ESTRATÉGIA

# INTERNATIONALISATION AND ECONOMIC GROWTH: THE PORTUGUESE CASE

.


## ABSTRACT

Historically, a policy of enforcement in internationalisation processes is still seen by many as an approach to solve certain economic crises. However, Portugal's solution for this problem is part of a greater problem, namely trying to solve a European problem that has recently worsened and is largely uncontrolled. This article aims to contribute, firstly by mentioning the Portuguese economic context and also possible ways of internationalisation and, secondly, by measuring a set of variables/factors that should support the development of the Portuguese economy. The results of the interviews which supported this study's methodological basis show that the Portuguese economy's poor dynamism and low demand by alternate markets are the two critical variables for the country's weak competitiveness. The suggestions of those surveyed propose that the Portuguese economy's dynamics should be characterised by a hybrid model, joining factors connected to the Nordic school's behavioural model, Dunning's eclectic paradigm (1997), and Buckley and Casson's model of internationalisation theory (1976).



**KEYWORDS:** Portugal, Internationalisation, Economic Development


## 1. INTRODUCTION

The context of the Portuguese companies must obviously be regarded in light of the different procedures and dynamics of the internationalisation process. By starting a policy supported on internationalisation processes, it might be seen by many as a way to solve economic, financial and, now, also social crises, crises which the country has basically been facing for the last five years. However, the solution of the Portuguese problem is part of a much bigger problem. Namely, that of trying to solve a European problem that has recently worsened and is uncontrolled, causing serious crises in several countries (Clark & Mallory, 1993; Ferrera, 1996; Deeg, 2005).

In truth, an increasingly globalised and interconnected world brings with it benefits, but also challenges, to economies as a whole as well as to the companies operating within this new reality in particular. This is true for many countries in the world – more visibly so in the European Union (as in the case of Brexit, for instance), especially for those countries considered to be the "fragile" economies of Europe.

While periods of growth allow for many of the challenges, and their consequences (especially for the weaker economies and companies therein), to go unnoticed, or for their effects to be mitigated, economic downturns bring these issues to the fore, and put agreements and unions to the test, as has been witnessed in the European Union (EU) since the Global Financial Crisis (GFC).

Internationalisation appears, in this context, as a way to get out of this situation, and it thus seems relevant to try to understand how these weaker economies, such as Portugal, understand these challenges and how to overcome them. It has been noted that they have a key role in recovery (in terms of entrepreneurship and internalization), and it is therefore important to understand their perceptions regarding the reasons for their lack of competitiveness, and how to overcome them.

This article is divided into different parts. The first shall present the behavioural and economic theories of internationalisation which orient companies' processes in a context of globalisation. In the second part, we will try to show that the Portuguese economic problem is part of a much larger problem, the European one. Thirdly, the methodology supporting this research will be described, consisting of 17 interviews with a set of professionals which perfectly represented the researched phenomenon based on their knowledge. In the fourth part shall be presented the results of the research, identifying the five main dynamics and types of internationalisation which the interviewees regard as the most important to revitalise the Portuguese economy, the five main reasons for the country's weak competitiveness, and the five main factors which could lead to the development of the Portuguese economy. Some final considerations will be made upon these three dynamics of analysis.

To ensure the relevance of the formulated problem, which was the purpose of carrying out this research, this article aims to contribute, firstly, to describing the Portuguese economic context focusing on the dynamics and possible forms of internationalisation and, secondly, on a wider basis of analysis, to assessing a set of variables/factors that should underpin the development of the Portuguese economy.

The data resulting from the above-mentioned research questions shall be reviewed in light of the dynamics underlying internationalisation theories. The main objective will be to try and relate the suggestions presented by the interviewees in terms of the dynamics or means of internationalisation which may enable the revitalisation of the Portuguese economy (and respective reasons for the country's weak dynamics) and the economic or behavioural theories which seem to be at the basis of that same revitalisation.

## 2. RELEVANT LITERATURE REVIEW

### 2.1 The European Problem

A truly European union can therefore be considered to be a simple illusion. However well-intentioned, it did not provide sufficient mutual economic benefit to its member-states following the official agreements entered into throughout history, starting in the 1950s, including the Treaty of Rome in 1957 (a common market). The customs union entered into force in 1968 and, later, Hague agreement in 1969 initiated progress towards a genuine economic and monetary union. What followed were the Single European Act, in 1985, the Treaty of Maastricht, in 1991, formally establishing the European Union, and the Lisbon Treaty, entered into force in December 2009, aiming to give EU institutions modern and efficient working methods allowing for a more effective response to the challenges of the new millennium (characterised by rapid cyclical changes), related to globalisation, climate change, and energy security (Gambarotto & Solari, 2012). Still, it is important to mention that the European problem has always been far beyond these issues of modernisation and consumption. Truth is, if we study Europe's history since the post-war decades, thinking of Europe means looking to the West, because cooperation with the poor neighbours to the East and South was always taken as something to avoid, as in most cases it resulted in the absence of any material benefits (Schmidt, 2008).

In fact, growth trends in the European economy no longer have the effect they had in the years of explosive economic growth of the 1960s which absorbed excess labour, work and pulled by those who were in worse situation, believing that in the time they would have solved the problems of production and lacking only the adjustment on the distribution and avoiding excess. Instead, today's Europe finds its business and industrial wealth, as well as opportunities, in its wealthier Northwest, with nothing being done to undo this disparity. Then we have the South (with Portugal and Greece at the top of the list), described by many as the class of the economically excluded for whom the European Union is the only source of support (Rangone & Solari, 2012). Europe, then, is too big and nebulous a concept to be built around a compelling human community, as its peoples are mainly linked to their own nation – a phenomenon which transforms the elderly into a frustrated, bored, and unproductive population, in some cases originating an immense social crisis as a result.

European production, trade, and finances are now globally organised. However, the less important role of family, church, political parties and trade unions, and the increasing pressure on governments to reduce benefits earned by citizens over the years in terms of social security and solidarity, among others, without regard to the intrinsic history of certain countries, inevitably leads to a collapse of the various countries. The result is a progressively closed Europe, whose macroeconomic criteria, set up by Germany or an unlikely European government, can dominate the markets.

One important collapse and crisis, as an example, was faced by Argentina in 2002, affecting every level of the Argentine society and created an air of uncertainty for the future of Argentina. To quell the crisis, the International Monetary Fund recommended that the government dramatically cut spending. These cuts led to reduced public-sector wages and pensions and a delay in pension benefits for over 1.4 million retirees and their families (Lewis, 2002). In addition, as the unemployment rate grew, more people sought unemployment insurance and other social services, the very services being cut. Many were forced to find jobs in the informal sector, which paid very little and offered almost no security for the future (Jeter, 2003).

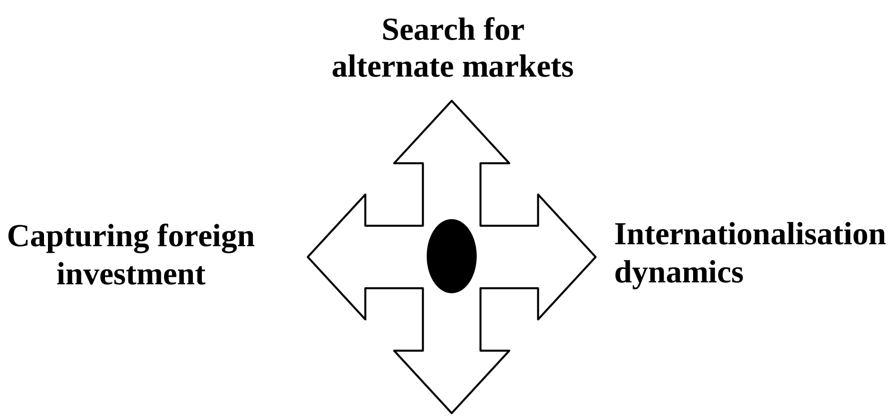
Argentine workers began to withdraw their savings in pesos from banks in exchange for US dollars for fear that rising prices would render their savings worthless. To curb this bank run, the Argentine government limited cash withdraws to $250 per month and froze bank assets altogether for short periods (Krauss, 2001). Additionally, those who took out loans in dollars were faced with repayments that nearly doubled due to the rising interest rates (Lewis, 2002). This left people trapped between rising prices, job uncertainty and limited access to money.

Portugal sustained a severe and lasting crisis from which emerged serious social phenomena resulting from dangerous financial imbalances and excessive public and domestic borrowing. If the Portuguese economy's growth were more vigorous, the harsh social realities facing that country's society today would not be as significant. However, for it to be possible for the Portuguese State to institute equitable policies, there is a need for economic prosperity, requiring different methods, a number of which have been employed so far. Several proactive measures would have already been necessary many years ago, but now, in the face of the increasing globalisation of markets, which changed the stability which embodied world dynamics for many years, it is important to develop studies and thoughts that allow to frame for less developed economies a path of growth, in this case focused on the dynamics and possible forms of internationalisation.

Portuguese business consists of 99% of small and medium enterprises that experience weak development, mainly because the country has not been able to be competitive after the European economic union. After gaining competitiveness over the years through the possibility of the devaluation of the "escudo" (the former Portuguese currency) against other currencies, the focus should be on exports, and exactly here has resided one of the problems of our economy. That is, if we exclude the total lack of investment in licenses and in the energy industry, and the use of taxation as a stimulus to development, one of the main problems facing exportation is a logic of proximity. Although Portugal reduced rate of exports to Europe by about 8% since 2000, which is a positive factor in times of crisis in the European space, the truth is that Portugal focus index of exports on the basis of proximity (to Spain by about 25%) and concentrated in textiles, footwear, automotive, furniture and equipment.

As stated, Europe's growth, and mainly the exposure of some countries' public debts to the markets in 2008, came to initiate a new problematic stage in Europe's history, worsening the crises in Italy, Greece, Spain, and ever France (forced to reduce wages by 20%). Portugal is no exception, in this case encompassing people and companies as a whole. It is in this regard that the results of this research have been trying to address this problematic, fundamentally in an attempt to address the Portuguese problem in four dynamics of scope – Figure 2.

Figure 2: The four dynamics of scope as a response to the Portuguese crisis



**Fostering Economic Growthlato sensus**

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### 2.2. The economic theories of internationalisation

In recent decades we have witnessed considerable progress in the study of economic theories of internationalisation. At a meso level, this advance has been explained primarily through four areas of analysis: a framework for research on foreign direct investment (Vermont, 1966, 1974, 1979; Greuber, Mehta & Vernon, 1967; Hymer, 1976), an optical tracking and analysis of strategic alliances and "franchises", featured by Aliber (1970) and especially by studies by Dunning (1977, 1980, 1981, 1997, 2000, 2001, 2003, 2008), observation focused on exportation and licensing data analysis (Knickerbocker, 1973; Buckley & Casson, 1976), and a perspective reflected on the advantages and disadvantages of internalisation/externalisation of several business activities (Buckley & Casson, 2010). It can therefore be seen that there have been several economic theories of internationalisation created by different authors to explain the subject, whether they are explained by their macro-economic aggregation, or by their own behavioural influences that emphasize the problems associated with learning, commitment, and cultural aspects of internationalisation in a process of gradual learning.

In a historical context, one of the authors that stood out in the investigation of the internationalisation phenomenon was indeed Hymer (1976), addressing the issue from the need to differentiate between financial investments called portfolios. According to the author, the differentiation of these factors lies therefore in control and explains the basis of the applied rates. Thus, according to Hymer (1976) foreign direct investment cannot be explained by motivational factors as a demand for low production costs, because if it were so would be difficult to explain why certain local companies do not compete successfully with foreign companies. For Hymer (1976), the determinants of international production are well explained by failures/imperfections of the market, internal and external economies of scale and by the interference of governments in terms of production and trade. While, according to the author, foreign direct investment can always cover extra costs and risks such as those related to communication and information acquisition in general (with challenges related to the cultural, linguistic, legal, economic and political environments in the host country) or variations in exchange rates, the truth is that the determinants of foreign direct investment come down to three factors: market failures, advantages and disadvantages that a country can offer, and diversification.

Based on Coase’s new institutional economics (1937; 1960), what Hymer in fact accentuates are the imperfections of market transactions as the reason for internal growth of firms, i.e., combination of economies of scale and comparative advantages of production coordination by means of internal hierarchy versus coordination through the market. But herein arises an issue. How and where from to get the biggest advantages? Will it be with domestic production through exports? Will it be by starting a production in a host country with licensing agreements involving local firms? Or will there be a way of direct production abroad (Aliber, 1970)?

According to the theory of Knickerbocker (1973) – follower of the theoretical model of Vernon (1966), based on oligopolistic structures, the greatest benefits for organisations reside in direct production abroad, and business investment should acquire assets outside their country of origin in order to fully or partially control the operation of these assets. This theory, referred to by Buckley and Casson (2007) as the behavioural theory of multinationals is a result of factors tied to competition, uncertainty and timings of decisions in which the balance is defined on the assumption that a certain competitor cannot, with impunity, improve its market position at the expense of another.

Given that oligopoly relies on the development of new products, advantages and benefits of scale based on production, marketing and management factors, these are means to compete, according to Vernon (1966) and Knickerbocker (1973). This is so that competitors gradually eliminate competition in foreign countries, In other words, without excluding the barriers (whether related to exchange rates or not) that may also have an impact on the competitive structure of companies, they can offer after-sales service differentiators, but the uncertainty and risk that characterise these authors' models can be opposed, according to the same authors, by the previously mentioned factors and by continually learning how the risk or uncertainty inherent in any process of internationalisation can be eliminated or diluted. While these authors have contributed to the study of the evolution of the phenomenon of internationalisation, however, the truth is that, according to Buckley and Casson (1976), this model is limited because time and particularly strategic changes in this context are vague. This approach is labelled by the authors as "non-dynamic programmatism" (Buckley & Casson, 1976, p. 77) since it does not specify timing regarding exports and management of changes in foreign investment.

Against this gap in the literature, Buckley and Casson (1976, p.31) refer to a set of facts or phenomena that need further explanation, explaining the theory of transaction costs - later also advocated by Rugman (1981), Hennart (1982), Caves (1982) and McManus (1972). The authors believe that the existence of transaction costs is the key factor to establishing multinational businesses which operate with direct centralized control (vertical integration), instead of doing it via the market. Buckley and Casson (1976) assume that firms maximise their profits in a world of market imperfections and, when the intermediate markets are imperfect, there is an incentive to create internal markets (vertical integration), involving the creation of a common ownership and control of activities which are linked by the same market.

Another very important economic theory in the context of the internationalisation of companies is the Eclectic paradigm of Dunning (1980), consisting of a systemic framework (holistic framework) from which it is possible to identify and assess the significant factors that influence the decision of a company to venture abroad, regarding the growth of this type of production.

There are three specific advantages mentioned by Dunning, the specific ownership advantage (O-ownership), related to the nature and/or nationality of the ownership, the specific location advantage (L-location), related to where operations deployed abroad are, and the specific advantage of internalisation (I-internalisation) obtained when using the structure of the company for international transactions, rather than market mechanisms, or, in other words, to internationalise transactions internally rather than to do so through the market. In the latter case, the operative variable is the transaction costs, the decision being focused on a hierarchical point-based subsidiary versus a relationship matrix (vertical integration), since the theory of internalisation presupposes transaction cost reductions (Rugman, 2010; Narula, 2010).

Historically, construct theories explain the history of international business in time and space (Buckley, 2009). Any process of internationalisation should always identify the key-factors to venture abroad, restricting the internationalisation options of companies according to legal frameworks, difficulties in finding channels to penetrate the market, brand recognition, past history of internationalisation, internationalisation analysis methods to cope with foreign competition, exchange rate fluctuations, political instability, cultural differences, defence of the brand, protection of registered technology, quality assurance, greater or lesser possibility of transferring operations, product specificity, penetration cost, competitiveness of products in those markets, the size required to achieve economies of scale, quantity and capacity of company resources, size and nature of the products, technological level, and the required investment (Dunning, 1981; Buckley & Casson, 2010).

Costs and risks inherent in such a process can easily be detected. Even before equating these costs and risks, one should also have a clear perception of the benefits that can be generated through the search for new resources, markets, efficiency and assets (Dunning, 1997), and these may be related to the use of core competencies in critical success factors of a business similar to that of internal external markets, enabling companies to achieve strong international competitiveness. With the economies of localisation that can be obtained (because if the benefits of the location of the business or production activities abroad are greater than its costs and risks, it is preferable to pursue direct investment or projects at the expense of the transactions) and with aspects related to a higher volume of production and sales that enable not only the breakdown of total costs but also advances in the experience curve, thereby reducing unit costs (Buckley & Casson, 2010).

In short, the existence of long-term global business always depends on factors of control and assets; these advantages require the ability to manage an active, international network and hold it for long periods of time. But above all, they also require a skilled team and the capacity to retain a set of key competencies over time, thus overcoming the "Penrose effect", and to carry out tasks translated through factors of extension, growth, and diversification (Buckley & Casson, 2007). But for this to be achieved, the global management described herein requires learning as well as substantial training and acculturation costs ; these can only be achieved with multinational management teams (Buckley, 2011).

In portraying internationalisation theories we cannot but portray Uppsala’s behavioural model, presupposing that a reduced “psychological distance” between markets can reveal to be an obstacle to the process of internationalisation of companies, termed paradox of psychological distance (O’Grady and Lane, 1996; Sousa and Bradley, 2008). According to the concept of “psychological distance”, the target-markets at the start of the internationalisation process of said firms should be neighbouring markets, it being so that in this presupposition the concept of “psychological distance” could easily dissipate into the term “cultural distance” (Ruigrok and Wagner, 2003; Métais et al. 2010).

In this perspective, countries are classified according to a set of objective cultural dimensions proposed by Hofstede (1994), and the results attained to are used to establish differences or similarities between countries. Barkema and Drogendijk (2007) and Smith et al. (2011), mention in this regard that companies have competitive advantages when they decide to expand their activity to other countries within the same “cultural bloc”, which is to say, groups of countries sharing the same kind of culture (Ronen and Shenkar, 1985). In a proposal of review of the concept of “psychological distance”, Sousa and Bradley (2008) propose a wider definition, related to the individual perception of differences between the country of origin and a given external market, in terms of economic development, climate, lifestyles, consumption preferences, language, education, and cultural values.

Following Uppsala’s model is also network theory, constituting itself as the renovation of Uppsala’s internationalisation theory. Network theory emerges in 1980 as a model explaining the process of internationalisation at the foundation of which is a diversified set of networks of relationships instead of the company’s specific advantages. Following observations, from the 1980s onwards, of the rapid process of internationalisation of a set of small companies, especially in services and information and communication technologies – firms with an international area of activity since the start of their activity, a new behavioural theory was presented, called international entrepreneurship (Sharma and Blomstermo, 2003; Schweizer et al., 2010; Rugman et al.; 2011).

## 3. METHODOLOGY

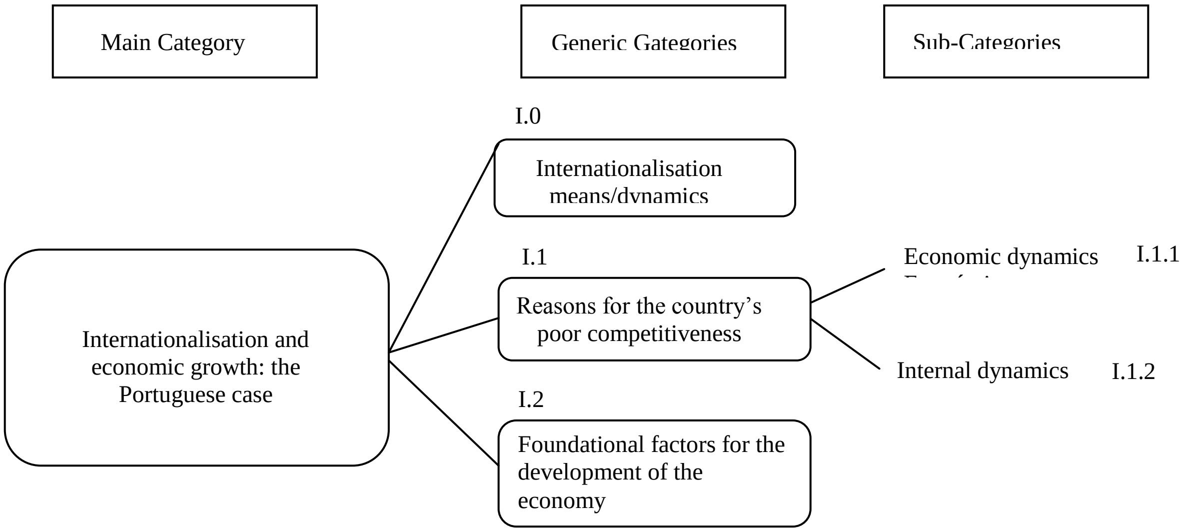
In terms of verification and demonstration of what is stated in terms of research, regarding the purposes that underpin this investigation, an implicit character was applied and exploratory aspects were considered. In the first case, it resulted from attempting to investigate a contemporary phenomenon in a real-life context (Yin, 1994). Also assisted with the presentation of an exploratory side, and in the absence of a large systematic knowledge about the complex social phenomenon, of Portuguese economic growth, having the purpose to create new ideas on the subject, and with the intention of gaining new inputs with the contribution of the interviewees in this area (internal validity).

As for the means, this research was of a pragmatic or inductive character, and was carried out from a non-probability sample of convenience composed according to the availability and accessibility of addressed elements (Ferreira & Carmo, 1998) – in this case, by Portuguese senior managers of SMEs. As such, 17 interviews were conducted, and the sample had an intentional character, as the participants were selected given that they represented the investigated phenomenon in terms of knowledge.

Qualitative methodology, then, resulted from the analysis of a set of interviews, seeking to measure the phenomenon in this study, in terms of social, individual and holistic dynamics of Portuguese economic growth, trying to understand the meaning that people give to the analysed phenomena – more than strictly interpreting them – making it possible to analyse data inductively, which is only possible to achieve from the observation, collection and analysis of scientific facts in loco.

As for the technique of qualitative analysis used for the interpretation of data collected from the interviews, this translated into an analysis of content, trying to relate the (significant) semantic structures with the sociological (meanings) structures of questions, so as to articulate the surface of the texts with the factors determining their characteristics (psycho-social variables, cultural context, and context, processes and reproduction of the message) – Figure 1.

Figure 1: Categorisation and codification of the interview's *corpus* for qualitative analysis

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The interview was structured into three generic categories which are interrelated with this study's three research questions. Category 1.0 sought to understand the dynamics and means of internationalisation considered most important to revitalise the Portuguese economy. This category is intrinsically connected to chapter 2.2 of the literature review (the economic theories of internationalisation), it being so that the idea is to connect the interviewees proposals (in terms of the Portuguese economy's dynamics) to the characteristics which are a part of the different theoretical models of internationalisation proposed by the various authors. It should be noted that the categories identified below, in Table 1, were created by the interviewees themselves.

Category 1.1 has no direct relation to any of the theoretical content intrinsic to the development of this article's literature review. It was however important to create this category so as to understand the reasons for Portugal's weak economic competitiveness, in order to relate and contextualise this data in the discussion of results. It should be noted, once again, that the categories identified below in Table 2 were created by the interviewees themselves.

It category 1.2 it was sought to perceive important factors which may be at the basis of the Portuguese economy's development. This category appears intrinsically connected to figure 2 (the four dynamics of scope as a response to the Portuguese crisis), it being so that the idea is to connect the interviewees proposals to the dynamis which are a part of figure 2, trying to understand the typology of the most frequently considered dynamics in the interviewees proposals. It should be noted that the categories identified below, in Table 3, were created by the interviewees themselves.

For this research's purposes, a structured and rigid interview was resorted to, as the objective was to obtain direct responses to the questions asked in each of the three categories referred to in figure 1.

## 4. RESEARCH RESULTS

In order to substantiate the content analysis quantitatively, it was required that interviewees be able to identify the fine main dynamics and means of internationalisation to revitalise the Portuguese economy, the five main reasons for the country's weak competitiveness, as well as the five main reasons which could be at the basis of the development of the Portuguese economy – tables 1, 2, and 3.

Table 1: dynamics and means of internationalisation considered most important by the interviewees for the revitalisation of the Portuguese economy (each interviewee scored them from 5 – most important – to 1 – least important).

| Dynamics and means of internationalisation for the Portuguese economy | Points |
|---|---|
| Search for alternate markets | 60 |
| Capturing foreign investment in the Asian continent | 37 |
| Reduction of conjunctural costs | 34 |
| Better management of credit and capital | 31 |
| Connection of companies with universities | 29 |
| Use of economic diplomacy as a means to diversify our markets | 28 |
| Initiate negotiations between states | 27 |
| Existence of foreign businesses in Europe | 26 |
| Better support for companies on the part of the state | 26 |
| Betting on diplomacy to diversify markets | 25 |
| Companies competing for quality | 20 |
| Constituting a Development Bank for SMEs | 11 |
| Broaden export markets, and not just based on geographic proximity | 11 |
| Existence of credit risk coverage associated to sales and suppliers | 8 |
| Companies that effectively know the business | 7 |
| Companies properly reading the problems | 6 |
| Companies correctly defining their plans of action | 6 |
| Companies focusing on achieving objectives | 4 |

Table 2: The reasons considered most important by interviewees for the weak dynamics of the Portuguese economy (each interviewee scored them from 5 – most important – to 1 – least important).

| Reasons presented for the weak dynamics of the Portuguese economy | Points |
|---|---|
| Weak dynamics of the Portuguese economy | 58 |
| Lack of investment in licensing | 47 |
| Lack of investment in energy | 47 |
| Lack of investment in taxation as a stimulus to development | 25 |
| Inexistence of pre-financing and export financing | 25 |
| Inability to face the low ratio of own capitals and company investment | 21 |
| Inexistence of state credit lines to invigorate the economy | 19 |
| Poor use of QREN | 17 |
| Inexistence of credit insurance relying on companies' pre-financing | 17 |

Table 3: factors considered by the interviewees as foundational for the future development of the Portuguese economy (each interviewee scored them from 5 – most important – to 1 – least important).

| Foundational factors for the development of the Portuguese economy | Points |
|---|---|
| Increase in exports | 47 |
| Reduction of inefficiencies and waste | 47 |
| Exiting the Euro | 25 |
| Listening to companies | 25 |
| Increase of the capital of the European Investment Bank | 21 |
| Plan of attack to the parallel economy | 19 |
| Access of credit lines with lower interest rates | 17 |
| Investment in agriculture and fishing | 17 |
| Adoption of the mode of VAT paid for by the purchaser | 16 |
| Restituting Christmas and Holiday subsidies (done in the meantime) | 15 |
| Reducing costs with public debt | 14 |
| Transforming the single currency into a common currency or exiting the Euro | 14 |
| Existence of fiscal stability or predictability | 11 |
| Freeing banks from the close connection to public debt | 11 |
| Stimulating consumption through emigrants | 11 |
| Ceasing company financing via the Finance Ministry | 10 |
| Reducing energy costs | 10 |
| Existence of management control instruments such as the balanced scorecard | 8 |
| Lowering the Single Social Tax | 6 |
| Existence of subsidy programme by the state | 5 |
| Lowering VAT | 4 |
| Lowering Corporate Income Tax | 2 |
| Urban rehabilitation | 1 |

## 5. DISCUSSION OF RESULTS

As seen in the literature, the Portuguese problem is part of a much larger problem, the European one. Although various types of reforms have been implemented to solve the Portuguese crisis, it is important to realize that this problem can only be resolved after the resolution of the European problem. After that, there is the possibility of getting a clear situation of the implemented reforms, because Portugal enjoy a status that many European countries do not. Portugal enjoy, in different parts of the world, the condition of being a historical power, particularly in Asia, and thus have the ability to make the European connection to this emerging world. This assumption, good choices and good cultural management, and political and social consensus are therefore key success factors which could get the country out of this crisis and take it to a much stronger position. However, it is essential to focus on the four dynamic ranges of Figure 2, and

Portugal has to follow a clear line of demand in terms of alternative markets, attracting foreign investment, using of dynamics of internationalisation and a set of strategic guidelines to allow its economic growth.

The means of internationalisation are therefore so vitally important in this context, that Portugal should focus mainly on four strategic lines, (1) lower contextual costs and a focus on exports, (2) empowerment for better credit management and capital, (3) a greater connection of SMEs to the academic environment, and (4) clear economic diplomacy to increase the enabling component of internationalisation as a way of creating value and solid growth.

The markets' scope for the increased rate of exportation, focus on services, easing financing to SMEs, including subsidies, would consequently make exports to be the only viable path to development and to leverage Portugal in the world economic context. However, the viability of the increase of exports by SMEs will be impossible without pre-financing and financing to exports and the need to capitalise them. The existence of state credit lines, the use of QREN and, fundamentally, something that has not been manifestly the focus of many analyses, namely, the coverage of sales credit risk and the coverage of supplier credit to Portuguese companies are in this regard under the spotlight. With international commerce around amounts very close to 15 trillion Euros, often receiving is more important than selling. It is in this regard that the coverage of credit risk should be considered in a much more effective way, which has not been happening lately, it being so that credit insurance represents only about 10% of Portuguese and world exports.

This is, the existence of a development institution in Portugal that clearly supports SMEs, should not be only to centralise the support for these companies by covering their needs but, above all, also, to focus the coverage of credit risk if things go wrong. On the other hand, it is unrealistic to think that the country will become competitive through the reduction of wages, because in this area we will never be like some other countries. The need for Portugal to compete for quality thus becomes a key aspect of its development, which has been limited by the consecutive cuts that have been made mainly in the development of projects related to technology.

The connection of universities to the business context is therefore a crucial factor, and an issue of quality, since, given the extraordinary preparation that universities hold in terms of resources and expertise to prepare entrepreneurs for what is expected, academia also has the ability to prepare for something wider, the unexpected. The footwear industry has been a great example of the benefits that can be absorbed by this connection, and Portugal in this area has had a very satisfactory performance.

In terms of characterisation of the footwear industry, the world produces 20 billion of shoes per year, and the Asian continent produces 85% of that volume. Just as an example, for one to assess the Asian dominance in the world, in technological terms China produces and exports more than Germany and the USA together. In the textile industry, China exports more textiles than the amount of the Portuguese GDP. In the footwear industry, Asian hegemony leaves only 3% of world production to Western Europe. These are just a few examples of the result of the exploits of the Asian economy, in which, in the footwear sector, China has a selling price of about 3 dollars while in Portugal the values are around 25 dollars, which places the Portuguese footwear sector in clear difficulties in terms of competitiveness. This difficulty, as in most industries, has made the footwear sector in terms of exports to firstly turn to proximity markets, and secondly to a higher target market, competing for specialisation or focus on differentiation in 10 major cities of South America, in 14 major cities in China and in Europe as a whole because its 250 million inhabitants can position this target by showing good performance in terms of strategic positioning. But if the connection to universities has a key role here, we can nevertheless not neglect the need for a more effective focus on economic diplomacy. State to state negotiation, business support, having foreign business rather than just being present abroad with the Ministry of Finance, and diplomacy as a means of diversifying markets, are steps to expand in the future, searching for countries that can influence in terms of the development of our economy.

In this area, there are countries that, while facing some kind of instability in the past, having gone through long civil wars (in some cases not completely resolved), are very important areas which we can bet on, since we enjoy great respect by these communities. Countries like Angola, Mozambique, and Zambia and others throughout southern Africa (rich in energy, natural gas, coal and other numerous types of minerals) are therefore the main goal of internationalisation of Portuguese companies. A good diplomatic relationship and the choice of a global partner that enables access in these countries due to the knowledge they have of their country, their history, their decision-making structures (apparent power vs. actual power) and any political relationships they have with the political classes, are crucial aspects to take into account.

Economic diplomacy in Africa, but also in Brazil, the Asian markets, the U.S. (0.25% growth in the U.S. is more important for example than to grow 6% in Africa) or even in the Persian Gulf markets, despite the difficulties that may be faced, is the most solid way to grow and sell products with higher added value, as a result enabling people to be paid more comfortably and generate employment.

In short, the country's economic growth must therefore be connected to the four dynamics of internationalisation illustrated in Figure 2 that in addition to the data presented here should also have a broader scope of analysis, predominantly in terms of the data presented in the results section of this research, in particular to increase the level of exportation, reduced inefficiencies and waste, leave the single currency bearing the costs in the short-term to be able to thrive in the long-term, listening to companies and their needs, increasing the capital of the European Investment Bank, having a plan of attack for the parallel economy, enabling access credit lines for investment with lower interest rates, investing in agriculture and fishing without barriers imposed by the government or Europeans restrictions, adopting the VAT system purchased by the buyer, allowing companies to stop worrying about VAT and focus on growth, restituting Christmas and Holiday subsidies to boost demand and inject capital into the economy, reducing government borrowing costs, ensuring fiscal stability so as to capture foreign direct investment, releasing national banks from public debt as a way to provide them with liquidity and ability to inject capital into the economy, lowering municipal taxes for emigrants as a way to allow them to invest in the country and mainly in the area of construction, creating exceptional situations for access to credit to reduce energy costs, establishing management controls mainly focused on intangible dynamics, reducing the single social tax (TSU), reducing the value-added tax (VAT), reducing collective income tax (IRC) to 10% for companies that export, having state subsidy programmes, fostering urban renewal, focused primarily on a rapid response to requests for licensing, audit programs, and reducing working time, with for example the situation last played in the genesis base of the German reform process and that led to a drastic reduction of unemployment in this country in recent times.

Something might be however noted in internationalisation, although respondents have identified a set of four strategic lines which the country should focus on: it actually seems to miss the main methods of entry abroad identified in this theoretical construct research, restricting the options of internationalisation of enterprises according to some conceptualisations, leading to legal issues, difficulties in identifying channels of penetration, brand recognition issues, past history of internationalisation, internationalisation analysis methods to deal with foreign competitors, exchange rate variations, political instability, cultural differences, the imperative of brand advocacy, protection of proprietary technology, the need for quality assurance, the greater or lesser possibility of transferring operations abroad, the specificity of the products, the cost of penetration, the competitiveness of products in those markets, the size required to achieve economies of scale, the quantity and capacity of company resources, the size and nature of the products, the technological level and the actual intensity of investment, should be classified in this dynamic in order to realise which ones will be most decisive for a given specific context, as mentioned by Dunning (1981) and Buckley and Casson (2010).

In fact what has been achieved through this research is the access to the revitalisation of the Portuguese economy that can be achieved through greater demand for alternative markets, greater ability to raise foreign investment and the introduction of fundamentally new dynamics and forms of internationalisation. I.e., the dynamics of internationalisation of SMEs linked to other national internal management factors that may help develop the economy in the future and makes this research representative and not limited only to compulsory questions; it encompasses a national study and shows what needs to be done in terms of optimising processes to obtain satisfactory results. As we could note, the development of the national economy should be strongly linked to the context of competitiveness of companies, regardless of their areas of intervention, and to important strategic manoeuvres particularly in the Asian continent that will enhance the conditions that Portugal enjoys in these markets given history circumstances. The search for alternative markets, the attraction of foreign investment and fundamentally the use of new forms and dynamics of internationalisation, related primarily to the reduction of short-term costs, credit and capital management, an effective connection between companies and universities, and the use of economic diplomacy as a way to diversify markets, are all of great importance in this field. Variables such as the lack of investment in licenciamentos, the lack of investment in energy, the focus on taxation as a stimulus to development, the inexistence of pre-financing and export financing, inability to face the low ratio of own capitals and company investment, and the inexistence of credit insurance based on company pre-financing are some of the reasons pointed to by the interviewees for the weak dynamics of the Portuguese economy.

On the other hand, state intervention should bring to this context an innovation factor and, depending on the objectives, also bring about new ideas so that the best solutions can be delivered for the identified needs which, according to respondents, open negotiations should be done for a greater business support, the existence of foreign affairs in Europe, and a closer diplomacy as a way of diversifying exportation of domestic goods and services. Moreover, with the economic and business commotion that has taken place in the last twenty years, nowadays business specifications are manifold, as clearly mentioned by respondents: the need for Portuguese companies to compete through quality by selling local products and choosing local partners to facilitate the entry of services in foreign countries, also saying that exports are the only viable way to boost a country, even if it is only possible through the establishment of a Development Bank to support SMEs and implement credit risk coverage to the sale of suppliers and Portuguese companies.

It is therefore important to know the business, analyse all problems appropriately, define good action plans, focus on goals, exportation and services that not only focus on geographic proximity (as it happens today), but are equally considered as key drivers to change the Portuguese economy.

More broadly, and in terms of scope of analysis, tied not only to the question of dynamics and means of internationalisation, the interviewees, as noted above, considered a total of 23 factors which could be at the basis of the development of the Portuguese economy, despite many of these not being of easy implementation and being wrapped in some controversy regarding any possible implementation. Table 4 shows us these dynamics within the four dynamics of scope as a response to the Portuguese crisis (created by the authors on Figure 2).

Table 4: Important factors toward the development of the Portuguese economy in light of the dynamics of figure 2.

| | **Important factors which may be at the base of the Portuguese economy's development** | **Dynamic of scope on Figure 2** |
|---|---|---|
| 1 | Increase in exports | Fostering Economic Growthlato sensus |
| 2 | Reduction of inefficiencies and waste | Fostering Economic Growthlato sensus |
| 3 | Exiting the EURO - as mentioned by several respondents, this is the most likely scenario since, despite the optimistic predictions, Portugal has not yet paid back what it borrowed in the past three years | Fostering Economic Growthlato sensus |
| 4 | Listen to the companies - this is essential. What do they need to have better results? | Fostering Economic Growthlato sensus |
| 5 | Increase the capital of the European Investment Bank - although in this case it would not benefit the country since its rating is classified as garbage; | Capturing foreign investment |
| 6 | Plan of attack to improve our economy; | Internationalisation dynamics |
| 7 | Access to credit lines for investment with lower interest rates | Capturing foreign investment |
| 8 | Betting on agriculture and fishing without barriers or restrictions by the government or Europe; | Fostering Economic Growthlato sensus |
| 9 | Starting the acquired VAT system when initiating companies without the need to worry about VAT, allowing to focus on growth | Fostering Economic Growthlato sensus |
| 10 | Restitution of Christmas and Holiday subsidies; | Fostering Economic Growthlato sensus |
| 11 | Reduction of costs with public debt; | Fostering Economic Growthlato sensus |
| 12 | Altering the single currency or exiting the common currency - one respondent gave the example of Iceland, which left the Euro and is growing after only two years. This is also considered a way to cope with the overvaluation of the Euro, the latter being valued at about 40% making the situation unsustainable; | Fostering Economic Growthlato sensus |
| 13 | Existence of fiscal stability or a certain degree of fiscal predictability in order to capture foreign direct investment and the entry of holdings in Portugal | Capturing foreign investment |
| 14 | Releasing banks from the close connection that they have to national public debt in order to generate higher levels of liquidity and therefore inject capital into the economy | Fostering Economic Growthlato sensus |

| | | |
|---|---|---|
| | through loans with favorable terms for private companies; | |
| 15 | Foster consumption through the four million emigrants - in this case lowering the IMT (tax on the sale of property) to make these emigrants return and invest in the country, mainly in the area of construction; | Capturing foreign investment |
| 16 | Not financing companies via the Ministry of Finance – today, to obtain bank financing, companies are required to produce a certificate of the Ministry Finances declaring the absence of debt. The banks, in the absence of this certificate, offer absurdly high spreads. One of the respondents says that it could be an exceptional situation for the next four years allowing easier access to credit, which will allow companies to grow and ultimately pay debts; | Fostering Economic Growthlato sensus |
| 17 | Reduction of energy costs, that are the highest in Europe | Fostering Economic Growthlato sensus |
| 18 | Existence of management control tools such as the balanced scorecard that allows for the control of the intangible aspect of analysis and budget issues; | Fostering Economic Growthlato sensus |
| 19 | Single social tax; | Fostering Economic Growthlato sensus |
| 20 | Existence of state grant programs, controlled through an evaluation commission linked to universities evaluating and measuring the possibility of such capital injection into the economy; | Fostering Economic Growthlato sensus |
| 21 | Free VAT; | Fostering Economic Growthlato sensus |
| 22 | Lowering Corporate Income Tax to 10% for companies that export; | Internationalisation dynamics |
| 23 | Urban Renewal. The occupation of public highway currently takes one month to be achieved, and the licenses have no time limit. In this case there should be a minimum time to get answers. | Fostering Economic Growthlato sensus |

Concerning this analysis, it was further interesting to understand, in reading the data, that the factors regarded by the interviewees as the main ones for the dynamism and revitalisation of the Portuguese economy rested on a hybrid dynamic when analysed in light of internationalisation theories. The suggestions (1) search for alternative markets and (2) capturing foreign investment in the Asian market, for example, are two clearly intrinsic factors in avoiding the pre-suppositions of the Uppsala model's behavioural theory (very typical of the pre-suppositions underlying Portuguese companies' internationalisation), relying on a non-rational process of incremental nature aiming, on the one hand, to benefit successive learning by means of increasing commitment to foreign markets and, on the other hand, by searching for alternatives wherein the company feels as little foreign as possible (psychological distance).

The factors listed are illustrative, however, of a contradiction with a third factor considered to be of the highest importance, (3) the connection between companies and universities, which points to an adaptation of the intrinsic factors to the Nordic behavioural school which relies on the Uppsala school's pre-suppositions and which comprehends the constitution of join work networks which foster the continuous learning required by the force of contemporary globalisation. Further, other factors such as (4) investment in diplomacy as a means to diversity markets and (5) initiating negotiations at a state level pre-suppose an investment into internationalisation in a perspective which points to the context of Dunning's eclectic theory of localisation advantages (1988). Lastly, it was also interesting to note that, in the context of reasons point to by the interviewees for the weak dynamics of the Portuguese economy seem to be the great difficulty by companies to move from the stage of exports to the stage of licensing or of foreign direct investment which, according to them, could only be facilitated through state credit lines or a better use of QREN, both factors which would allow to address the sequential internationalisation pre-suppositions of Buckley & Casson's economic theory (1976, 2010).

Finally, it was also interesting to note that, among the reasons pointed to by the interviewees to explain the weak dynamics of the Portuguese economy seem to be companies' great difficulty in moving from the exports stage to the licensing or foreign direct investment stage, which, according to them, could only be facilitated through state credit lines or though a better use of the QREN, both factors which would allow to address Buckley & Casson's (1976, 2010) economic theory's sequential internationalisation pre-suppositions.

## 6. CONCLUSION

To conclude, for the findings presented in this study we naturally have to take into account the result of the inherent limitations in terms of a reduced sample size (respondents) and the fact that it reproduces the results of a given context (SMEs) in a given country (Portugal). Thus, in terms of external validity, i.e., the ability to generalise the findings to other settings or samples, although this study has been able to strengthen some of the existing theory regarding means of internationalisation and implementation of economic theories, this is only an exploratory study and cannot be generalised or viewed as representative. On the other hand, despite the secondary sources that have been used, this factor also cannot justify the results presented here nor can they be viewed as necessarily generalizable in terms of practical application of economic theories. Thus, while this article primarily aims to answer the two stated research questions, it is therefore necessary to continue to develop this type of studies and perceive this reality, bringing to the academic field a considerable amount of information to bring above all originality and contribute concretely to the development of this research field. One way to address this gap is by extending this study to a deeper background on all these matters, so that related to the economic theories and bases of internationalisation which should encourage its development, this effect may include the construction of a model that allows to associate all these variables, so that it can identify which ones are most critical for the success of the country's future.

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