Internationalization
Barriers to Portuguese Companies

Doing Business Internationally

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# Index

Introduction .............................................................................................................. 3

Internationalization ............................................................................................. 6

Barriers .................................................................................................................. 8
  Insufficient finances and lack of capital to finance expansion into foreign markets ................................................................. 8
  Lack of export commitment and adapting to foreign market needs ............ 8
  Lack of foreign channels of distribution ............................................................ 9
  Cost escalation due to high export manufacturing, distributing and financing expenditures ........................................................... 10
  Market attractiveness and exchange rates ......................................................... 10
  Government Restrictions ................................................................................ 11
  Venture Management characteristics .............................................................. 12
  Competition ....................................................................................................... 13
  Foreign business practices incompatible with domestic ones .................... 13

How can a company internationalize? ................................................................. 15

Special barriers or factors in internationalization of Portuguese companies .... 17

References: .......................................................................................................... 20
The Portuguese Empire is one of history’s greatest enigmas. Around 1480, the Portuguese had reached the southern African coast, and at the same time, crossed the vastness of the Atlantic to colonize the Azores, it is likely that at this point their intrepid fishermen were already installed in the seas full of rocks and fish from Newfoundland. India and America seemed to belong to them, in fact, if the Portuguese had listened to Columbus they would have had dominion over the three continents before any other nation in Europe. Columbus and Spain denied them what fate seemed to have had for them, even so, in mid-sixteenth century the Portuguese dominated a bigger portion of the world and of trade than any other country. Africa, with the chain of trading posts and forts that reached the far east and, the south-western shores, the area of major ports in Goa and Hormuz, which gave them control of the valuable trade of the Persian Gulf and Indian Ocean. Outposts in Ceylon and Indonesia put the trade of spices in their hands. Firmly established in China and Japan, they brought to the metropolis ships loaded with the luxuries of the Orient - silks, porcelain, lacquer. A dream that obsessed men in time of Prince Henrique, O Navegador, had become a reality. These early explorers hesitant, assaulted and harassed by the danger of death, marked the major trade routes with boats growing, bursting with people and foodstuffs, which through storms and calms, followed imposingly their way up the eastern empires.

All this venture had awakened Europe and, a century after their discovery, Dutch and English barked at Portugal’s heel, bloodthirsty and greedy. They flooded Europe with spices, and the Portuguese empire collapsed. And that which like a meteor had risen, like a meteor fell too. Soon there remained only unprofitable pieces in the East and West Africa and some commercial outlets - Luanda and Mozambique in Africa,
Goa in India, Macau and Timor in Indonesia near Canton. For a terrible price, Portugal opened the doors to a new world, which it could not master or control and, with the usual malice of history, was overtaken and left dying as a pensioner out of the world’s charts, possessing sufficient to survive but too little to achieve glory. And as an old man, desperately clinging to everything he has, in an attempt to resist the time - unlikely prospect.

The Portuguese trade strategy is an appealing analytical issue. Indeed, as a small economy and conversely to most other akin European countries, Portugal, in the post-war, was tardy and at a snail's pace incorporated into the world economy. This was largely due to the protection of an economic logic of empire that has only waned in the late 1960s; and, after a transitory interlude (1974-1985) where profound macroeconomic imbalances did not permit a reversal of the tendency to disregard the construction of an effective and large trade strategy, the EC membership in 1986 began to influence the essence and institutional structure in this key area for a country with its distinctiveness.

In a brief review, as far as the foreign sector is concerned and throughout the 1990s and 2000s, the Portuguese economy has not yet prevailed over central negative historical legacies like the fact of remaining somewhat closed and showing profound competitive weaknesses. Until the middle of the 2000s, the Portuguese trade performance was manifestly inauspicious from the global and European point of view (one of most salient examples is the considerable decline of Portugal's share in the German market). Nevertheless, at the same time, there was an advance in important aspects of the sector; e.g., the weight of new and upgraded products in the exports’ structure has been enlarged and trade imbalances have diminished. After 2005, there are a few signs of a optimistic turn; we can detect a superior diversification of exports by
products or geographically, specially towards outside EU and new member states, and exports are increasing at a higher rate than imports and output (in spite of the high value of the euro). One of the essential reasons behind the feeble trade performance since the early nineties has undoubtedly been the lack of a true and credible strategy of internationalization, particularly when addressed to solve competitive problems in the context of EMU. In this matter, also in the last years, more specific objectives have been put forward and need to be critically implemented. Even if these new initiatives prove successful, due to the size and persistence of its fragilities, the competitive revolution of the Portuguese economy in the globalization era will be a long term process.

In this work we analyze and try to identify a set of limitations and barriers to Portuguese companies’ internationalization and delve further into some possible strategies to speed up this desired and necessary expansion to foreign markets, with higher probability of success.
When a company decides to go abroad it can do it for several reasons. One of the main reasons is because of *Globalization*, some specific markets are becoming very homogeneous and it facilitates a company to internationalize. Other companies decide to do it because they want to go after their customers. Also when the markets in companies’ own countries are already saturated they go abroad to chase new opportunities and to amplify their size. These are market-based reasons but there is also other kind of reasons.

Companies can take advantage of strategic capabilities in order to broaden the market size, to take advantage of value-added activities that cannot be used in their home countries or to gain knowledge in that specific market. Finally a company can also internationalize to take advantage of economic benefits like economies of scale or stabilize the companies’ earnings across different markets.

Once the strategic orientations are defined for the country of Origin, the company should analyze the possibility of operating in other geographic markets. The process of internationalization of the company must be framed with the competences and competitive advantages developed in the internal market.

The first step in an internationalization of a company is the extension of its products- markets and the Vertical Integration for the other countries. Once decided the mode of entry in other markets, the company should also decide if the action would be standardized or if it needs to be adapted to specific of the new environment. The company also should identify the integration level between the national and the international market that provides a reduction of the total costs without losing the
commercial effectiveness. Finally, the company should adjust the internationalization level with the markets and competitors evolution tendencies, in order to ensure the company long term success, not only in the internal, but also in the external markets.

The internationalization process involves two critical decisions: To where? And how? The selection of the priority internationalization markets must obey to the criteria of the strategy nature. This way, companies can maximize the competitiveness in the national and international markets.

After this analysis, companies should now try to understand which barriers they’ll face when in the process of internationalizing and prepare themselves best in order to face them properly or, if possible, avoid them. This, because to choose the best entry strategy, one must first know what will encounter and which obstacles will have to overcome.

Much like anything else that needs a strategy, whether an internationalization or a football game, the objective has to be carefully studied and as many information as possible has to be gathered so the proper response can be developed and taken into action at necessary times. Internationalization goes the same way.

Having this said, we’ll present a set of barriers, internal and external, that may affect companies ill prepared that want to proceed with internationalization.
**Insufficient finances and lack of capital to finance expansion into foreign markets**

When trying to enter a foreign market, a major factor of concern is the company’s finance power, i.e. the ability to have the needed funds to finance its overseas operations, not just the need to raise funds to start it, but also throughout its entire foreign journey by the increasing difficulty in collecting money from their foreign customers, especially if the company as not the size and ability to ensure a proficient money gathering.

When starting their foreign business most of the requirements involve capital expenditures in various things such as promotion, distribution channels, product development or market research.

On other terms, the firm may not even have the needed capacity to internationalize, and in order to internationalize, it needs to incur in more costs to improve its production capacity. And usually that takes a lot of financial effort that the company is not able to do.

Therefore the company must be aware of its financial resources, its capacity to raise capital and the ability to maintain its foreign operations even if that means to sustain a high working capital.

**Lack of export commitment and adapting to foreign market needs**

The market need of a particular product or service is highly correlated to the culture of the country. This means that different countries will have different needs, even if they are just barely different, but this is not usually the case. Because different countries with different cultures will expect a different marketing-mix, in product, place, promotion and price. It is not just to put your product in the market in the right language, is to put the right product, in the right place, at the right time and at the right price, and all of these variables deal with huge amounts of information and knowledge about the specific market where the firm wants to compete.
Besides, the product choice has a major importance by identifying the clients and the competitors as well other decisions on the marketing-mix. In the end, the company needs to build a strategy of adaptation of its products to the foreign market needs.

The question is: does the company have the willingness and the ability to adjust to the foreign market needs?

Therefore there are two barriers here: the insufficient knowledge of the foreign market and the adaptation to the foreign market needs.

This will lead to another barrier, the lack of export commitment, which comes from the reluctance in changing the products to comply with the foreign needs, culture and norms.

It is common-sense that after a company enters in a foreign market the local competitors will inspire and lead the firm to adapt it to the market needs, and after getting that knowledge the firm could develop better products to meet those needs, but that takes a lot of effort, commitments and ultimately costs by the changes needed. But this strategy also depends on the knowledge of how the foreign markets work, and especially how it is going to be the reaction of competitors and which are their strengths and weaknesses.

**Lack of foreign channels of distribution**

When the target markets and products are defined it is wise to think about how the company’s products or services are going to be delivered, i.e. the intermediaries by which the company’s output need to pass in order to arrive at the desired targeted consumer. This is called the distribution channel and in some cases it can be quite complex to managed it and most of the cases it can be demotivating to assure the right intermediaries that can deliver with the right quality, time and cost because they may not even exist.

Also it may happen that they are already under the scope of some competitor or the company simply does not have access to them. All of this costs a lot of time and money, not forgetting that it can turn around the price policy, but in the end smaller firms will have more difficulty to find distribution channels than the SME’s.
Cost escalation due to high export manufacturing, distributing and financing expenditures

It is easy to predict a competitive price when you are aware of your total costs and yet companies fall into the slip that they can provide them same products or services into the foreign markets with almost the same cost as in the domestic market. But when a firm sums all costs that she needs to incur in order to serve its foreign customers, such as manufacturing, distribution, financing expenditures, taxes or promotion, it is obvious that firms must pay attention to details to provide their products or services at the right price, and yet be competitive.

For example, when shipping products to a foreign country, firms incur in costs that are different and usual higher than the ones incurred in the domestic market. And higher transportation costs results in higher product costs.

On other terms, the firm may not even have the needed capacity to internationalize, and even if she commits itself to do it, it has to incur in more costs to improve its production capacity. Therefore, internationalization leads to a cost escalation that can provoke serious problems to the company and in the end they can become a barrier to its own internationalization.

Market attractiveness and exchange rates

Often, the combination of several aspects can cloud the judgement of the decision makers when the possibility of internationalization arrives, such as distribution channels or differences in product usage in the target foreign country. All this will contribute to decrease the market attractiveness, even if not directly. But, because managers start to face so many difficulties they’re perception of the true value of the market is influenced, and this sometimes might result in the disregard of a market with high potential but, apparently, non-attractive.

Other times, poorly made market studies or the non-knowing of the cultural differences at all of the target-market may lead managers to a miss-conception of the true value of the market, overlooking it.
To fight this, fair and proper studies must be made, as accurate as possible, exploiting the best possible relationships between the home players in need and the company, thus giving the best success chances to the company with the best deal possible in a fairly evaluated market.

Those other problems can be the difficulty in providing after sales service on the external markets, and the fluctuation on the exchange rates.

When the firm needs to increase the costs of its products or services in order to provide them to the final customer, it needs also to increase the final price to absorb those extra costs, which will make the product less attractive for the external markets. The same way, fluctuations on the exchange rates will lead to extreme difficulties in quoting prices and it can lead to losses on the domestic firm, even having profit on the external markets. However, for Portuguese firms trying to internationalize to Europe Union this is not a matter of concern thanks to the unique currency (just on the eurozone countries)

**Government Restrictions**

As we are seeing, every time a company considers entering in a foreign market it needs to have into account several factors. One of those is restrictions imposed by the local government. There are some countries that only allow companies to enter with partnerships with local companies which can reduce or influence companies’ intentions in that country. Also, companies tend to avoid countries where taxes are very high (mainly because of taxes on imported products) because they’ll reduce companies’ profit and on other hand, they have strong willingness to countries which give high economic benefits like exemption to pay taxes.

What can also happen with companies intended to internationalize or just export their products and don’t have the needed support is known as export barriers. Some governments don’t have policies defined to help companies to export, like reducing VAT to companies that export, which in medium-long term perspective will be very
helpful to balance countries’ balance of payments that is usually negative, i.e., countries tend to import more than export.

Frequently a company needs to take care of issues such as regulation, required documents, certificates and licenses to allow their entrance in foreign countries. Usually conflicts, revolutions and wars disrupt foreign markets and this is not attractive for companies, it is not good also when foreign currencies are weaker than domestic currency. Also customs-house taxes is a barrier that leads to high prices to imported products which make it even more difficult for a company to succeed in a foreign country.

**Venture Management characteristics**

When working to internationalize, certain aspects must be covered in order to pursue this objective without compromising the company’s current situation in its home country, in the case of this analysis, Portugal.

Firstly, management has to do a proper interpretation of the data they collect since many times, the misinterpretation of this information may result in overlooking a market with high potential. Once that is done, companies often disperse their efforts in an unbalanced way resulting in one of two things. Either this mismanagement in the target market and its consequent interpretation by the responsible team end up in pulling the plug from the project, or the home country may suffer consequences since the company is giving too much importance to the internationalization.

This being stated, management has to make an effort not to disperse its managing work solely onto the target market but also, the latest mustn’t be underrated and all necessary steps should be taken. So, in order to do this, a certain level of independence must be given to the new market. Failing to do so could result in not suiting the Portuguese management practices into the country in question, dispersing the management efforts and, eventually, possibly losing the possibility to conquer a leadership position in the new market(s).
**Competition**

Internationalization opens door to more competitors, not just the local ones but also from other foreign companies. More competitors means that there is more exposure, more exposure augments the possibility of some of the competitors learning more than wanted about the company’s products or technology, and ultimately more competition means less profits for each competitor. Bearing that in mind, companies visualizing internationalization should build strong management control systems in order to avoid this type of situations, this way, ensuring that the brand image, product quality and the company’s image don’t get harmed. Also the company could made joint-ventures among other competitors to ensure higher profits and probabilities of survival.

**Foreign business practices incompatible with domestic ones**

Often this is the barrier many companies only realize it exists upon arrival to the foreign target markets, and it’s terribly because at this point, a large portion of the investment is already made and this usually only translates into two things, more spending to try a correct the previous mistakes or the withdrawal of the market. There are a large set of examples that one could mention, in case of Portugal, since there’s a strong relationship with Angola, the bribery issue is pretty obvious as it is a common practice there but prohibited in Portuguese lands.

In Russia, if the right connection isn’t made, products might stand still at port side for months, only adding stocking costs to the companies that await its taking to the agreed destinations.

In both examples, what happens is that companies have two options; either comply with this way of doing business and by so complying with what are illegal practices in their home country, or, to say the least, un-ethical, risking brand and company image in the process, or retrieve from the country in question throwing to waste all the investment made with time and money.

It is a huge miss-step that should must be carefully studied, cultural differences in business practices mustn’t never be overlooked as they can dictate the success or not of
the company in the target market, and often its failure can even bring repercussions back to Portugal.

The barriers that we have identified so far in this paper are easily applicable to most of the countries, where companies want to internationalize, and that are supported by a large number of authors. However this study wouldn’t be complete if we didn’t talk a little bit about special barriers and other factors just for the Portuguese companies. But before, the reader should get a basic knowledge about ways of internationalization in order to understand easily the previous barriers and the special ones.
How can a company internationalize?

Since there was already identified the main barriers to enter in foreign markets, it’s convenient to refer the way that those companies can enter. There are several ways to do it but each one has their specifications, advantages and disadvantages.

The most common way to enter in a foreign country is through Exporting. The companies just need to ship their products/goods which were produced in their home country and sell it in the destination. For this they usually can do all important tasks by themselves or hire an export management company to take care of everything. Through Exporting companies don’t need operational facilities in the host country and they can also achieve economies of scale and minimize the risk for the company. On the other hand, it limits opportunities to gain knowledge of local competitors and markets, it increases the exposure to trade barriers like import duties and the firm is not allowed to benefit from localization advantages on the host country.

Another way to enter is through Licensing, with this, companies give the permission to host company to sell/produce a product and in return the licensee has to pay compensation. This is useful to companies that don’t have enough financial resources to entering in a foreign country directly and have powerful and well known brands.

Joint venture is also used to enter in foreign country through combination of resources and expertise needed to develop new products. Using this strategy the companies are able to enter in a country that restricts foreign ownership and also to reduce the risk by entering with few assets.

If a company wants to enter quickly in a foreign market is through Acquisition, purchasing a host company will enable to have already established the distribution network, knowledge in the market and tend to lead to synergies.

The previous strategies are useful to enter but sometimes the company has financial power to enter alone in the market and start from scratch, this strategy is called Green-field Development. The risk of this strategy is much higher and it is also very
expensive but in other hand it gives the opportunity to the company to build a factory and their own distribution system according to their needs.

There are also other strategies to enter in foreign market such as Product sharing, Turnkey Operations, BOT Concept and Management Contracts but are less used.

Finally, after choosing the type of entrance in the external markets, the company should restrict the options of internationalization by analyzing the following factors:

- Legal environment
- Access to the market
- Risk
- Return
- Costs
Special barriers or factors in internationalization of

Portuguese companies

There are some special factors that are always present if we are talking about internationalization barriers of any company, including Portuguese ones, the ones that we have been focusing. When we are talking about internationalization of companies, we need to precise to what that internationalization is referred to. In this case we focused on direct export, joint ventures, licensing, turnkey projects, whole owned subsidiary, franchising, acquisition and greenfield investment. Those are all the business ways to expand to and international market and all of them have advantages and disadvantages, but the barriers are applied to all of them in one point of time or another.

The factors referring to are the following: 1) the imposition of a second (or multiple) set of government restrictions, 2) cultural differences between nations, 3) the role of multinationality itself, and 4) differences arising from the comparative advantage of firms in different locations.

| Portuguese export partners in 2009 | Spain (25.3%); Germany (13.7%); France (13%); Angola (7.6%), United Kingdom (5.3%); Italy (4.1%); Netherlands (3.3%); United States (3.0%); Belgium (2.6%); others (22.1%) |

For Portuguese companies the most interesting market is by far Spain. To continue with Europe there is considerable to trade with Germany, France, United Kingdom, Italy, and Netherlands. In Africa, the most popular markets are Angola and Cape Verde. In Americas that would be United States. So even here we can conclude that the language barrier is one of the most important ones, we will focus on it in another part of the work, because the bigger importers of Portugal are not the Portuguese speakers, which is strange being Brazil one of the countries with higher development potential. So why is this happening? Which are the barriers preventing Portuguese companies to exporting more for high potential markets?

Every Portuguese company wanting to do international expansions will be faced with the first barrier which is the imposition of a second or more governments. When a
Portuguese company finds a market that would like to explore, the government governing that market is the most important barrier to overcome. The new market could have a different legislation system, different tax regime, different standards and different regulatory machine. All of the company’s operations have to be aligned with the barrier and most of the times if a Portuguese company does not pay attention to what is required of her in the foreign market, the attempt of internationalization could fail on the beginning of the business model. A big factor to consider is also bilateral relations between two governments which could be a big barrier but also could be an opportunity. A thing to consider is business environment that would impact accounting principles in the new market which is not aligned with the domestic one.

The second factor would be cultural differences between nations. As mentioned before in the text those cultural differences have the biggest impact in language and understanding and conducting business itself. It is obvious that Portuguese companies are trying to avoid those barriers by doing business in former colonies that speak the similar language and the Mediterranean countries where the mentality is likewise similar. But when dealing with markets and countries that do not share those characteristics, barriers appear and overcoming them is crucial for business success. Here, from this point of view we are speaking about Portuguese companies that are first time entrants to the foreign market, so the physical distance of the market can be taken into consideration. As previously mentioned the biggest barrier is language and the attitude of the people toward law and conducting business.

The third factor is the multinationality itself. This factor is more relevant to big Portuguese companies trying to diversify their business with entering new markets. We can conclude that a multinational company would have it easier to enter a new international market, and that is true in most of the cases, but there are also some important barriers to consider and to be taken into account. While speaking about multinational companies we have to define them as companies that have employees from different backgrounds, and that they already do their business in more than one market. But when they decide to enter a new market, they will be confronted with some barriers that sometimes would not be there for domestic companies or even foreign non multinational companies, composed of only PCM (parent country nationals). Those barriers would be longer adjustment of it’s employees to the new market because the
training has to be specific and the efficacy of training is lower then in company with employees with PCM’s.

Last special factor is differences arising from the comparative advantage of firms in different locations. To explain this I will take a product of a Portuguese company which conducts business in Portuguese market as well as an international one. The company is more likely to do the research and apply new techniques and product innovations to their domestic market then foreign, usually because of lower opportunity costs. For a company to capitalize on that difference internationally the product has to be applicable and the technology of the process of making the product in the international country has to be from the cost perspective, similar. If not the company has a problem, the situation arising is that a mere export and logistics could be cheaper than the production in the international market. So barriers here are obvious. It is a combination of all the former mentioned barriers. Law and legislation about production in the international market, market acceptance of the product itself, the difference in product lifecycle in foreign market and the domestic one.

To conclude, it is clearly visible that the Portuguese companies have some special factors when they want to conduct their business internationally. Every one of those factors has a few barriers that every Portuguese company must take into consideration if they want to be successful in the foreign market. The most important external barriers are the government of the market we are trying to get a share of and the culture of that same market. Afterwards a company has to consider about their own multi culture inside the company and adjust to the new market they want to get into. Last but not least, the standardization of production of product has to be possible in both markets so that the competitiveness level is kept high where ever they do business.
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