sun and Cheng (2002) found that SMEs main reason for implementing TQM is customer requirement while large companies implement TQM mainly due to corporate decision, survival of the company, and the need to cut costs. The researchers state that for SMEs, TQM and ISO 9000 should be used as proactive tools to improve quality management system, improve product quality and reduce product costs so that they can improve their competitive capabilities.

North *et al.*, (1993 and 1994) identify the motives which contribute to the implementation of ISO 9000: a) as a reaction to external market conditions; b) in order to obtain procedural benefits relating to their internal systems; and c) the desire for an improved market image.

Huarng (1999) found that the ISO 9001 certificates helps companies gaining benefits in internationalization, quality improvement, sales enhancement and cost reduction. Buttle's (1996) study found that marketing benefits provided by ISO 9001 certification may include the following: gaining new customers, keeping current customers, using the standard ISO 9001 as a promotional tool while increasing market share, sales growth and improving customer satisfaction. In Ragothaman and Korte (1999) study, respondents agreed that ISO 9001 certification improved documentation, was a beneficial marketing tool and improved export potential. There is also consensus among firm that implementation of ISO 9001 standards had benefits in dealing with both suppliers and customers.

In a different perspective, Johansson (2006) indicates that ISO 9001 is an effect of governments on globalization. Notwithstanding, Johansson (2006) also acknowledges the positive effects that ISO 9001 has on internationalized companies: *"ISO 9001 encourages global marketing, since it is worldwide. Furthermore, the return on investment in improved operations to gain certification is higher the more countries the company does business in. At the same time, the higher standards encourage uniformity of operations everywhere."* Johansson (2006, p20).

In the same context of governments influence in corporate governance and product portfolio management, the European Union has defined a quality check certification for a specific set of products. The CE marking (also known as CE mark) is a mandatory conformity mark on many products placed on the single market in the European Economic Area (EEA). The letters "CE" do not stand for anything in particular. In fact, the term initially used was "EC Mark" and it was officially replaced by "CE Marking" in the Directive 93/68/EEC in 1993. "CE marking" (not CE mark) is the official term now used in all new EC directives. "CE mark" is also in use but it is not the official term.[1]

By affixing the CE marking, the manufacturer, its authorized representative, or person placing the product on the market or putting it into service asserts that the item meets all the essential requirements of the relevant European Directive(s). Examples of European Directives requiring CE marking include toy safety, machinery, low-voltage equipment,

[1] Source: Wikipedia

R&TTE, and EM compatibility. There are about 25 Directives requiring CE marking.[2] Officially, CE has no meaning as an abbreviation, but may have originally stood for "Communauté Européenne" or "Conformité Européenne", French designation for European Conformity.

The CE marking is a mandatory European marking for certain product groups to indicate conformity with the essential health and safety requirements set out in European Directives. To allow the use of a CE mark on a product it is mandatory to prove that the item meets the relevant requirements and all this requirements must be documented. Sometimes this is achieved using an external test house which evaluates the product and its documentation. Often it is achieved by a company-internal self-certification process. In any case the responsible organization (manufacturer, representative, importer) has to issue a EC-Declaration of Conformity (EC-DoC) indicating his identity (location, etc.), the list of European Directives he declares compliance with, a list of standards the product complies with, and a legally binding signature on behalf of the organization. The EC-DoC underlines the sole responsibility of the manufacturer. Parts of the certification process for the CE marking could be performed by 3rd party test houses or certification bodies; in case that this is mandatory the CE symbol also includes a number that identifies the so called Notified Body.

Directives providing the requirements for the CE marking are created within the European Union (EU), but the markings are required throughout the European Economic Area (EEA). According to information provided by the Swiss Government for Swiss Exporters the CE Mark is not compulsory in Switzerland except for products for exporting to the European Union.

There are numerous Agreements on Mutual Recognition of Conformity Assessment between the European Union and other countries such as the USA, Japan, Canada, Australia, New Zealand and Israel. Therefore, the CE mark is now found on many products from these countries. Turkey (which is not a member of the EEA) also requires products to show CE marking as a declaration of conformity.

[2] Source: http://www.newapproach.org/Directives/DirectiveList.asp

These agreements have a direct impact on all companies that which to go international as they have to adapt their product mix in order to comply with international trading rules.

3.2.3 Marketing Program

To enter new markets companies need to use a set of marketing tools. There are several marketing strategies for getting new customers. Marketing mix model, or "Four Ps" defined by Kotler (2004) is an example on how to match products with marketplaces. This useful method allows managers to understand the concepts about being with the right product, the right price at the right place. Ladley and Forsith (2004) based on McCarthy's theory evaluate the marketing program as a combination of all of the factors through marketing manager's leadership to address the needs of the target market. The marketing program gives an opportunity to acknowledge and define the marketing elements for a successful positioning and establishing an adequate market offer. However, for some authors, the marketing program is not a full comprehensive solution for management issues. Doyle (2006) argues that the marketing program may lead to unprofitable decisions because it is not grounded in financial objectives such as increasing shareholder value. In addition, he posits that it has never been clear what criteria to use in determining a successful marketing program. For the purpose of this thesis, the marketing program will be considered in order to analyse the effects of internationalization at the firm's operational level.

An internationally oriented company faces the dilemma of adaptation vs. standardization. Broadly speaking, standardisation involves the offering of identical product lines at identical prices through identical distribution systems, supported by identical promotional programmes in several different countries (Deirdre, 1999). By contrast, adaptation, in broad terms, concerns the "*Localised*" marketing strategies (Bradley, 1995).

The question of whether to adapt or standardize the marketing program has been the focus of increasing debate in recent years. Kotler and Armstrong (2005), argue in favour of adaptation. The marketing program, for each foreign market, must be carefully planned. Managers must first decide on the precise target markets and target customers to be served. Then managers have to decide how, if at all, to adapt the firm's marketing program to local conditions, hoping for a larger market share and return (Kotler and Armstrong, 2005). As Kotler and Armstrong (2005) put forward, consumers in different countries have widely varied cultural backgrounds, needs and wants, spending power, product preferences and shopping patterns. Kotler and Armstrong (2005), also consider that these differences are hard to change and that is why most marketers adapt their products, prices, channels and promotions to fit consumer needs and expectations, in each country.

In the continuous debate of whether to adapt or standardize the marketing program, a third approach has been identified: "*adapted standardisation*". For the "supporters" of adapted standardisation, the crucial issue is not so much whether to use a standardisation or adaptation strategy but rather to what degree international marketing strategies should be standardised (Quelch and Hoff 1986, Akaah 1991, Yavas *et. al.* 1992, Wang 1996, Vrontis 2000, Boutzikas 2000).

Quelch and Hoff (1986) suggest that the decision on standardisation or adaptation is not a one-off 'either /or', but rather that there is a wide spectrum in between and there are degrees of standardisation. The classic example is also Coca-Cola, which is branded as the same the world all over, but which in fact is more or less sweet/bitter/carbonated depending on the country in which it is sold.

As a practical matter, standardisation and adaptation are not clear-out issues to be used solely. The supporters argue that in reality, neither of these polarised views is feasible or even desirable and it seems that adaptation and standardisation co-exist. It is indicated that the standardisation decision is not rigidly applied as the right posture as a result of organisational and macro and micro-environmental differences and constraints (Vrontis and Vronti, 2000).

Adaptation and/or standardisation may vary depending upon the individual elements of the marketing program (Vrontis and Vronti, 2000). Also, under certain circumstances, it may be appropriate for a company to standardise one element of the marketing program such as product while adjust another tool such as promotion campaign. For instance, this integration of adaptation and standardisation driving a company towards optimising performance is extensively researched and developed by Vrontis's (2000) adaptation standardization approach often used in international marketing strategies.

The following paragraphs put forward the marketing-mix areas and the possibilities within standardization, adaptation and standard adaptation whenever they are relevant in the context of this study:

PRODUCT

The core of a firm's international operations is a product or service. This can be defined as the complex of tangible and intangible elements that distinguishes it from other products in the marketplace. The firm's success depends on how good its product or service is and how well the firm is able to differentiate the product from the offerings of competitors. Products can be differentiated by their composition, country of origin, tangible features such as packaging or quality, or by their augmented features such as warranty. Further, the positioning of the product in consumers' minds will add to its perceived value (Czinkota and Ronkainen, 2004). Figure 3.1 identifies the elements of a product, showing in which areas a firm can intervene in order to enhance its products:

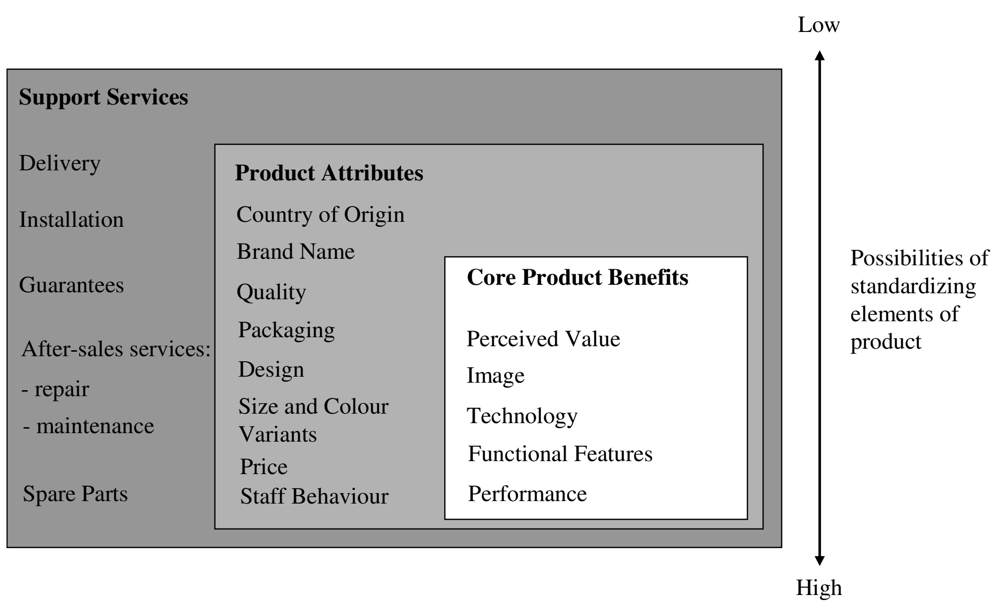

Figure 3.1 - The Dimensions of the International Product Offer (adapted from Hollensen, 2007)

For Czinkota and Ronkainen (2004), the first question after the internationalization decision has been made concerns the product modification that are needed or warranted. A firm has four basic alternatives in approaching international markets: (1) Selling the product as it is in the international marketplace; (2) Modifying products for different countries and/or regions; (3) Designing new products for foreign markets; and (4) Incorporating all the differences into one product design and introducing a global product.

Different approaches in implementing these alternatives remain available. For example, a firm may identify only target markets where products can be marketed with little or no modification. A company characterised by being active in large consumer markets may have in its product range for any given markets global products, regional products, as well as purely local products. Some of the products developed for one market may be later introduced in a different market (Czinkota and Ronkainen, 2004).

In the argument of standardization versus adaptation, for Levitt (1983) the benefits of standardization are economies of scale in production, cost savings in marketing and promoting economical integration. By contrast, for Czinkota and Ronkainen (2004), factors encouraging adaptation are differing use conditions, Government and regulatory influences, differing consumer behaviour patterns, local competition and the need to apply comprehensively the marketing concept by focusing on specific customers' needs and expectations in each qualified country. Johansson (2006) indicates as advantages of standardization, cost reduction, improved quality, enhanced customer preference, global customers and global segments; and defines as drawbacks of standardization, off-target, lack of uniqueness, vulnerability to trade barriers and strong local competitors.

In deciding the form in which the product is to be marketed abroad, the firm should consider three sets of factors: (1) the markets that have been targeted, (2) the product characteristics, and (3) company profile, such as resources and policies. For most firms, the key question linked to adaptation is whether the effort is worth the cost involved – in adjusting production runs, stock control, or servicing, for example – and the time and capital involved in identifying features that would be most appealing for the foreign market (Yorio, 1983). Figure 3.2 provides a summary of the factors that determine the need for either mandatory or discretionary product adaptation:

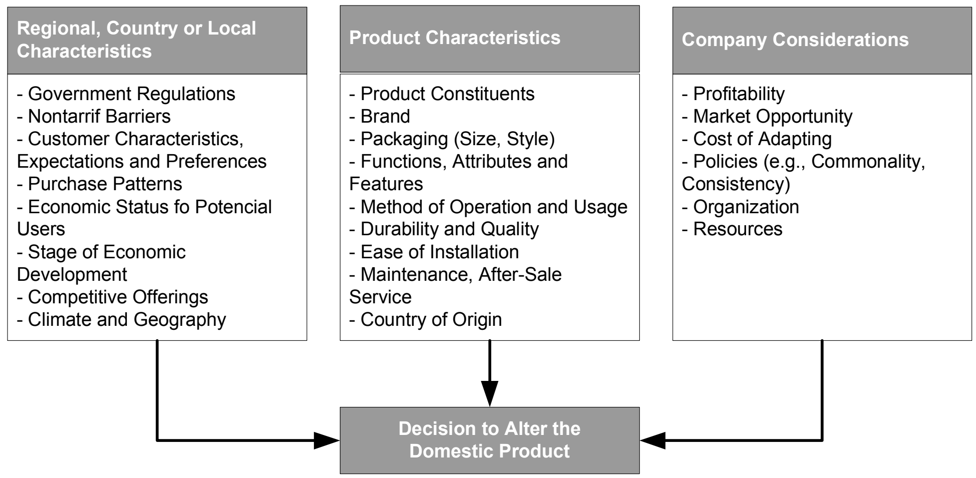

Figure 3.2 - Factors Affecting Product-Adaptation Decisions (Adapted from V. Yorio, 1983)

To sum up, the International marketer must pay careful attention to variables that may call for an adaptation in the product offering. The target market will influence the adaptation decision through factors such as government regulations and customer preferences and expectations. The product itself may not be in a form ready for international market entry in terms of its brand name, its packaging or its appearance. Some marketers offer only standardized products; some adjust their offerings to the market (Czinkota and Ronkainen, 2004).

Firms entering or participating in the international marketplace will certainly find it difficult to cope with the conflicting needs of the domestic and international markets. They will be certain to ask whether adjustments in their product offerings, if the marketplace requires them, are worthwhile. However, there is no pre-defined solution for the problem of product adaptation. Adopting formal procedures to assess how the product meet customers' needs and expectations may be a possible solution to identify adaptation needs (Czinkota and Ronkainen, 2004).

In an empirical research, Cavusgil and Zou (1993), posit that product adaptation upon entry is influenced by legal regulations, cultural specificity of products and the technology orientation of the industry. After entry, product adaptation is influenced by the firm's international experience, cultural specificity of product, the competitiveness of the international market, the technology orientation of the industry and the product familiarity of export customers.

Also in their study, Cavusgil and Zou (1993) identified that the degree of product adaptation upon entry is higher when the product is exported to a single export market than when it is simultaneously exported to multiple export markets, and the degree of product adaptation after entry is higher for consumer products than for industrial products. It may be considered that single market entry allows management to concentrate on appropriate modifications for the customers in a specific export market. It also appears that industrial products are less subject to modification once introduced into an export market. However, final results of Cavusgil and Zou (1993) study reveal no significant differences between consumer and industrial products in terms of degree of product adaptation upon entry, and between single and multiple-market entry in terms of the degree of product adaptation after entry.

Also, Cavusgil and Zou (1993) in their study argue that positioning adaptation is influenced by firm's international experience, the product uniqueness and the competitiveness on the export market. Packaging and labelling adaptation are influenced by the firm's international experience, export sales goal for the international market, product uniqueness, the cultural specificity of product and competitiveness of export market. The most important consideration in packaging / label adaptation decision is the intensity of competition in the export market. Finally, adaptation of promotional approach is influenced by a firm's international experience, product uniqueness, the cultural specificity of product and the competitiveness of the international market (*Ibid*).

In addition, Cavusgil and Zou (1993) identify in their research that the degree of adaptation of positioning, packaging / labelling and promotional approach is higher for consumer products than for industrial products. Simultaneously, the degree of adaptation of positioning and promotional approach is higher for multiple-market entry than for single-market entry. The influence of entry scope on packaging and labelling adaptation are not significant.

In a different approach, recent legal changes, introduced by the EU, as already stated in the certifications area of this study, are also being a source of product adaptation for international firms.

PRICE

Price is the only element of the marketing program that is revenue generating; all of the others represent costs. It should therefore be used as an active instrument of strategy in the major areas of management decision making. In addition, price can also be considered as an important mean of communication with the buyer by providing a basis for assessing the attractiveness of the offer. Price is also a major competitive tool in meeting and beating close rivals and substitutes. Competition will push prices down, whereas intracompany financial considerations have an opposite effect. Prices, along with costs, will determine the long-term viability of the enterprise (Czinkota and Ronkainen, 2004).

Price should not be determined in isolation from the other instruments of the marketing program and may be used effectively in positioning the product in the marketplace. The feasibility range for price setting established by demand, competition, costs and legal considerations may be narrowing or widening in a given situation. Regardless of how narrow the gap allowed by these factors, however, pricing should never be considered a static element (Czinkota and Ronkainen, 2004).

According to Czinkota and Ronkainen, (2004), in first-time pricing, the general alternatives are: Skimming, Market Pricing and Penetration Pricing. After the initial pricing strategy, there are three general price-setting strategies in international marketing (Robinson, 1984): Standard Worldwide price; Dual pricing; and Market-differentiated pricing.

Figure 3.3 identifies the price determinants:

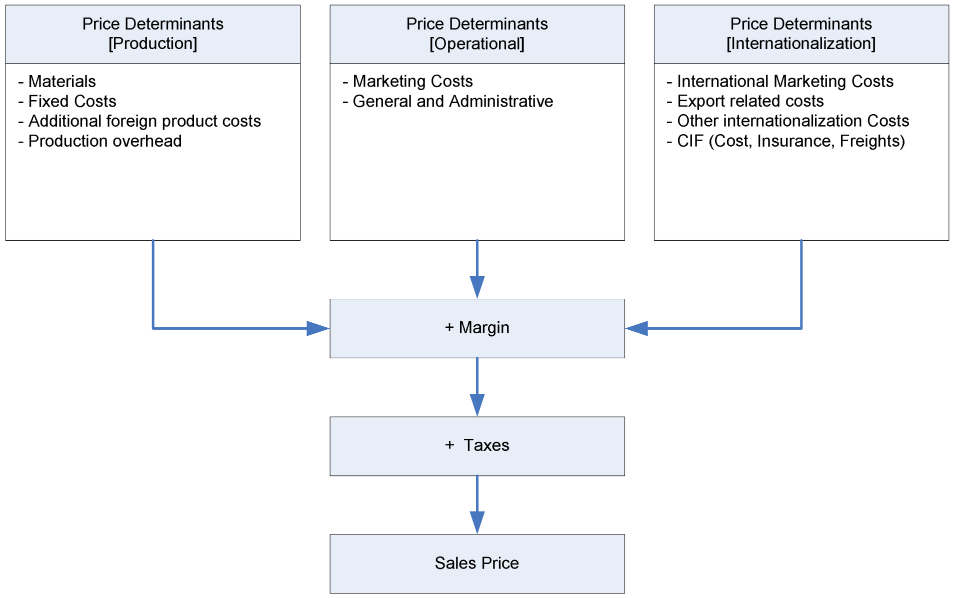

Figure 3.3 - Price Determinants (Source: Adapted from Czinkota and Ronkainen, (1998) and Hollensen (2001))

To sum up, the status of price has changed to that of a dynamic element of the marketing program. This has resulted from both internal and external pressures on business firms. Management must analyze the interactive effect that pricing has on the other marketing policies and how pricing can assist in meeting the overall goals of the marketing strategy (Czinkota and Ronkainen, 2004).

The process of setting an export price must start with the determination of an appropriate cost baseline and should include variables such as export-related costs to avoid compromising the desired profit margin. The quotation needs to show the respective responsibilities of the buyer and the seller in getting the good to the intended destination. The terms of sale indicate these responsibilities but may also be used as a competitive tool. The terms of payment have to be clarified to ensure that the exporter will indeed get for the products and services rendered. Facilitating agents such as freight forwarders and banks are often used to absorb some of the risk and uncertainty in preparing price quotations and establishing terms of payment (Czinkota and Ronkainen, 2004).

Exporters also need to be ready to defend their pricing strategies. Competitors may petition their own government to investigate the exporter's pricing to determine the degree to which it reflects costs and prices prevailing in the exporter's domestic market (Czinkota and Ronkainen, 2004).

According to Myers *et al*. (2002), three main areas arise when analyzing different ways of approaching international pricing. The first strategy is based on costs and will be referred to as cost-based. The second strategy is the market-based strategy, which focuses on customer needs. Finally, the competition based strategy, which focuses on copying or differentiating from competitors. These strategies are theoretical and will overlap each other; a certain strategy can therefore arise in two, or more, areas (*Ibid*).

As stated by Cavusgil (1988), product and resource costs influence the pricing strategies of the firm. Furthermore, Simon (1995), states that the reason to why firms use costs as a basis for price determination is the fact that they are easily measured and provide a level under which prices cannot go in the long term.

Cost-based pricing has its base in development, production and marketing costs. After the total costs have been determined, a percentage is added in order to provide a certain profit margin. A disadvantage with such strategy is that it is based on costs and therefore may not stress customers' needs or willingness to pay a higher price (Brassington and Pettitt, 2000).

In more price sensitive markets it may be more suitable to use a strategy based on demand and competitive dimensions of the market, than using a cost-based strategy. In markets with a high degree of competitiveness it is crucial to listen to customers demand and gain understanding of customers' price sensitiveness (Myers *et al.*, 2000).

The competition based pricing emphasis on the fact that the business environment is constantly changing and therefore it is important to be aware of what kind of competition the organization is facing. The more differentiated the organizations product is, the more flexibility is given to the pricing strategy, because the buyers may valuate the unique benefits of a product. It all finally results in one basic decision: whether to price at the same level as the competition, above or below (Brassington and Pettitt, 2000).

If the organization chooses to price their products at the same level as their competitors, it is crucial to constantly update the market information. The same fact applies if choosing to use a lower or higher price than the competition. It is of great importance, when using this strategy to keep track of changes in the market environment, which can be hard to identify in due time when exporting to a foreign market (Brassington and Pettitt, 2000).

DISTRIBUTION

For Czinkota and Ronkainen (2004), channels of distribution provide the essential linkages that connect producers and customers. The links are intracompany and extracompany entities that perform a number of functions. Optimal distribution systems are flexible and are able to adjust to market conditions. In general, companies use one or a mixture of the following distributions systems: (1) the firm sells directly to customers through its own field sales force; (2) the company operates through independent intermediaries usually at the local level; or (3) the business depends on an outside distribution system that may have regional or global coverage.

A channel of distribution should be seen as more than a sequence of business organizations connecting producers and consumers; it should be a team working towards a common goal. In today's marketing environment, being close to customers, either end users or not end users, and solving their problems is key to achieve success (Czinkota and Ronkainen, 2004).

Since international companies cannot or do not want to have a full control of the distribution function completely, structuring channel relationships becomes a crucial task. The importance of this task is further compounded by the fact that the channel decision is the most long-term of the marketing program in that, once established, it cannot easily be changed. In export marketing operations a new dimension is added to the task: the export channel decision in addition to making market-specific decisions. An experienced exporter may decide that control is of utmost importance and choose to perform tasks itself and incur the information collection an adaptation costs. An infrequent exporter, on the other hand, may be quite dependent on experienced intermediaries to get its product to markets. Whether export tasks are self-performed or assigned to export intermediaries, the distribution function should be planned so that the channel will function as one rather than as collection of different independent units (Czinkota and Ronkainen, 2004).

Figure 3.4 presents a generalization of channel configurations for consumer and industrial products and services:

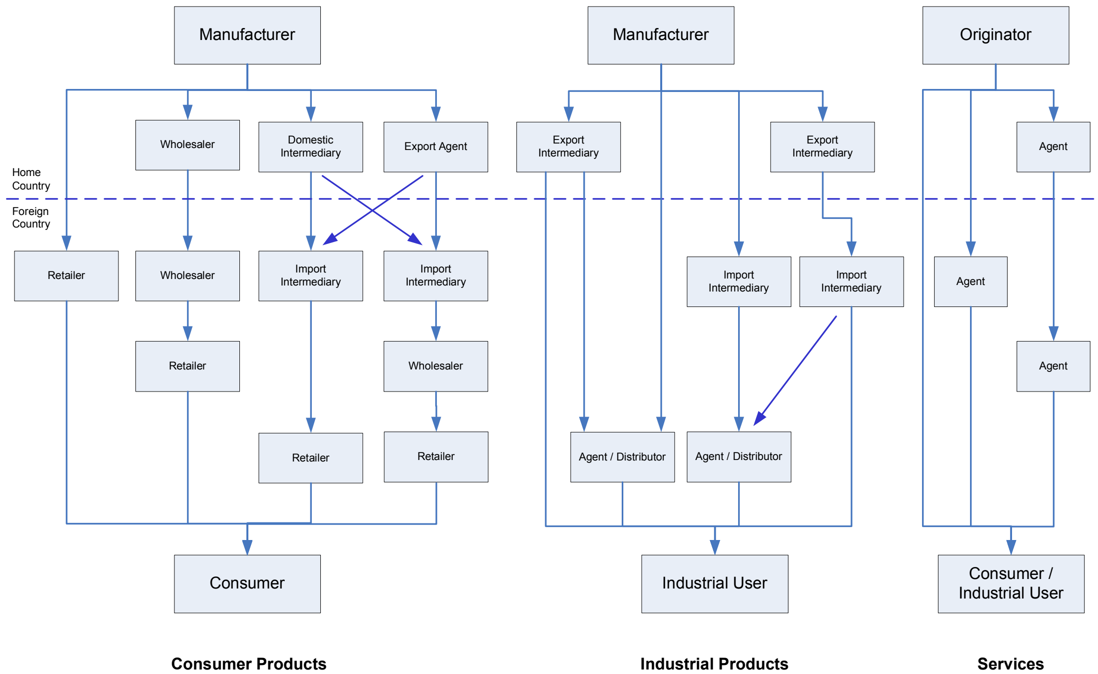

Figure 3.4 - Alternative Distribution Channels for Foreign Markets (Source: Chee, H. and Harris, R. (1994))

For Czinkota and Ronkainen (2004), channel configurations will vary within industries, even within the same firm, for the same product because national markets quite often have their unique features.

More recently, the Internet has become an important channel. The adoption of e-commerce provides new opportunities for B2B companies in the international market, according to Czinkota and Ronkainen (2004), and new export markets can be reached accessed by expanding network and customer bases. Also, Czinkota and Ronkainen (2004) argue that companies have to assess distribution channels in every country they whish to be established in. Companies should study the channel in general but also the types of linkages between channel members for their specific type of product. The company usually has to adjust to existing structures to gain distribution.

Czinkota and Ronkainen (2004) also mean that competitors' channels might sometimes be the only option for the company, and here the company has to use the structure efficiently, effectively and even innovatively. The character of the product will also have an impact on the channel. Generally, the more specialized the product is, the more after sale service it may require and the more likely the channel is to be relatively short. The same reasoning goes for capital. The stronger the finances are, the more likely the firm is to establish channels it either owns or controls.

If the company uses intermediaries, Czinkota and Ronkainen (2004) state that it will automatically lose control over the marketing of its products. The looser the relationship between company and intermediary, the less control the company will have.

But there is a question still to answer: What are the determinants of a distribution channel? For Czinkota and Ronkainen (2004), channel design is determined by factors that can be summarized as the eleven Cs:

- External:
    - Customer characteristics;
    - Culture;
    - Competition
- Internal:
    - Company Objectives
    - Character
    - Capital
    - Cost
    - Coverage
    - Control
    - Continuity
    - Communication

These factors are integral to both the development of new marketing channels and the modification and management of existing ones. Their individual influences will vary from one market to another, and seldom, if ever, can one factor be considered without the interactive effects of the others. The marketer should use the eleven Cs checklist to determine the proper approach to reach intended target audiences before selecting channel members to fill the roles. The external factors are given, since the firm must adjust to the existing structures. The internal factors are controllable to a certain extent by the international marketer. For Hollensen (2007), the channel design will be influenced by various market characteristics of the host markets. Figure 3.5 summarizes the external and internal decisions to design a distribution channel:

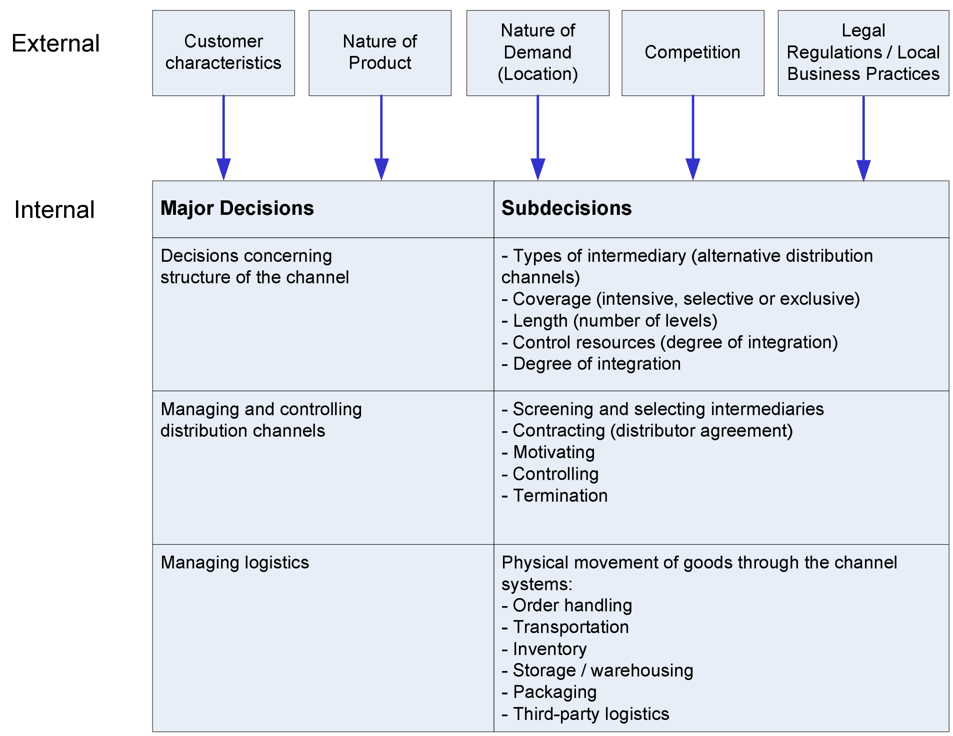

Figure 3.5 - Channel Decisions (Source: Hollensen, 2007)

Customers Characteristics: The customer, or final consumer, is the keystone in any channel design. Thus, the size, geographic distribution, shopping habits, outlet preferences and usage patterns of costumer groups must be taken into account when making distribution decisions. Consumer product channels tend to be longer than industrial product channels because the number of customers is greater, the customers are more geographically dispersed, and they purchase smaller quantities. Shopping habits, outlet preferences and usage patterns vary considerably from country to country and are strongly influenced by sociocultural factors (Hollensen, 2007).

Nature of product: Product characteristics play a key role in determining distribution strategy. For low-priced, high-turnover convenience products, the requirements is an intensive distribution network. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. In this situation a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success. Transportation and warehousing costs of the product are also critical issues in the distribution and sale of industrial goods such as bulk chemicals, metals and cement. Direct selling, servicing and repair, and spare parts warehousing dominate the distribution of such industrial products as computers, machinery and aircraft. The product's durability, ease of adulteration, amount and type of customer service required, unit costs and special handling requirements (such as cold storage) may also be significant factors (Hollensen, 2007).

Nature of demand / location: The perceptions that the target customers hold about specific products can force modification of distribution channels. Product perceptions are influenced by the customer's income and product experience, the product's end use, its life cycle position and the country's stage of economic development. The geography of a country and the development of its transportation infrastructure can also affect the channel decision (Hollensen, 2007).

Competition: The channels used by competing products and close substitutes are important because channel arrangements that seek to serve the same market often compete with one another. Consumers generally expect to find certain products in specific outlets, or they have become accustomed to buying these products from specific sources. In addition, local and global competitors may have agreements with the major wholesalers in a foreign country that effectively create barriers and exclude the company from key channels. In some situations, the alternative is to use a distribution approach totally different from that of the competition and hope to develop a competitive advantage (Hollensen, 2007).

Legal Regulations / Local Business Practices: A country may have specific laws that rule out the use of particular channels or intermediaries. Channel coverage can also be affected by legal conditions. In general, exclusive representation may be viewed as a restraint of trade especially if the product has a dominant market position. EU antitrust authorities have increased their scrutiny of exclusive sales agreements. The Treaty of Rome prohibits distribution agreements that affect trade or restrict competition. Furthermore, local business practices can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired (Hollensen, 2007).

To sum up, channels of distribution consist of the marketing intermediaries that facilitate the transfer of goods and services. Decisions that must be made to establish an international channel of distribution focus on channel design and the selection of intermediaries for the roles that the international marketer will not perform. The channel must be designed to meet the requirements of the intended customer base, coverage, long-term continuity of the channel once it is established, and the quality of coverage to be achieved. Having determined the basic design of the channel, the international marketer will then decide on the number of different types of intermediaries to use and how many of each type. The process is important because the majority of international sales involve distributors, and channel decisions are the most long-term of all marketing decisions. Once the channel is in place, shipping goods might require the help of support agencies. The more the channel operation resembles a team, rather than a collection of independent businesses, the more effective the overall marketing effort will be (Czinkota and Ronkainen, 2004).

PROMOTION

Effective communication is particularly important in international marketing because of the geographic and psychological distances that separate a firm from its intermediaries and customers. By definition, communication is a process of establishing a commonness of thought between a sender and a receiver (Schramm and Roberts, 1971). This process extends beyond the conveying of ideas to include persuasion and thus enables the marketing process to function more effectively and efficiently. Ideally, marketing communication is a dialogue that allows organizations and consumers to achieve mutually satisfying exchange agreements (Nickels, 1980).

The international marketing manager has the responsibility of formulating a communications strategy for the promotion of the company and its products and services in foreign markets. The basic steps of such a strategy are outlined in figure 3.6:

Figure 3.6 - Steps in Formulating Marketing Communications Strategy (Source: Wayne DeLozier, 1976)

Few firms can afford expenditures for promotion that is done as “art for art’s sake” or only because major competitors do it. The first step in developing a communication strategy is therefore assessing what company or product characteristics and benefits should be communicated to the export market. This requires constant monitoring of the various environment and target audience characteristics (Czinkota and Ronkainen, 2004).

For Czinkota and Ronkainen (2004), alternative strategies are needed to spell out how the firm’s resources can be combined and adapted to market opportunities. The tools that the international marketer has available to form a total communications program in the targeted markets are referred to as the promotional mix. They consist of the following:

1. Advertising: Any form of non-personal presentation of ideas, goods, or services by an identified sponsor, with predominant use made of the media of mass communication;
2. Personal Selling: The process of assisting and persuading a prospect to buy a good or service or to act an idea through use of person-to-person communication;
3. Publicity: Any form of non-paid, commercially significant news or editorial comment about ideas, products or institutions;
4. Sales Promotion: Direct inducements that provide extra product value or incentive to the sales force, distributors or ultimate consumers (Shapiro, 1981).

The choice of tools leads to either a push or pull emphasis in marketing communications. Push Strategies focus on the use of personal selling. Despite its higher cost per contact, personal selling is appropriate for the international marketing of industrial goods, which have shorter channels of distribution and smaller target populations than do consumer goods. On the other hand, Pull Strategies depend on mass communication tools, mainly advertising. Advertising is appropriate for consumer-oriented products with large target audiences and long channels of distribution (Czinkota and Ronkainen, 2004).

For Czinkota and Ronkainen (2004), the main communications tools used by exporters to communicate with the foreign marketplace from their domestic base are:

- Business and Trade Journals: trade publications can be classified as horizontal, which cater to a particular job function cutting across industry lines, or vertical, which deal with a specific industry;
- Direct Mail: direct mail can be a highly personalized tool of communication if the target audience can be identified and defined narrowly. Ranging from notices to actual samples, it allows for flexibility in the amount of information conveyed and in its format. Direct mail is directly related in its effectiveness to the availability and quality of the mailing lists.
- Internet: Increasing numbers of companies worldwide are committing to the Internet. Information technology, marketing and sales, as well as public relations are driving decisions to build a website.
- Trade Fairs and Missions: A trade show is an event at which manufacturers, distributors and other vendors display their products or describe their services to current and prospective customers, suppliers, other business associates and the press. Trade missions are specialized events organized either by governments or trade associations which aim to promote and expand sales of the companies involved.
- Personal Selling: Personal selling is the most effective of the promotional tools available to the marketeer. Personal selling allows for immediate feedback on customer reaction as well as information on markets. Personal selling may take place through intermediaries or as a direct effort. Intermediaries include manufacturers' representatives, selling agents, or distributors.

To sum up, effective communication is essential in negotiating agreements. To maximize the outcome of negotiations with customers and partners from other cultural backgrounds, international marketeers must show adjustment skills to different habits, attitudes and behaviours. Success depends on being prepared and remaining flexible, whatever the negotiation style in the host country (Czinkota and Ronkainen, 2004).

Effective and efficient communication is needed for the dual purpose of (1) informing prospective customers about the availability of products or services and (2) persuading customers to select for firm's offering over those of competitors. Within the framework of the company's opportunities, resources, and objectives, decisions must be made about whether to direct communications to present and potential customers, the general public, or intermediaries. Decisions must be made on how to reach each of the intended target audiences without wasting valuable resources. A decision also has to be made about whom will control the communications effort: the exporter, an agency or local representatives (Czinkota and Ronkainen, 2004).

The exporting international marketer must also choose tools to use in the communications effort. Usually, two basic tools are used: (1) mass selling through business and trade journals, direct mail, trade fairs, and missions and (2) personal selling, which brings the international marketeer face-to-face with the targeted customer.

Finally, the illegal appropriation of intellectual property rights – ideas and innovations protected by copyrights, patents and trademarks – may be a critical problem for many industries and countries. Governments have long argued about intellectual property protection, but the lack of results in some parts of the world has forced companies themselves to take action on this front (Czinkota and Ronkainen, 2004).

3.2.4 Organizational Culture

Internationalization changes the internal and external environments of an organization. This implies that previously proven and successful strategies and behaviours may become outdated, and an effort to upgrade them may be required for continued or new organizational success (Kilman and Covin, 1990). Coping with changing environments are crucial for organizational success (Lawrence and Lorsch, 1967), when encountering environmental changes with organizational changes (Hedberg *et al*., 1976, Nadler and Tushman, 1980).

The academic literature suggests the role of organizational learning for achieving competitive advantage (Levinthal and March, 1993), and organizational improvement or excellence (Gupta and Fisher 1994). In internationalization research, Sullivan (1994) and Hitt et al. (1997) acknowledge internal reconfigurations and adaptations due to changing demands as a consequence of geographic expansion which represent "organizational learning". In organizational learning theory, two major streams of research can be identified: behavioural-associationist theories and cognitive organizational theories (Bower and Hilgard, 1981), or, in a different terminology, stimulus-response explanations versus cognitive explanations (Lefrancois, 1982). A behaviourist or stimulus-response perspective views learning as a change of behaviour due to experience in a given situation (Bower and Hilgard, 1981). The learning process is one of trial and error, leading to a better adaptation to the environment and new behaviour. In contrast, cognitive learning theories perceive learning as changes in the states of knowledge due to information processing. Consequently, the immediate outcome of learning is the transformation of knowledge structures through integration of new or improved knowledge; hence, the result is primarily improved knowledge, and not behaviour from the outset. Especially the behavioural-associationist approach to organizational learning warrants further attention, as it considers behaviour shifts as the result of learning. Interestingly, behaviour is an essential and constituting part of organizational culture in Schein's (1999) multiple-layer model, with deeper levels of culture determining shallower levels such as behaviour.

Organizational culture is defined as *"the solution to external and internal problems that has worked consistently for a group and that is therefore taught to new members as the correct way to perceive, think about, and feel in relations to those problems"* (Schein 1985, pp. 19-20), or as *"the way we do things around here"* (Shapiro 1995, p. 51). In that sense, learning is simultaneously culturizing in the sense of establishing new problem-solving techniques and behaviours in the organizational culture. Likewise, the shared cognitive structure enabling the organization to survive in the cognitive perspective alludes to the set of problem-solving techniques equally synonymous for organizational culture (Ford and Backoff, 1988). As illustrated next, two aspects of learning are especially relevant in relation to internationalization: (1) coping with complexity, and (2) learning through failure and success.

For Hitt *et al.*, (1997), rising complexity in the internationalization process forces organizations to learn, while organizations which already have experience with diversity (e.g., through diversification) are better endowed for geographic expansion. This is in relation with complexity theory (Schroder *et al*., 1967), claiming that the quality and sophistication of a response depend on the respective quality and frequency of problematic stimuli. The stage-oriented I-model and U-models (Andersen, 1997) of internationalization consider this need to grow cognitive capacities. However, a stimuli dissonance may lead to overload, which is why the pace of proceeding has to be modest and reasonably slow. In Hitt *et al*., (1997) study, over stimulation with an insupportable level of complexity – at higher DOI – causes and thus explains performance downturns.

Cohen and Levinthal (1990) add absorptive capacity as a relevant notion and construct to the discussion. It refers to the ability, conferred by prior related knowledge and experience, of recognizing the value of new information assimilation and applying it to business ends (Cohen and Levinthal, 1990). Developing absorptive capacity in the sense of having once being rendered sensitive to a certain field allows companies to progress faster in their further learning process, and, vice versa. In uncertain environments, absorptive capacity allows the firm to understand and assess signals more accurately (Cohen and Levinthal, 1990). Learning and problem-solving capabilities involve the development of the capacity to assimilate existing knowledge as well as a capacity to create new knowledge (Cohen and Levinthal,1990). Nichols (1984) coined the notion of alloplasticity for effective cultures in this context. Originally, alloplasticity is a term used by psychiatrists to describe personalities able to incorporate new learning. Internationalization, leading to a more complex and challenging organizational environment, can thus foster the development of more alloplastic organizational cultures. If internationalization enhances absorptive capacity and learning capabilities, it also affects organizational culture, which can be understood as the true problem-solving mechanism (Schein, 1985). Geographic diversification is likely to influence the ways in which organizations manage change when diversifying internationally, and how they try to achieve goals with an increasingly more diverse workforce.

Gagliardi (1986) does not specifically apply his generic change paths for organizational cultures in the internationalization context, however this can be done. Organizations either defend their existing organizational culture by adding new elements to it or are forced to trigger a cultural revolution. Initial internationalization may still allow of maintaining the organizational culture in place. But naturally, change has to take place with increasingly feedback from different cultures.

Wolfgang Amann (2003), on his research about the impacts of internationalization on organizational culture concluded that internationalization impacts organizational culture. As a result of his research, the author stated that higher degrees of internationalization affect content dimensions such as: change management, goal achievement, coordinated teamwork, as well as the contrasting factor of customer orientation, and the setting dimension of cultural strength.

4. A Study on Portuguese SMEs' Performance

As stressed earlier, the main purpose of this study is to identify, for the internationalization of Portuguese SMEs, the major Financial, Human Resources, Corporate Certifications, Marketing Program and Organizational Culture changes and their impact on firm's overall performance. In this context, in the first stage of the research, a questionnaire was administered to a sample of thirty Portuguese SMEs out of a population of 2.000 firms, considered by the top five Portuguese banks the best SMEs in terms of financial indicators. In addition, in the second stage of this study, in order to increase the knowledge related to the specifics of this study, six face-to-face semi-structured interviews were conducted with the Managing Directors of six SMEs, all of them with international business activities, but from different industries, with different degrees of internationalization and operating in different regions. The overall objective of these semi-structured interviews was to qualitatively acknowledge and examine the major changes over the internationalization process of the major Financial, Human Resources, Corporate Certifications, Marketing-mix and Organizational Culture changes and their impact on the firm's overall performance.

4.1. Definition of an SME

The definition of a small and medium size enterprise (SME) varies depending on nation and region. The size can be determined according to the number of employees, turnover or market share (Buckley 1999, as stated in Morrison 2006, 11). The most frequently used classification is based on the number of employees. A company of 0-9 employees is regarded as a micro enterprise, 10-49 employees a small enterprise and an enterprise with 50-249 employees a medium-sized enterprise. (Morrison
2006, 11)

In this research we use the classification given by the Commission of the European Communities (2003/361/EC 2003) concerning the micro, small and medium-sized enterprises. However, the criteria concerning the number of employees given by the Commission is the same as the most frequently used criteria mentioned above. The recommendation further states that a medium-sized enterprise cannot have a turnover bigger than 50 million euro, a small enterprise bigger than 10 million euro, and a micro-sized enterprise bigger than 2 million euro.

4.2. Research Methodology

The term methodology refers to the approach in which problems are addressed and answers are found (Taylor and Bogdan, 1998); it also applies to how research is conducted. In order to achieve the objectives of this thesis – to identify how internationalization impacts on firm's performance - the researcher conducted a review of the relevant literature about the topic followed by the administration of an email questionnaire for a sample of thirty SMEs. In addition, six case studies were set up based on six semi-structured interviews with the managing directors of their respective SMEs. The goal of these case-studies is associated to "how" research questions. For example, Yin (2003), considers that the case study research methodology is preferred to be used with the "how" research questions when examining contemporary events where the relevant behaviours cannot be manipulated. The case study adds two sources of evidence: direct observation of the events being studied and interviews with the persons involved in the events. Also, Yin (2003) posits that a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. This is indeed the context of this study.

Overall, this research study is qualitative in its nature, but can also be considered as investigational, as it allows creating insight on the subject of Internationalization and Performance in the context of Portuguese SMEs. Throughout the field research, qualitative techniques were used to collect, process, and analyze the relevant information. For Taylor and Bogdan (1998), qualitative methodology refers to research that produces descriptive data – people's own written or spoken words and observable behaviour. Pyke (2003), considers interviewing key target people a suitable method for obtaining descriptive data. Furthermore, for Robinson and Foster (1989), a qualitative methodology is associated with explanatory concepts. Qualitative techniques concentrate less on quantifiable measures and focus on reasons "how" something may cause an effect (Sang, 2003). Qualitative data analysis is a process of putting together data in a straight forward way and therefore making the invisible obvious (Morse, 1994).

Deciding about the sampling group of managers to interview, who and how many, is a highly complex task. Taylor and Bogdan (1998) suggest that it's not the number of people but the potential of each "case" which helps the researcher in developing theoretical insights into the area of study. Finding out the breadth and depth of ideas is what qualitative research is mainly about (Pyke, 2003).

The sampling method used in this study was a non-probability, purposive, heterogeneous technique. For Saunders *et. al.* (2008), in non-probability samples, the probability of each case being select from the total population is not known and it is impossible to answer research questions or to address objectives that require to make statistical inferences about the characteristics of the population. However, it is still possible to generalise from non-probability samples about the population, but not on statistical grounds. For this reason, non-probability sampling is more frequently used when adopting a case study strategy.

Saunders *et. al.* (2008), also posit that purposive or judgemental sampling enables to use one's judgment to select cases that will best enable to answer the research questions and, therefore, to meet the addressed objectives. This specific form of sampling is often used when working with very small samples such as in case study research. However, such samples cannot be considered to be statistically representative of the total population.

The logic to select cases for a purposive or judgmental sampling should be dependent on the research questions and objectives. Paton (2002), contrasts the need to select information-rich cases in purposive sampling with the need to be statistically representative in probability sampling. For the purpose of this study, a heterogeneous or maximum variation sampling technique was used. This technique enables to collect data to describe and explain key themes that can be observed. Although this may appear a contradiction, as a small sample may contain cases that are relatively different, Patton (2002) argues that this is a strong point: any patterns that do emerge are likely to be of particular interest and value and represent key themes. Furthermore, the data collected should enable to document uniqueness. To ensure a maximum variation within a sample, Patton (2002) suggests a clear identification of the diverse characteristics (sample selection criteria).

Kinnear and Taylor (1996) also acknowledge this research methodology. When the goal of a research work is to obtain as many different research possibilities from as many different companies, the selection process of these particular companies can be based on judgment sampling. Judgment samples, or purposive samples, *"are selected on the basis of what some expert thinks those particular sampling units or elements will contribute to* *answering the particular research question at hand"* (Kinnear and Taylor, 1996: 412). Again, the degree and direction of the measurement of error is unknown, but if the expert's judgment is valid, the sample will be a better one than if a convenience sample were used (*ibid*).

This study was comprised of two selection stages. Firstly, a sample of thirty companies was defined based on a judgemental sampling approach. The thirty companies invited to participate in this initial research were selected out of a population of around 2.000 Portuguese SMEs with proven financial performance (in accordance with the financial risk categorization performed by the top five Portuguese Banks). This initial selection was set out to guarantee that the companies addressed in this study had all the necessary resources to expand to foreign markets. On the second selection stage, the researcher selected six companies, from this sample of thirty companies in order to gain an in-depth knowledge on the subject relating the impact of internationalization on firm's performance. Again, a judgemental sampling approach was used. Therefore, the researcher selected six companies that to the largest degree were different from the other companies in the sample regarding industry sectors, degree of internationalization, foreign markets currently selected, foreign markets entry form and geographical location in Portugal.

The initial questionnaire was divided into three sections: Company Characterization; International Activity and Internationalization Drivers. The interviewees were part of the senior management team of their firms and were, at some extent, responsible for international business activities of their firms. The questionnaires were sent to the thirty companies by e-mail, after the author personally contacted the managers of the selected companies and explained the entire research process. From the thirty questionnaires, thirty were returned and used in this research. The questionnaires were returned by e-mail, fax or handed-in personally.

Due to the research aim, semi-structured interviews were used. Currently, semi-structured interview is a non-standardized interview which can be defined as "*a wide-ranging category of interview on which the interviewer commences with a set of interview themes but is prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation"* (Saunders *et al*., 2008 : 611). Semi-structured and in-depth (unstructured) interviews are non-standardized. Semi-structured interviews can be used in relation to an explanatory study in order to understand the relationships between variables. This type of interviews provides an opportunity to 'probe' answers.

Interviewees may use words or ideas in a particular way, and the opportunity to probe these meanings will add significance and depth to the data obtained (Saunders *et al.*, 2008).

However, regarding the reliability of the collected data, qualitative research using semi-structured may not be able to be used to make generalizations about the entire population. This is often the situation when adopting a case study strategy (Yin, 2003).
Nonetheless, two arguments have been put forward to clarify and modify the approach often adopted to the generalisability of transferability of qualitative research. The first relates to the situation where a single case study is used because of the unstructured nature of the research (Saunders *et al.*, 2008). Secondly, and most relevant in the context of this research, states that if the results of the research are related to existing theory, it is possible to demonstrate that the findings will have a broader theoretical significance than the cases that form the basis of the research study (Marshall and Rossman, 1999).

In the context of this study, the author personally interviewed the managing directors of the six firms who participated in the semi-structured interviews. Robinson and Foster (1989) suggest that interviews provide an opportunity to listen, observe, question freely and interpret an individual's behaviour. Semi-structured interviewing can be viewed as a means of face-to-face encounters between the researcher and informants to learn about practices and activities that cannot be directly observed. In this type of interviewing the people being interviewed are informants in the truest sense of the word. They act as the researcher's observer, his eyes and ears in the field. As informants, their role is not simply to reveal their own views, but to describe what happened and how others viewed it (Taylor and Bogdan, 1998). Taylor and Bogdan (1998) also point out that the weak points of interviewing may include that people say things while they might act differently. Furthermore limitations may exist because the interviewer does not observe the people directly in their everyday lives in the workplace.
The semi-structured questionnaire created for the purpose of this research was composed by eight questions that addressed the main areas of research in this specific context, namely to identify, for the internationalization of Portuguese SMEs, the major Financial, Human Resources, Corporate Certifications, Marketing-mix and Organizational Culture changes and their impact on the firm's overall performance.

The semi-structured interview questions for the firms were open-ended questions, since the researcher wanted to obtain as much information as possible. The interviews were conducted in Portugal during April and May, 2008. Total hours spent in interviews were about 6 hours. Additionally, each company received the questionnaire by e-mail before the meeting so they could be aware of the contents of the meeting. All managers were asked after the interview of he/she wanted to add some additional comments regarding the topics discussed. Managers were also promised that their names and company names be treated anonymously in the thesis.
All interviews were recorded and notes were carefully taken by the author. The main notes taken by the author were checked *in loco* with the interviewed manager. This way, the managers had a chance to change anything that they had said, or that the author might have misunderstood, and then to finally acknowledge all the content of the interview.

All managers displayed a great interest to get a copy of the dissertation with its final conclusions and recommendations after official approval by the University (ISCTE, Lisbon), and were subsequently promised this, as the only tangible reward for their inputs to this work.

In order to clarify and structure the entire research process, the researcher built figure 4.1 to present the overall research design and phases:

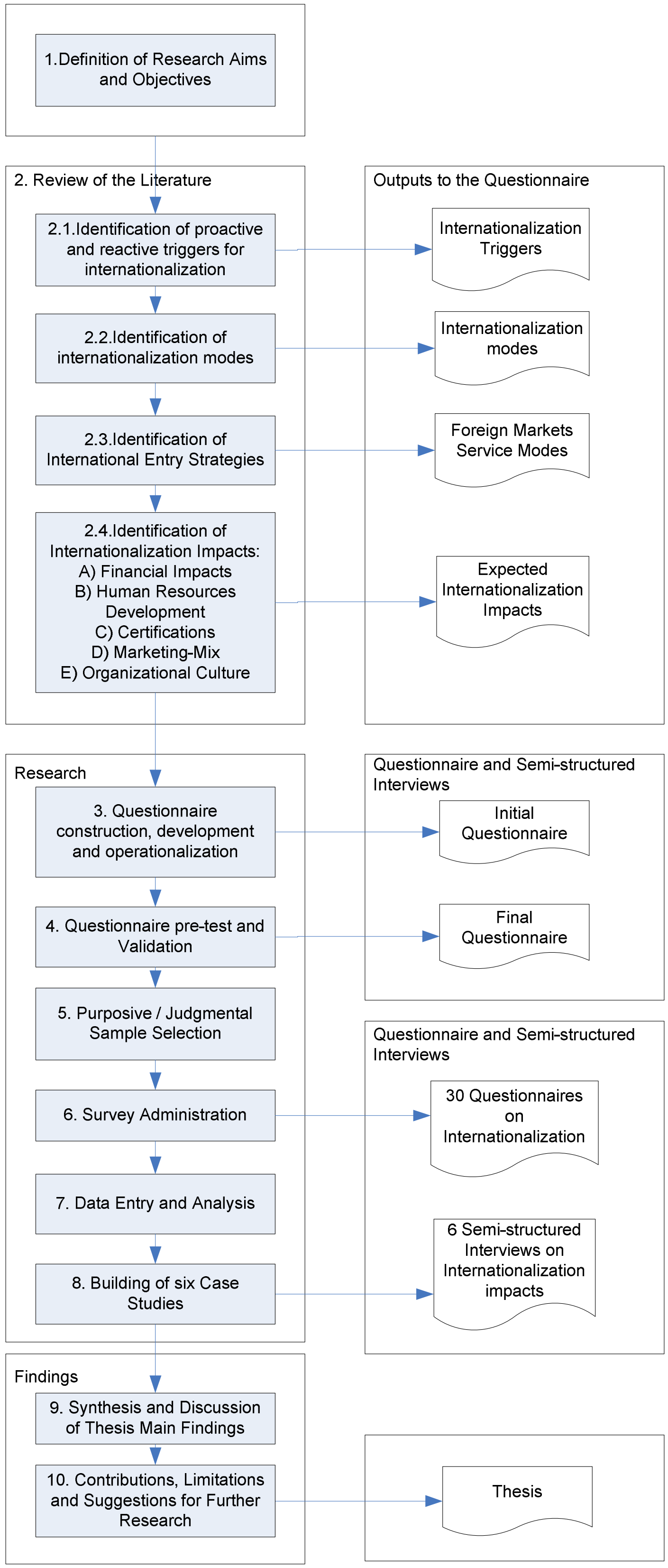

Figure 4.1 - Research Design

4.3. Presentation of the Research Results

This section of the thesis presents the main data from the survey on thirty companies on internationalization modes and drivers, the main data from the six interviewed firms and some comments of the six managers interviewed for this study. These opinions will be stated objectively and without any further comments.

Table 4.1 presents the main data on the thirty companies inquired:

Variable	Mean	Std. Div.	Min.	Max.	N.
Total Turnover (Million €)	7,373	6,980	0,320	32,620	30
International Sales (Million €)	1,367	1,526	0,032	5,547	30
Degree of Internationalization (DOI) (%)	18,99%	25%	1%	100%	30
Number of Employees (#)	57,8	46,34	7	219	30

Table 4.1 - Main Characteristics of the Sample

Since the six interviewed managers were promised not to disclose their names, they will be referred by aliases. The alias substituting their real name was selected randomly. Table 4.2 presents a brief summary of the interviewed companies:

Firm	Business Sector	Region	Year of Foundation	Year of First Entry	Number of Employees	Total Assets	Total Turnover	DOI (%)
A	Management Consulting	Lisbon	1996	2001	< 50	< 20 M€	< 50 M€	10,10%
B	Machine Production	Lisboa	2000	2003	< 50	< 20 M€	< 50 M€	37,90%
C	Wine Production	Leiria	1965	1985	< 50	< 20 M€	< 50 M€	8,30%
D	Textiles	Aveiro	1995	1998	< 50	< 20 M€	< 50 M€	57,60%
E	Metal Products Manufacturer	Setúbal	1982	1995	< 250	< 20 M€	< 50 M€	11,32%
F	Pallets Manufacturer	Sertã	1984	1996	< 250	< 20 M€	< 50 M€	19,49%

Table 4.2 – Main characteristics of the six interviewed firms

4.3.1 Key reasons driving companies into international markets.

In a company’s life, the step of Internationalization is taken after becoming aware of the international business opportunities. Acknowledging the potential of international markets is, as expected, the result of several different reasons.

Thirty out of thirty companies have answered this question in a 1-5 ordinal scale. The questionnaires were collected via e-mail. Table 4.3 presents the response categories, the number of responses for each category, the cumulative percentage for each category, the average for the overall responses and the standard deviation per response:

Internationalization Drivers	**Response Category**						
	1	**2**	**3**	**4**	**5**	**Average**	**Std Dev**
1. It was important to be in markets that allowed higher profitability	0	2	6	16	6	**3,9**	0,82
%	0,0	6,7	26,7	80,0	100		
2. There was an opportunity to take advantage of the better characteristics of our products / services or business processes.	1	2	5	13	9	**3,9**	1,03
%	3,3	10,0	26,7	70,0	100		
3. I had international Ambition	0	0	3	16	11	**4,3**	0,64
%	0,0	0,0	10,0	63,3	100		
4. There was an opportunity to use Governmental help with internationalization	6	9	12	3	0	**2,4**	0,93
%	20,0	50,0	90,0	100	100		
5. There was the need to obtain economies of scale	3	5	6	11	5	**3,3**	1,24
%	10,0	26,7	46,7	83,3	100		
6. I had access to exclusive information indicating international markets with high potential	1	5	6	13	5	**3,5**	1,07
%	3,3	20,0	40,0	83,3	100		
7. There was a strong competitive pressure from rival firms in the domestic market	2	8	7	12	1	**3,1**	1,05
%	6,7	33,3	56,7	96,7	100		
8. There was a decrease in the domestic market sales	0	7	11	8	4	**3,3**	0,99
%	0,0	23,3	60,0	86,7	100		
9. We had excess capacity in the production area	5	10	9	5	1	**2,6**	1,07
%	16,7	50,0	80,0	96,7	100		
10. A product reached the end of its	10	10	7	3	0	**2,1**	0,99

Internationalization Drivers	Response Category						
	1	2	3	4	5	Average	Std Dev
lifecycle and was necessary to market it in a new international market							
%	33,3	66,7	90,0	100	100		
11. It was necessary to keep proximity to our clients	1	7	9	10	3	**3,2**	1,04
%	3,3	26,7	56,7	90,0	100		
12. Other: _________________	0	0	0	1	1	**4,5**	0,71
%	0,0	0,0	0,0	50,0	100		

Table 4.3 – Results from the Internationalization drivers' survey

4.3.2 Main Foreign Market Entry Modes

Thirty out of thirty companies have answered this question target. Table 4.4 identifies the distribution of the 204 responses given be the thirty firms. Each firm identified in which markets they were which were the entry modes and the year in which that specific entry mode occurred for that specific market. In some situations, a firm identified two or more entry modes for a specific market. Table 4.4 also presents the cumulative percentage of the different entry modes.

Entry Modes	Number of Responses	%
Export Modes		
Indirect Export	47	22,80 %
Direct Export	136	66,00 %
Total Export Modes	**183**	**88.80 %**
Contractual Modes		
Licensing	0	0,00 %
Franchising	0	0,00 %
Joint-venture	0	0,00 %
Total Contractual Modes	**0**	**0,00 %**
Wholly Owned Subsidiaries		
Acquisition of Subsidiaries	1	0,05 %
Sales Branch	10	4,90 %
Operational Office	10	4,90 %
International Production	2	0,10 %
Total Wholly Owned Subsidiaries	**23**	**11,20 %**

Entry Modes	Number of Responses	%
Total	206	100 %

Table 4.4 – Results from the entry modes survey

The analysis of the above results allows concluding that export modes are the most common entry modes used by the inquired firms.

From the thirty answers it is also possible to state that 20 out of 30 firms were using or used more than one type of entry mode in foreign markets.

4.3.3 The Foreign Market Selection

According to the interviews, the choice of international markets was, in most cases, a carefully planned decision. This decision was integrated in the overall firm's strategy and was also a direct result of market potential and of products characteristics.

Manager A, whose company has foreign operations in three different markets, stated that geographic proximity is a key criteria for internationalization as well as for foreign market selection. The geographical closeness to a more developed market was critical for opening a sales subsidiary in that market. Another key driver for internationalization is related with the necessity to stay close to their current clients and helping them in their business abroad. In this situation, the international markets are markets characterized by low psychological distance.

For Manager B, the expansion in foreign markets is a result of the company's strategy. In fact, the company decided to adopt a market niche approach while developing a very specific product range targeting highly demanding technological sectors in foreign markets. In this context, the company participated in international trade shows where it was possible, in a face-to-face approach, to compare the technological characteristics of its products with their international competitors. Thus, the firm decided to expand abroad as a field trial to test its products. Only after succeeding in this foreign market, the firm decided to expand to new foreign markets. These new geographical areas where chosen based on low psychological distance. In fact, this second stage of the firm's internationalization was directed for countries with a very strong ties with the domestic market.

Afterwards, the firm's international strategy aimed towards international markets geographically close. Finally, there has been an approach to highly attractive markets, even though these approaches are requiring foreign direct investment to become successful.

Manager C disclosed that the first markets to approach were the ones where there is a large Portuguese community, as a result of emigration. These markets are known as the "*Mercado da Saudade*", the longing market. Basically, wherever there is a large Portuguese community, there is an opportunity to sell Portuguese traditional products. Currently, Manager C is targeting markets with a bigger size in order to achieve business growth over time. The company is also looking for larger orders associated with a more stable distribution channel, allowing economies of scale and more regular sales activities.
To achieve the foreseen international goals, Manager C has requested a market research study to a Market Research company on new potential foreign markets combined with the identification of suitable distribution channels to be used in that market. In fact, the firm has been addressing different international markets through direct export, even though the firm is keen to work with distributors or sales agents.

For Manager D, internationalization was the result of a direct contact from a foreign customer. This first contact triggered the company for conducting an analysis of the sector where they were performing their activity. This sector analysis allowed the identification of a market gap – textiles market demand was increasing and all the manufacturing plants were being moved to the south of Europe, leaving the northern Europe market with an increased international demand for these product ranges. This market situation led to an increase of the marketing effort and the company started to participate in international trade shows on a regular basis. In turn, these international events increased brand and product awareness creating and opportunity for a planned foreign market expansion of firm D.

Manager E stated that the internationalization process started as a result of established partnerships with a multinational company operating in the Portuguese market. In fact, it was the successful partnership with this MNE that allowed firm E to become an

international supplier to the subsidiaries of that MNE all over the World. For example, this situation allowed firm E to start exporting directly to four Asian markets.
The second step over the internationalization process was a natural evolution of the previous situation. Based on a B2B business model, the firm presented itself to European markets and successfully established a loyal international customer-base. Currently, the firm continues to exploit new market opportunities with good prospects worldwide.

For Manager F, the key criteria for foreign market selection were first geographic proximity followed by low psychic distance. In this specific business area, transportation costs represent a high share of the overall costs. Therefore, geographic distance represents a huge limitation for the foreign market expansion based on exports. To overcome this situation, this specific business requires foreign direct investment to establish new production subsidiaries. This is the strategy that firm F has been implementing. The first foreign market entry was chosen based on geographical proximity. The second foreign market was based on low psychic distance through the establishment of a production subsidiary.

Finally, based on the thirty questionnaires returned from the thirty interviews firms, it is possible to identify that the top five major markets where Portuguese SMEs have foreign operations are Spain (73,33%), Angola (53,33%), France (53,33%), Germany (33,33%), Belgium (26,67%) and the UK (26,67%).

4.3.4 Major Financial Impacts

Financial impacts were, in most situations, the most straight forward factor to assess international performance on the following issues 1) their firms have become more profitable; 2) their firms have become more productive; and 3) in some instances, it was necessary to increase both investment levels and funding sources to allow sustained international activities over time.

Manager A disclosed that internationalization increased both networking capital levels and the necessity to obtain extra funding sources. However, Internationalization allowed the company to achieve economies of scale at both operational and marketing and sales areas while obtaining higher gross margins. In addition, for Manager A, operations in key markets are also important to increase both sales in the domestic market and employees' productivity, especially due to a higher workload and some new working methods and procedures. This international involvement allowed the creation of more business opportunities in Portugal, even selling locally services for international markets.

For Manager B, the approach to the international markets required extra funding needs, especially for networking capital. This situation was a direct result of the increasing sales. Also, this necessity forced the company to analyse its financing sources and to optimize the funding needs and sources. Moreover, Manager B stated that the sales margins that the company is achieving in international markets are lower than the sales margins obtained in the domestic market. In practice, the operation result has been lowered but total turnover obtained has increased considerably, also leading to an increase in the overall profits.

Manager B also considers that the two main reasons for a partially loss of the operational margins in international markets is directly related to marketing expenditures, including international promotion, development of new products, establishment of new distribution channels, etc; and the increasing of competition, which leads to lower sales prices.

Finally, Manager B set out that there was a sales increase in the domestic market as a direct result of the international product portfolio being sold locally and as a consequence of obtaining economies of scale due to increase capacity.

For Manager C, there was an increase in the overall cost structure. The news costs had to be allocated throughout all markets in order to keep the firm competitive in all markets and distribution channels. Manager C stated that there was an increase in the firm's overall profitability and productivity.

In addition, it was necessary to invest in the production and operations areas in order to increase product quality. Moreover, it was necessary to invest more in the storage area to guarantee better environmental conditions allowing preserving the wine's natural flavour.

However, the sales increase in foreign markets and the product portfolio update did not have a positive impact in the domestic market.

Manager D referred that internationalization lead, in fact, to an operational margin reduction (from around 30% in the domestic market to 18% average in international markets). However, economies of scale and high increase in total turnover allowed Firm D to become more profitable.

Manager D also noticed that net working capital needs did not increase as expected because on average the international accounts receivables, in number of days, reduced compared with the domestic market. Under normal circumstances, the increase in the overall turnover would lead to an increase in net working capital, as long as there is no reduction on the average collection period.

By the same token, the expertise obtained in the international markets and the added credibility of having in its customer portfolio major international brands has allowed Firm D to increase sales in the domestic market.

At the investment level, Manager D stated that there was only an increase in the marketing budget. Manager D also emphasised that in their specific case there has always been a policy in his firm to acquire the state-of-the-art production equipment and, therefore, there was no need to update the company's production equipment.

Manager E disclosed that internationalization has allowed the firm to increase considerably turnover. Currently, international income represents roughly 15% of turnover. In addition, the firm was able of achieving economies of scale and become more competitive. These situations were a direct result of the possibility to produce a higher number of units of the same product. Moreover, there was also a considerable financial benefit in terms of procurement. Higher quantities of raw materials allowed the company to obtain better price conditions from suppliers.

For Manager E, net working capital needs raised considerably as a result of an increasing gap between a higher number of days, on average, in terms of accounts receivable and a decreasing number of days, on average, for accounts payable.

Finally, to be able to meet the added workload and orders from all new customers, the firm had to raise its investment level. Currently, the firm is building a second production facility for the domestic market. The decision to build a second manufacturing facility in the domestic market instead of any other foreign market is based on a strategic decision of not spreading its Human Resources in different locations.

For Manager F, internationalization helped to increase the overall turnover, which led to a better financial performance. In foreign markets firm F is currently achieving a very similar sales margin relative to the Portuguese market. Nevertheless, the increase of total quantities sold has allowed achieving economies of scale, which made the company more competitive also in the domestic market.

Manager F also noticed that there was an increase in net working capital needs due to an increase of total sales and therefore to an increasing level of accounts receivable. Furthermore, firm F faces higher difficulties in collecting payments in foreign markets. Moreover, the firm had to invest to create new business networks, which also represented an added cost.

4.3.5 Major Human Resources Impacts

In the Human Resources field, all managers agree that their companies need to increase productivity of the personnel and the level of performance of all employees. In most situations this was done by increasing specific training programmes. In fact, the need to hire more human resources was a consequence of specific market situations, more precisely the increasing of business activities in foreign markets. Also, Internationalization impacted upon firm's organizational structure either by updating or upgrading business processes which may led to implementing a new organizational structure.

Manager A referred the difficulty in recruiting people in foreign markets, which in most situations leads to the necessity of sending abroad local employees – turning them into expatriates. However, Manager A also put forward that the acculturation time and all the effort associated of an expatriate in a foreign country may be a very difficult and expensive situation, indeed. In order to properly manage the new environment, Manager A felt the need to adapt the organizational structure to fit the international markets. Also, new business processes were developed in order to allow a more flexible and agile approach to the challenges of foreign markets.

For Manager B, the internationalization process required to hire more skilled people in order to reinforce the already qualified team that existed before starting the international market expansion. Manager B also argued that the Human Resources available in the domestic market were already highly technologically skilled people.

Manager C pointed that it was critical to increase overall's productivity to avoid the short-term hiring of more human resources. This increase in terms of productivity was achieved by reengineering working procedures, by purchasing new equipment and by recruiting earlier more qualified people who disseminated their knowledge throughout the entire firm.

Broadly speaking, for Manager D, the international markets demanded products with higher quality standards compared to the Portuguese market. Therefore, all human resources involved in creating, developing and delivering products and services are required to improve the quality of their working standards. The development of new Products, Production Planning, Production Engineering, Accounting and Marketing were the functional areas where short-term improvement was mandatory. Manager D also stated that at the sales level, he faced difficulties to hire people with high marketing skills. This situation required the manager to be in charge of all international contacts and sales, which ended up by taking most of his working time.

Manager E disclosed that the main impact throughout the internationalization process was the recruitment of more qualified marketing and sales people with the capacity to communicate in different languages. This business strategy was in line with the company's overall performance and the objective to acquire and maintain high business standards throughout the organization. Moreover, Firm E took the option to create new business areas in order to align the organization with the new markets. In addition, there were considerable improvements in the marketing department. In this department there was also the need to hire new people with the necessary skills to develop market research analysis for the international markets.

Overall, there was an update on the training programme that allowed all people to develop their skills and to learn new working methods and procedures. These methods and procedures were developed to guarantee a fit between the international customers' needs and the overall performance of the firm.

In the same vein, for Manager F, approaching international markets increased the training needs in different areas. In early stages, the company also implemented a modernization plan, which included an implementation of a new ERP system. All Firm F human resources had to be trained in using the new system. Furthermore, employees had to be trained to address new working procedures while delivering with higher quality standards. Finally, at the organizational level, a new organizational structure was set-out.

4.3.6 Major Corporate Certifications

In the interviews, most Managers indicated that their companies adjusted their organizational structure and product portfolio either before the first approach to foreign markets in order to meet legal requirements (ISO Certifications and products requirements) or after internationalization as a consequence of higher market demands / requirements.

For example, Manager A referred that the implementation of ISO 9001 certification occurred after the first international experience and had a highly positive impact on the firm because it allowed restructuring firm's organization, increased the capacity to better organize workloads, to develop a more structured strategic planning and to define in a more comprehensive way all organizational processes. This situation also made easier the knowledge transfer for the new offices set out in international markets.

For Manager B, his company was "forced" to go ahead with ISO 9001 implementation as soon as his firm started exporting. In fact, the ISO 9001 certification was a requirement in the first international market approached by the company. In addition, Manager B also set out the need to certify several different product lines with the CE marking.

Manager C noticed that the company has been implementing ISO 9001 and ISO 22000 due to its internationalization process. The certification related with the healthy and safety regulations and recommendations for food and drinks is highly important in export markets. The firm had to increase the control over the entire product portfolio to guarantee that all international requirements regarding the wine quality were being met. In fact, in some target markets the wines are tested regularly to avoid the existence of substances that can harm the human health. In other markets, all export goods have to be accompanied by a certificate with the wine characteristics.

For Manager D, the implementation of ISO 9001 is a natural process and was implemented even before going into international markets. He currently acknowledges this type of certification is highly important to establish company's business activities.
Manager D also put forward that most international markets still demand different specific types of product certifications. This situation has obliged the company to certify several different products under several different country regulations. The company has also certified the products under the CE marking.

Manager E put forward that the implementation of ISO 9001 was a strategic decision done before the internationalization process started and was not performed because of this specific goal. However, Manager E has noticed an increasing concern regarding environmental sustainability and the firm has been being audited by several different customers in order to ensure that all environmental requirements are being fulfilled.

For Manager F, internationalization allowed the company to grow. This growth created the need to implement ISO 9001 in order to better establish business procedures. Moreover, Firm F has the need to implement specific product certifications. In this particular case, product certifications were not a consequence of its internationalization, rather it is due to firm's business relations.

4.3.7 The Marketing Program

The research conducted allowed to some extent to understand that the level of adaptation, standardization or adapted standardization for each of the marketing-mix variables. The six interviewed Managers identified different reasons for changing or adapting the marketing program in order to succeed in international markets.

For Manager A, standardization at the service level was fundamental to obtain economies of scale and, therefore, increasing firm's competitiveness in all target markets. The pricing strategy was also standardized and a standard hourly rate is being used in all markets. This cost-based approach is, according to Manager A, a very suitable method to set prices. At the communication level, the company had to adapt and to develop new communication tools in the local language. This included translating the website and creating new trade folders. In addition, firm A has made the legal registration of some business processes in order to guarantee its intellectual property. Finally, at the distribution level, the company focused more on business agents and less on its internal sales team, contrary to what it has done in the domestic market.

Manager B stated that due to its internationalization strategy the company developed new products to address the needs of its target markets. In this particular case, adaptation was necessary to meet different customer needs. At the distribution level, new approaches were taken. The company has chosen indirect channels through local business partners (whenever possible) and, in some markets the option was for a single global partner. Furthermore, in very particular situations, company's option was for local dealers. Nevertheless, in some other specific situations, the company uses a direct sales channel to the end customer.
According to Manager B, at the communication level the company increased considerably the marketing budget. Currently, the company participates in more international trade shows, has a higher visibility in those shows and has being paying more attention to intellectual property and therefore in registering patents.
Finally, for Manager B, price is always defined relative to the specific customers. Nevertheless, different distribution channels led to different pricing strategies, due to different cost structures.

Manager C identified the need to adapt the product portfolio to successfully approach new markets. In fact, for all those markets where the target group was not the Portuguese community, there was an adaptation at the organoleptic level that is to the tastes of the local target groups.
At the pricing level, there has been the necessity to formulate final prices based on each market, in order to establish a suitable positioning. Nevertheless, the formula to define the sales price for foreign markets is identical to the formula used for the domestic market, that is cost-based approach combined with a sales mark-up.
Manager C also stated that in terms of packaging there was also a need to adapt labels, especially by translating them into the local language or into English, depending on each foreign market legislation and regulation. Also, Manager C identified the need to register internationally several different brands to guarantee intellectual property protection. In addition, Manager C also posited the importance of promotion. To approach international markets the firm has been participating in wine tasting events and international trade

shows, which represent one of the most efficient ways to promote the international product portfolio directly to potential buyers (at B2B level). However, this direct promotion type requires a higher investment level.
Finally, at the distribution level, Manager C set out that the current international distribution channels may be considered similar to the domestic distribution channels. However, to address the latter international markets, the firm is trying to establish distribution partnerships through sales agents.

For Manager D the most important adaptation was made at product level by increasing the overall quality standards. International markets are more demanding than the domestic market. Moreover, the company had the need to move upstream the value chain and add new design capabilities and new services in order to increase its competitiveness. This has lead to the creation of new departments in its organisational strucuture, responsible for specific services that increased the added value of the final product.
Manager D noticed that at the price level there were no particular changes in the method of defining the sales price (cost-plus pricing). However, the sales margins were lower in the international markets due to higher competition and higher transportation and logistics costs. Manager D also referred the need to be more proactive in marketing and sales activities and the necessity to reply faster to the request for price quotations.
At the communication level, Manager D also increased the promotion budget. In this context, the attendance of international trade shows in which the company participated also increased.
Regarding distribution channels, Manager D stated that there was a need to use different distribution channels relative to the ones used in the domestic market. The company decided to use sale agents and are now analysing the feasibility of having sales branches in key markets.

For Manager E, the firm has increased the marketing investment in different areas. In fact, firm E a new marketing department was set out with the necessary skills to conduct market research in foreign markets while analysing competitors, customers and potential partners, and developing distribution channels and promotion strategies in order to promote business. In all these areas the firm has been developing adapted strategies to the different foreign markets in order to succeed.

Moreover, the firm has increased its investments in direct and relational marketing, on a B2B approach. Therefore, the firm has been participating regularly in international trade shows, establishing and implementing direct marketing programmes and has been participating in trade missions.

Finally, Firm E has been more aware of intellectual property rights and has already patented one product developed in-house by the R&D department.

Manager F indicated that the firm has been developing a market strategy to achieve its overall success. Before approaching international markets, the firm has conducted market research studies on target countries while considering different service modes for those specific foreign markets.

At the marketing program level, Manager F stated that the most relevant adaptation was at the distribution channel level. The firm took the option to use sales agents in geographical close markets instead of using a direct channel, like it is being used in the domestic market. In the foreign market where the company established a new production subsidiary, the distribution channels are similar to the distribution channels use in the domestic market.

As far as the promotion is concerned, firm F developed new sales folders and translated some of the current promotion tools into new languages. The firm has also been participating in international trade shows to promote its products.

For Manager F, at the price and product levels there is an almost total standardization approach. The firm is using a cost-plus pricing scheme for all markets.

4.3.8 Major Organizational Culture Changes

Cultural changes tend to reflect the changes caused by the internationalization process and, most of all, by the experience to work with different cultures. According to the interviewed managers, different foreign market service modes and contact with foreign cultures may lead to different changes at the organizational culture level, for each qualified country.

Manager A argued that since the firm was using Foreign Direct Investment and there was little interaction among people from different offices, there were no considerable changes at the organizational culture level. However, Manager A also stated that the international experiences that some of the employees were able to have turn them more open minded, more flexible and less resilient to change.

For Manager B, the possibility to have a business relationship with international partners represents an opportunity to increase the workforce skills, even for people working with the domestic market. In fact, people became more flexible, more able of solving problems and less resilient to change. For example, at the R&D level, whenever a new product is being designed there is a higher concern to address international markets needs, which reflects the capacity to think in broader terms while approaching foreign markets.

In a different perspective, the fact that Firm's B competitors are indeed global companies, its human resources achieve a higher competitive attitude which has lead to higher performances and in some specific situations it is even a reason for celebrations. The employees' pride is even higher when they know that the main decision factor for being awarded a foreign order is the superior technological features and attributes of its products in relation to competitors' products.

Manager C noticed that there was an increase in the team spirit and in the overall cooperation among all people throughout the organization. In addition, it was also possible to identify a higher commitment from each person in doing a better job. Finally, Manager C observed an increasing of the overall professionalism, which was fulfilled by attaining the requirements in terms of health and safety standards.

For Manager D, entering in international markets was highly important to promote major organizational changes. From the main evolutions noticed, Manager D gave more relevance to a higher capacity to solve problems, building team spirit, higher commitment to achieve business objectives and more concern with the overall product quality and performance.

In addition, Manager D also noticed that there was a major change in the way that the company was operating: in order to improve the overall quality level, all departments started to work in a close relationship with its customers. This situation led to a higher level of professionalism.

Finally, Manager D reported a reduction in the absenteeism (usually very high in this business sector), more motivation, higher levels of know-how development and less resiliance to change.

Similarly, Manager E stated that with the internationalization process people within the organization have become more open minded, keener on working with recent technology and more capable of solving problems. In addition, establishing business relations with international customers increased the level of professionalism in all employees, especially to show in international markets that the domestic market is also a market based on quality and high standards.

For Manager F, the main changes at the organizational level were an increase in the employees' flexibility, a bigger competitive attitude and less resiliance to change. These changes are also the result from working with international companies and the standard required by these companies. Also, the firm has been adapting its organizational structure, making it also more flexible and faster to respond to unexpected events.

4.4. Analysis of the Research Results

This section of the thesis analyzes the responses of the interviewed managers. The information gathered in the six interviews will be connected to the various theories presented in the theoretical part of the thesis and to the overall approach to internationalization.

4.4.1 Internationalization Drivers and Modes

For Czinkota and Ronkainen (1998), at an initial level of internationalization, it may mean an increasing search for exports markets. Later on, it can result in opening foreign sales subsidiaries and wholly owned subsidiaries. Results suggest that this is the scenario of the thirty interviewed firms.

Export modes are the most common foreign market entry modes used by the firms in the dataset. From the thirty interviewed firms, there are 183 responses out of a total of 206 stating that the entry mode is exports. Therefore, export modes represent 88,80% of the total answers. These results can suggest that the firms are in an early stage of their internationalization process or that their strategic planning considers entry modes that demand lower resources. In fact, each entry mode determines, to some extent, the degree of control that the firm has over foreign business activities (Anderson and Gatignon, 1986; Root, 1994), the level of risk and resource commitment to the foreign market (Hill, Hwang and Kim, 1990), level of fixed and variable costs and return on investment (Buckley and Casson, 1985) and level of organisational commitment and market involvement (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988; Erramilli and Rao, 1990; Burgel and Murray, 2000).

By contrast, wholly owned subsidiaries are used by just 23 out of a total of 206 entry mode. These results represent just 11,20% of the total answers. This entry mode represents a higher capital expenditure and also a higher level of commitment by firm’s management.

Furthermore, the results allow understanding that 20 out of 30 firms have evolved their form of international entry mode by changing from indirect export to direct export or from direct export to a wholly owned subsidiary. These results are in line with the process Theory of Internationalization (Johansson and Vahlne, 1977).

In the characterization of the dataset, results suggest that the thirty firms interviewed have a proactive approach to internationalization. The three drivers with a higher rate are:

1. I had international Ambition (average of 4.3)
2. It was important to be in markets that allowed higher profitability (average of 3.9)
2. There was an opportunity to take advantage of the better characteristics of our products / services or business processes (average of 3.9)

Proactive motivations stimulate strategic changes or adaptations that lead managers and companies to search for new markets with the sense of having either the necessary knowledge to succeed or a competitive advantage. Currently, it is company's internal forces that drive it towards internationalization (Czinkota and Ronkainen 1998). Results suggest that international ambition is the driver with higher rate. For Hollensen (2007), managerial urge is a motivation that reflects the desire, drive and enthusiasm of management towards international marketing activities. This enthusiasm can exist because managers like to be part of a firm that operates internationally, because they have had previous international experiences or because they have people from different nationalities working in their firms. Furthermore, it can also represent a motivation or a desire for continuous growth and market expansion. This possibility is in line with the second driver – the search for markets that may allow higher profitability. According to Czinkota and Ronkainen (1998), the most stimulating proactive motivation to become involved in international business activities is the profit advantage. In fact, managers may perceive international sales as a potential source of higher profit margins or of more added-on profits (*ibid*).

Finally, results also suggest that the interviewed managers felt that their firms had a competitive advantage that could be used in a foreign market. Hollensen (2007) sets out that a firm delivering superior products is more likely to receive enquiries from foreign markets because of perceived competence of its offerings. Also, a firm producing goods or services that are not widely available from international competitors or that may have made technological advances in a specialized industry sector is more likely to achieve success in international markets.

4.4.2 Major Financial Impacts

The financial performance assessment can be analysed in a straightforward manner due to the possibility of being quantified and easily compared to previous years. This objectivity allowed identifying key performance changes in the interviewed organizations. From the semi-structured interviews conducted with the six managers, the key findings are fourfold:

- Higher profitability due to economies of scale
- Sales margins in foreign markets smaller relative to sales margins in the domestic market
- Higher investments levels
- Increasing productivity

The findings above are in line with the review of literature throughout the project. For six out of six managers, the international activities increased firm's profitability. In this context, the impact of export activities on profitability is expected to be positive, due to scale and scope economies (Kogut, 1985; Grant, Jammine and Thomas, 1988). More recently, a research on a sample of Japanese SMEs has found a positive relationship between exports and profitability (Beamish and Lu, 2001).
Regarding sales margins four out of six managers stated that profit margins remained similar the profit margins in the domestic market and two out of six managers stated that sales margins were reduced. Also, the reduction of sales margins in relation to the domestic market is the result of the required initial investments for internationalization and the initial internationalization phase of most of the companies analysed. Hollensen (2007) identifies an important issue on profitability. The foreseen profitability expected by managers when planning to enter international markets is often quite different from the profitability currently attained. Czinkota and Kotabe (1992) indicate that the initial profitability of international start-up operations may be quite low, mainly due to relatively high start-up costs.

Finally, when discussing the productivity issue, five out of six managers argued that there was an increasing productivity throughout the internationalization process. In addition, there was an evolution of the competitive skills of the human resources (as noticed in the organizational culture and human resources development sections). These findings are in line with the relevant literature in this field of enquiry. Comparative case studies of selected industries in the United States, Japan and Europe carried out by Baily (1993) and Baily and Gersbach (1995) suggest that competition (especially competition with best-practice producers in the global market) enhances productivity.

Even though some studies (Roberts and Tybout, 1997) do not correlate increasing productivity with exporting activities, the interviewed managers indicated a positive increase in productivity. It is also possible that this productivity increase is related to more workload and better equipments (as a result of the higher investment levels).

4.4.3 Major Human Resources Impacts

Human Resources development has represented a very important step into achieving a sustained international presence. From the semi-structured interviews performed with the six managers, the key findings are twofold:

- Need to increase personnel's productivity and to improve overall performance of all people through, mainly, the administration of, specific training programmes
- Internationalization had an impact in the organizational structure either by renewing business processes or by driving the implementation of a new the organizational structure

Five out of six managers posit that there were changes either at the structure or the process level. From a marketing context, the challenge has been one of "*restructuring domestic market operations to compete internationally in larger, more disparate markets*" (Denison and McDonald, 1995: 58). This restructuring of domestic market operations was done by creating or implementing business processes and by creating or setting up new organizational structures.

In a similar vein, six out of six managers argued about the necessity to increase firm's knowledge-base through specific training programmes to all the human resources. This situation is in line with the literature review. In fact, according to Nemes (2005), any company involved in cross-border business activities needs to keep its staff continually updated, both in terms of the skills needed to do their jobs and to enhance their careers. Furthermore, Ohonsi (2006) identified the key areas of development for Human Resources involved in international business operations. From Ohonsi's areas managers agreed with the need to adapt to foreign business practices, cultural differences, protocol, international planning and operational skills.

4.4.4 Major Corporate Certifications

In the particular context of this study, Organization changes were limited to ISO implementations and products' marking. From the semi-structured interviews conducted with the six managers, the key findings are twofold:

- ISO 9001 is an important tool in international markets, either to prepare and structure the firm or to meet customers' demands
- Product requirements are mandatory, either the CE marking or other specific international product requirements defined by each country based on their norms and regulations

Four out of six Managers implemented ISO 9001 as a consequence of the foreign market expansion. In this context, the main implications to the firms were restructuring the organization, formalizing business procedures while meeting customers' requirements – often, international customers only work with firms that are ISO 9001 certified. However, two out of six firms had already implemented ISO 9001 before internationalization began. In these particular cases, the ultimate goal was structuring the organization and formalizing business procedures, despite the internationalization process.

Meanwhile, three out of six Managers implemented product certifications. In this case, CE marking and legal market requirements were implemented in order to allow exporting.

One of the six Managers implemented ISO 22000, that is the health and safety ISO certification. In fact, this certification is a mandatory requirement for starting exports.

These findings are in line with the review of literature, North *et al.* (1993 and 1994), that are motives that contributing to implementation of ISO 9001: firstly, as a reaction to external market conditions; secondly, in order to obtain procedural benefits relating to their internal systems; and thirdly, the desire for an improved market image. In a different perspective, Johansson (2006) emphasises that ISO 9001 represents an effect of governments on globalization. Notwithstanding, Johansson also acknowledges the positive effects that ISO 9001 has on internationalized companies: *"ISO 9001 encourages global marketing, since it is worldwide. Furthermore, the return on investment in improved operations to gain certification is higher the more countries the company does business in. At the same time, the higher standards encourage uniformity of operations everywhere."* Johansson (2006, P 20).

4.4.5 Major Changes in the Marketing Program

As Kotler and Armstrong (2005) argue, consumers in different countries have widely varied cultural backgrounds, needs and wants, spending power, product preferences and shopping patterns. The authors also posit that these differences are hard to change, that is why most marketers adapt their products, prices, channels and promotions to fit consumer needs, in each country.

In the continuous debate of whether to adapt or standardize the marketing program, a third approach has been identified and it is called "*Adapted standardisation*". For the "supporters" of "adapted standardisation", a key issue is not so much whether to use a standardisation or adaptation strategy but rather to what degree international marketing strategies should be standardised (Quelch & Hoff 1986, Akaah 1991, Yavas et. al. 1992, Wang 1996, Vrontis 2000, Boutzikas 2000).

The degree of adaptation and/or standardisation may be different for each instrument the marketing program (Vrontis and Vronti, 2000). Under certain circumstances, it may be appropriate for a company to standardise one element of the marketing mix such as product while adjusting others (e.g., promotion). This integration of adaptation and standardisation driving a company towards optimising performance is extensively researched and developed by Vrontis's (2000) Adapt Standard approach in international marketing.

Product

From the semi-structured interviews conducted with the six managers, the key findings are as follows:

- Standardization, adaptation or adaptated-standardization are dependent on management's strategic decisions and goals;
- Product adaptations were conducted to comply with legal regulations, specific customers' demands or cultural specificity

Two out of six managers pointed out standardization as the best strategy to achieve economies of scale. In fact, economies of scale were one of the main internationalization drivers and, therefore, a high product adaptation would, in the case of these firms, make this goal more difficult to achieve.

By contrast, four managers decided to adapt their international product portfolio. In these cases, two different situations occurred: 1) products were adapted for different countries; and 2) new products were developed to approach specific international markets. According to the interviewed managers, it is also extremely relevant for product adaptation the necessity to comply with legal regulations or cultural specificity of international customers.

These findings are acknowledged by the relevant literature review. For Czinkota and Ronkainen (2004), the first question after deciding moving international has been made concerns the product modification that are needed or warranted. A firm has four basic alternatives in approaching international markets: (1) Selling the product as it is in the international marketplace; (2) Modifying products for different countries and/or regions; (3) Designing new products for current / new foreign markets; and (4) Incorporating all the differences into one product design and introducing a global product.

In an empirical research, Cavusgil and Zou (1993), posit that product adaptation upon entry is influenced by legal regulations, cultural specificity of products and the technology orientation of the industry.

Price

Czinkota and Ronkainen (2004) posit that the process of setting an export price must start with the determination of an appropriate cost baseline and should include variables such as export-related costs to jeopardise the desired profit margin.

From the semi-structured interviews conducted with the six managers, the key findings are twofold:

- International prices are being defined based on the same price formula used for the domestic market, even though the cost structure input is different;
- International Pricing strategy is being based on a Cost-based pricing methodology

Five out of six managers posit that they are using a cost-based pricing methodology. In their particular cases, prices are being defined based on the cost structure of the international product plus a variable margin depending on the country or the customer. By contrast, one of the managers stated that its firm performs market analysis on a regular basis and mainly on competitors and their products.

The above findings are in line with the review of literature. As stated by Cavusgil (1988), product and overheads influence the pricing strategies for firms. Furthermore, Simon (1995), states that reason why firms using costs as a basis for price determination is the fact that costs are easily measured and provide a level under which prices cannot hold in the long term. Brassington and Pettitt (2000) posit that market-based pricing strategies and competition-based pricing strategies require more market attention from the international firm, which can be hard when exporting to a foreign market.

In fact, even though the interviewed managers were keen on the importance of international markets, the lack of a formal and proactive international marketing structure does not allow monitoring international markets in an ongoing basis. This situation is the main reason for the usage of cost-based pricing strategies.

Distribution

For Czinkota and Ronkainen (2004), channels of distribution provide the essential linkages that connect producers and customers. The links are intracompany and extracompany entities that perform a number of functions. Optimal distribution systems are flexible and are able to adjust to market conditions. In general, companies use one or a combination of the following distributions systems: (1) the firm sells directly to customers through its own sales force; (2) the company operates through independent intermediaries usually at the local level; or (3) the business depends on an outside distribution system that may have regional or global coverage.

From the semi-structured interviews conducted with the six managers, the key findings are as follows:

- Firms tend to use direct channels in markets where they feel more “comfortable”, which means where they already have more market knowledge;
- In markets with a bigger size or that may be considered more complex, firms tend to rely on local agents or retailers to distribute their products.

Five out of six managers are using agents or local business partners in the foreign market service mode. This choice is mostly based on the difficulty and complexity to approach the foreign market through a hierarchical service mode.

In a different approach, four managers privilege the use of direct sales in some of their international distribution channels. These direct channels are the result of the participation in international trade shows and taking over new business partners in these events. Thus, these firms possess the required knowledge to conduct independent operations in some foreign markets.

The review of the literature confirms these findings. Czinkota and Ronkainen (2004) posit that an experimented exporter may decide that control is of utmost importance and choose to perform tasks itself and incur the information collection an adaptation costs. A low regular exporter, on the other hand, may be quite dependent on experienced intermediaries to get its product to markets.

Also, the existence of different distribution channels for different markets is acknowledged in Czinkota and Ronkainen (2004) study. Indeed, Czinkota and Ronkainen (2004), state that channel configurations will vary within industries, even within the same firm, for the same product because national markets quite often are characterized by specific characteristics.

Promotion

Effective communication is essential in negotiating agreements. To maximize the outcome of negotiations with customers and partners from other cultural backgrounds, international marketers must show adjustment capability to different standards and behaviours. Success depends on being prepared and remaining flexible, whatever the negotiation style in the host country might be (Czinkota and Ronkainen, 2004).

From the semi-structured interviews conducted with the six managers, the most common finding is that the communication budget has increased. This increase has been especially noticed by the following investments:

- Firms developed communication tools specific for the foreign market;
- Firms developed or updated their websites and trade folders;
- Firms increased the number of international trade shows where they participate;
- Firms increased their intellectual property rights;

The great majority of the managers stated that they have increased their marketing budget. In fact, that they have translated some communication tools into the foreign market language (or in English). In addition, the great majority of the managers disclose that they their concerns with intellectual property rights has increased and that they have registered trademarks or patents due to internationalization activities. Moreover, managers posit that the participation of their firms in international trade shows has increased.

The findings above are in line with the review of the literature. For Czinkota and Ronkainen (2004), the main communications tools used by exporters to communicate with the foreign marketplace from their domestic base are business and trade journals; direct mail communications over the internet; trade fairs and trade missions; and personal selling. These investments fit in the following categories: direct mail (and trade folders), the internet (and website's updates); trade fairs and personal selling.

Finally, concerns with intellectual property rights are also in line with the review of literature. For Czinkota and Ronkainen (2004), the theft of intellectual property – ideas and innovations protected by copyrights, patents and trademarks – is a critical problem in many industries and countries. Governments have long argued about intellectual property protection, but the lack of results in some parts of the world has forced companies themselves to take action on this front.

4.4.6 Major Organizational Culture Changes

Internationalization mainly changes the internal environment of an organization (Kilman and Covin, 1990). There are maybe two aspects of learning that are especially relevant in relation to internationalization: (1) coping with complexity, and (2) learning through failure and success. For Hitt et al., (1997), rising complexity in the internationalization process forces organizations to learn, while organizations which already have experience with diversity (e.g., through diversification) are better equipped for geographic expansion.

From the semi-structured interviews conducted with the six managers, the key findings are threefold:

- Employees tend to become more open minded, more flexible, more capable of solving problems and with less resilience to change.
- Working teams tend to be at once more competitive and more cooperative
- Employees become more customer-oriented and more responsible, which is shown by the improvement in the human resources performance.

The great majority of the six managers noticed that their human resources tend to become more open minded, more flexible, more capable of solving problems and with less resiliance to change. In addition, the employees tend to have more competitive and more cooperative market behaviour within the organization. In this context, teams became more customer-oriented, which is shown by the improvement in the overall people's performance.

These findings are in line with the review of the literature. In uncertain environments, absorptive capacity enhances the firm to comprehend and assess market signals faster and more accurately (Cohen and Levinthal, 1990). Learning and problem-solving capabilities involve the development of the capacity to assimilate existing knowledge as well as a capacity to create new knowledge (Cohen and Levinthal, 1990). If internationalization enhances absorptive capacity and learning capabilities, it also affects organizational culture, which can be understood as true problem-solving mechanisms (Schein, 1985).

Wolfgang Amann (2003), acknowledges that internationalization impacts organizational culture. In fact, for Amann (2003), higher degrees of internationalization affect content dimensions such as: change management, goal achievement, coordinated teamwork, as well as the contrasting factor of customer orientation, and the setting dimension of cultural strength.

5. Conclusion & Recommendations

5.1. Key Findings and Contributions

The qualitative research conducted with a group of six Portuguese managers from six different firms allowed to identify several different impacts caused by internationalization in areas such as Human Resources, Corporate Certifications, Marketing Program, Organizational Culture and Financial Performance. The major findings are the following:

Firstly, Human Resources represent a very important step into achieving stable international business activities. From the semi-structured interviews conducted with the six managers, the key findings are the following: 1) there is a need to increase personnel productivity and the quality of the output of all employees which may be achieved by attending specific training programmes; and 2) Internationalization had an impact at the organizational structure either by restructuring business processes and/or by restructuring the organizational structure. The above findings are in line with previous studies and research from Denison and McDonald (1995), Nemes (2005) and Ohonsi (2006).

Secondly, in the particular context of this study, organization changes were limited to ISO implementations and products' marking. From the semi-structured interviews conducted with the six managers, the key findings are as follows: 1) ISO 9001 is an important tool in international markets, either to prepare and structure the firm and/or to meet clients' demands; and 2) Product requirements are mandatory, either the CE marking or even further addressing the needs of key customers and/or specific market laws and regulations. These findings are also aligned with previous studies and research from North *et al.* (1993 and 1994) and Johansson (2006).

Thirdly, as regards to the marketing program adaptation and/or standardisation may change for each marketing tool (Vrontis and Vronti, 2000). Also, under certain circumstances, it may be appropriate for a company to standardise one variable of the marketing program such as the product while adjusting another variable such as s promotion campaign. This integration of adaptation and standardisation driving a company towards optimising performance is extensively researched and developed by Vrontis's (2000) adapt standard approach in international marketing. At the product level, from the semi-structured interviews conducted with the six managers, the key findings are twofold:

1) Standardization, adaptation or adaptated-standardization are dependent on management's strategic decisions and goals; and 2) Product adaptations were conducted to comply with legal regulations, specific customers' demands or cultural specificity. These findings are acknowledged by previous research from Cavusgil and Zou (1993) and Czinkota and Ronkainen (2004).

At the price level, from the semi-structured interviews conducted with the six managers, the key findings are: 1) International prices are being defined based on the same price formula used for the domestic market, even though the cost structure input is different; and 2) International Pricing strategy is being based on a cost-based pricing methodology. The above findings are also stressed by previous research from Cavusgil (1988), Simon (1995), Brassington and Pettitt (2000) and Czinkota and Ronkainen (2004).

At the distribution level, from the semi-structured interviews conducted with the six managers, the main findings are: 1) Firms tend to use direct channels in markets where they feel more "comfortable", which means where they already have more market knowledge; and 2) In markets with a bigger size or that may be considered more complex, firms tend to rely on local agents or retailers to distribute their products. Again, previous research from Czinkota and Ronkainen (2004) corroborate these findings.

At the promotion level, from the semi-structured interviews conducted with the six managers, the most common finding is that the communication budget has increased. This increase has been especially noticed by the following expenditures: Firms developed tools into the foreign market language; Firms developed or updated their websites and trade folders; Firms increased the number of international trade shows where they participate; Firms increased their intellectual property rights. These findings are also emphasized in previous research from Czinkota and Ronkainen (2004),

Fourthly, internationalization changes the internal and external environments of an organization (Kilman and Covin, 1990). There are maybe two aspects of learning that are especially relevant in relation to internationalization: (1) coping with complexity, and (2) learning through failure and success. For Hitt et al., (1997), rising complexity in the internationalization process forces organizations to learn, while organizations which already have experience with diversity (e.g., through diversification) are better endowed for geographic diversification.

From the semi-structured interviews conducted with the six managers, the research main findings are: 1) Employees tend to become more open minded, more flexible, more capable of solving problems and with less resilience to change; 2) Working teams tend to be at once more competitive and more cooperative; and 3) Employees become more customer oriented and more responsible, which is shown by the improvement in the human resources performance.. These findings are corroborated by previous research from Schein (1985), Cohen and Levinthal (1990) and Wolfgang Amann (2003).

Lastly, according to the interviewed managers, the financial performance assessment can be analysed in a straightforward way once it gives the possibility of being quantified and easily compared to previous years. This objectivity allows identifying key performance changes in the interviewed organizations. From the semi-structured interviews conducted with the six managers, findings are: 1) Higher profitability due to economies of scale; 2) Sales margins in foreign markets smaller relative to sales margins in the domestic market; 3) Higher investments levels; and 4) Increasing productivity. These findings are acknowledged by the relevant literature from Kogut (1985), Grant, Jammine and Thomas (1988), Czinkota and Kotabe (1992), Baily (1993), Baily and Gersbach (1995), Roberts and Tybout, 1997), Beamish and Lu (2001) and Hollensen (2007).

In short, as argued by Marshall and Rossman (1999), if the results of the research are related to existing theory, it is possible to demonstrate that the findings will have a broader theoretical significance than the cases that form the basis of the research study.

Therefore, this thesis contributes for the scientific knowledge by adding information on how a group of Portuguese Managers perceived the impacts of internationalization on their firm's performance. The identified alignment in between the interviewed managers and the review of the relevant literature may allow generalizing the information to the population and may indicate that the above findings may occur in Portuguese companies that decide to venture into international markets.

This particular insight also allows other managers from different firms to better understand the internationalization process and to better prepare their firms for their international venture. By identifying possible impacts caused by the internationalization process, managers can proactively prepare their firms to approach international markets more effectively. By addressing international ventures better prepared, firms may have a higher probability of succeeding.

At the public policies level it is important to understand the apparent subtle role that the State is playing in helping the companies with their internationalization process. Nevertheless, the present study creates insight on possible impacts related with internationalization, some of which could be sorted by the State, including special funding for international ventures, specific training programmes in international marketing and a more effective chamber of commerce, with capacity to create more and more detailed studies and research about the different international markets.

5.2. Limitations

The present study was based on a qualitative approach. Even tough this approach was considered adequate to the study and to reach the proposed goals, all conclusions stated above have a relative limited scope, as already identified in the methodology section.

Further, the choice of the initial sample (the best 2.000 SMEs in Portugal according to the financial sector) may have biased the overall findings. Some of these specific companies may own better financial conditions and resources to promote their internationalization in comparison to all other SMEs without such financial rating / resources.

Also, the studied cases were successful internationalization ventures. In situations were international ventures have not been successful, impacts might be different from the impacts identified in this study.

Finally, the areas of impact addressed in this study do not meet the entire scope or possibilities of impacts of internationalization in a firm's performance. The chosen areas were considered as the most relevant areas of performance by the author for the purpose of this study.

5.3. Suggestions for further Research

The depth and methodology of research in this thesis was established in order to address the research goals. This thesis has achieved its objectives and has opened new avenues for research. Further research in the area may be conducted at three different levels:

- Findings in this thesis can now be validated in a questionnaire to a larger number of companies, allowing obtaining quantitative results.
- Future research could take into account more characteristics of the companies, including the service mode, degree of internationalization, business sector, geographical location, etc, in order to try to isolate more accurately the perceived impacts of internationalization;
- Future research could be done by a multi-country approach, allowing comparing different perspectives from different countries and managers. This type of research would also allow understanding how different cultures react upon internationalization and how they perceive impacts caused by international market modes.

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6.4. Web-based Research

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- Wikipedia – CE Marking (www.wikipedia.com)

Annexes

6.5. Interview Questions for Managers (Portuguese Version)

6.5.1 Company Characterization

A secção de caracterização da empresa permite a obtenção de dados que permitem categorizar a empresa de acordo com o seu sector de actividade, dimensão (a diversos níveis), presença internacional e validação do estatuto de PME.

Empresa	
Sector de Actividade (CAE)	
Localidade	
Ano de Início da Actividade	
Número de Colaboradores	
Países onde está Presente	
Número de Produtos no portfólio da empresa	
Vendas totais (2006)	
Vendas em mercados externos (2006)	
Activo Líquido (2006)	
Certificações ISO / Marcações CE	

6.5.2 International Activity

Na tabela seguinte pretende-se compreender o grau de actividade internacional da empresa. Neste sentido, pretende-se que seja indicado por país, a forma de presença internacional e o ano de início da forma de presença (tal como exemplificado na tabela seguinte).

(Exemplo)

País	Ano de Internacionalização									
	Exportação Indirecta	Exportação directa	Licenciamento	Franchising	Joint-venture	Aquisição de subsidiárias	Delegação Comercial	Escritório Operacional	Produção internacional	Outro
Espanha	2000	2001								
França	2002					2004				
Alemanha								2005		

(Real)

País	Ano de Internacionalização									
	Exportação Indirecta	Exportação directa	Licenciamento	Franchising	Joint-venture	Aquisição de subsidiárias	Delegação Comercial	Escritório Operacional	Produção internacional	outro

6.5.3 Internationalization Drivers

A tabela seguinte permite indicar quais são as razões de maior importância por detrás da internacionalização da empresa. Pretende-se com esta tabela compreender quais foram os principais motivos para a entrada em mercados internacionais, do ponto de vista da Gerência / Administração.

Razões para a Internacionalização A minha empresa procurou internacionalizar-se porque:	Grau de Concordância 1. Discordo Totalmente	2. Discordo	3. Não Concordo Nem Discordo	4. Concordo	5. Concordo Totalmente
1. Era importante procurar mercados mais rentáveis do que o mercado nacional					
2. Queria aproveitar as características superiores dos produtos e/ou processos da empresa					
3. Tinha ambição internacional (Gerência / Administração)					
4. Queria aproveitar as ajudas Governamentais (locais e/ou do mercado de destino)					
5. Procurava economias de escala					
6. Tive acesso a informação preferencial indicando mercados com elevado potencial					
7. Existia uma forte pressão competitiva de empresas rivais					
8. Houve uma diminuição de vendas no mercado nacional					
9. Estávamos com excesso de capacidade produtiva					
10. Atingiu-se o fim de vida de um produto e procuramos novos mercados para o comercializar					
11. Foi necessário manter a proximidade com os clientes					
12. Outra: _________________					

6.5.4 Exploratory Interview

1. Explique quais os principais motivos que levaram a sua empresa a procurar outros mercados.

2. Explique quais os principais motivos que o levaram a escolher os mercados onde está presente actualmente.

3. Explique quais os principais motivos para a escolha do modelo de internacionalização adoptado (exportação, presença directa, ...), incluindo se foi realizado algum estudo prévio que permitisse perceber as vantagens e desvantagens das diversas formas de presença internacional nos diversos mercados.

4. Explique quais os principais impactos que sentiu na sua empresa com o processo de internacionalização ao nível financeiro, ao nível da rendibilidade e ao nível da produtividade (incluindo variações nas necessidades de fundo de maneio, investimentos, evolução das vendas no mercado nacional e nos mercados internacionais e variação da rendibilidade).

5. Explique quais os principais impactos que sentiu na sua empresa com o processo de internacionalização ao nível dos seus recursos humanos (incluindo recrutamento de novos quadros indiferenciados e quadros qualificados, aumento das necessidades de formação, criação de novas áreas organizacionais)

6. Explique quais os principais impactos que sentiu na sua empresa com o processo de internacionalização ao nível organizacional (incluindo a implementação de certificações ISO 9001, ISO 14001, ISO 22000 e marcações CE)

7. Explique quais os principais impactos que sentiu na sua empresa com o processo de internacionalização ao nível da estratégia de marketing (incluindo a redefinição da sua estratégia de marketing-mix (novos produtos, novos preços, novos canais de distribuição, novos meios de comunicação), recurso a estudos de mercado, participação em feiras, participação em missões empresariais, criação de novas ferramentas de comunicação: website, Sales folders)

8. Explique quais os principais impactos que sentiu na sua empresa com o processo de internacionalização ao nível da cultura organizacional (incluindo alterações na atitude competitiva, know-how interno existente, espírito de equipa, capacidade de resolver problemas e resistência à mudança)

6.6. Interview Questions for Managers (English Version)

6.6.1 Company Characterization

The company characterization allows to identify the company, its activity, its international dimension and to validate the SME classification.

Company	
Business Sector	
Region	
First Year of Activity	
Number of Employees	
Countries Where the Company has activity	
Number of Products / Services in the company portfolio	
Total Turnover (2006)	
Total International Turnover (2006)	
Total Assets (2006)	
ISO Certifications / CE Marking	

6.6.2 International Activity

The following table allows understanding the company's level of international activity. Therefore, it should be indicated by country and by international presence type the year of entrance (as exemplified in the following table).

(Example)

Country	Year of Entrance									
	Indirect Exports	Direct Exports	Licensing	Franchising	Joint-venture	Acquisition of Subsidiaries	Sales Branch	Operational Office	International Production	Other
Spain	2000	2001								
France	2002					2004				
Germany								2005		

(Real)

Country	Year of Entrance									
	Indirect Exports	Direct Exports	Licensing	Franchising	Joint-venture	Acquisition of Subsidiaries	Sales Branch	Operational Office	International Production	Other

6.6.3 Internationalization Drivers

The following table identifies the main internationalization drivers and its importance to international managers. With the following table it will be possible to understand the main internationalization drivers in the point-of-view of the interviewed managers.

Internationalization Drivers	Level of Agreement				
	1. Disagree Completely	2. Disagree	3. Do Not Agree Nor Disagree	4. Agree	5. Agree Completely
1. It was important to be in markets that allowed higher profitability					
2. There was an opportunity to take advantage of the better characteristics of our products / services or business processes.					
3. I had international Ambition					
4. There was an opportunity to use Governmental help with internationalization					
5. There was the need to obtain economies of scale					
6. I had access to exclusive information indicating international markets with high potential					
7. There was a strong competitive pressure from rival firms in the domestic market					
8. There was a decrease in the domestic market sales					
9. We had excess capacity in the production area					
10. A product reached the end of its lifecycle and was necessary to market it in a new international market					
11. It was necessary to keep proximity to our clients					
12. Other: _________________					

6.6.4 Exploratory Interview

1. Please explain what were the key reasons driving your company into international markets.

2. Please explain the main reasons in the choosing of the markets where your company is currently doing business.

3. Please explain the key reasons behind your choice of the entry mode used for each market and if your company performed a study on the advantages and disadvantages of the different entry modes in the different markets.

4. Please explain the main financial impacts that you have identified in your company as a direct result of internationalization. (Also consider networking capital changes, investments, sales evolution in domestic market and international markets, profitability variation)

5. Please explain the main human resources impacts that you have identified in your company as a direct result of internationalization. (Also consider recruitment of new qualified and non-qualified employees, increase in training needs, changes at the organizational level)

6. Please explain the main corporate certifications changes that you have identified in your company as a direct result of internationalization. (Also consider if you have implemented ISO 9001, ISO 140001, ISO 22000 and CE Marking).

7. Please explain the main marketing impacts that you have identified in your company as a direct result of internationalization. (Also consider new marketing-mix strategies – new products or services, new methods to define prices, new distribution channels and new communication strategies; usage of market research, participation in trade shows, participation in international joint promotion events and creation of new means of communication – website and Sales folders)

8. Please explain the main cultural organizational changes that you have identifies in your company as a direct result of internationalization. (Also consider the competitive attitude, existing know-how, team spirit, problem-solving capability and resistance to change)