UNIVERSIDADE CATÓLICA PORTUGUESA

The approach to international markets by SMEs.

A case study of a consultancy firm specialised on the internationalisation of enterprises.

Final work in the modality of Internship Report introduced to Universidade Católica Portuguesa for the obtainment of the master degree in Business Economics

by

Miguel Pedro de Sousa

under the guidance of
(PhD) Joana Pinto Leite César Machado

Universidade Católica do Porto, Católica do Porto Business School
March 2017

Acknowledgments

I would like to dedicate this work to my parents. Everything that I am, was, and will be would not be possible without their support, patience, love and care.

To my grandparents, for their advice, knowledge, love and guidance.

To my aunt, for her guidance, advice, support, and love

To my sisters and my girlfriend, for the patience, support, motivation, and love.

To my friends, colleagues and professors, that helped and stood by me during my life and my academic path.

To Ana Raquel Bastos, Michał Dąbrowski and Weronika Alicka for the opportunity to work at KG International, and for their support, knowledge and motivation.

Last but not least, a profound and heartfelt gratitude to Professor Joana Machado, for the incessant and essential support and guidance, that enabled me to successfully complete this work.

Abstract

Given the role that international trade has for companies, economies, and societies, this works focus on the internationalisation of companies, more precisely of Small and Medium-sized Enterprises (SMEs), to shed more light into a field that should be relevant for any manager, even if the internationalisation of its company's operations is not in its short-term strategy. It is of paramount importance for any company to take an in-depth examination of its business; its products/services; its business environment; its country; and foreign countries' business environments.

This work begins by making a thorough analysis of the process of internationalisation, in all its dimensions, and proposes a step-by-step process of analysis of the different aforementioned factors, based on the contributions of Svend Hollensen's (2014) work, completed with other remarkable authors' recommendations to the fields of international management and international marketing.

The critical analysis of the literature is complemented with a case study of the operations of a consultancy firm, Konsulting Group International, specialised on the internationalisation of enterprises. Among other relevant findings, the case study highlighted that business networks and close relationships with relevant stakeholders are crucial for the success of the internationalisation process, but also that it is essential to carefully contextualise the company's product in the international target.

Key Words: Internationalisation of Enterprises; Internationalisation of SMEs; Company Analysis; Industry Analysis; Country Analysis; Competitive Analysis.

Index

Index of Figures

Index of Tables

Introduction

In an ever more globalised world, where geographical, cultural, and economic barriers are being lowered by the free flow of information, goods, and people, societies are rapidly changing and evolving to this new reality, to which people must learn to accommodate. Companies and managers must not be indifferent to this either, as they need to "…be prepared to compete in an increasingly interdependent global economic and physical environment…" (Cateora, Gilly, and Graham, 2011, p.6). The emergence, development and dissemination of information and communication technologies (ICT), which is the vehicle of this transformation, did also fundamentally change the way the economy works. Communication between distant geographies occurs in a matter of seconds, the appearance of computerised management systems made possible the monitoring of several processes from anywhere in the world, information is effortlessly and abundantly accessible, etc. Geographical, social, and economic barriers are easily transposed by ICTs, which will bear advantages and, inevitably, disadvantages. Nevertheless, it is clear that today's management of companies is enormously aided by ICTs, which helped to change the paradigm that, in order to succeed, economic agents should work towards their self-interests.[1]

[1] Derived from the concept of "invisible hand" theorised by Adam Smith (1776) which states that an economic agent "By pursuing his own interests he frequently promotes that of society more effectually than when he really intends to promote it." (Adam Smith's "An Inquiry into the Nature and Causes of the Wealth of Nations", book IV, chapter II, paragraph nine).

More precisely, SMEs (Small and Medium-sized Enterprises) could benefit more by engaging in partnerships with other companies that are specialised in different businesses, both of which can share knowledge and aid each other in the successful pursuance of the quest of internationalisation[2]. There is a myriad of factors to bear in mind when approaching foreign markets, most of which differ from those of the company's home country. All of these circumstances enabled an easier accessibility to foreign markets for a wide variety of companies, not only for those that possess the resources (financial, structural, human, etc.) to pursue the quest of internationalisation on their own. Smaller companies, that are specialised in its core business, may not possess several competencies (marketing, analytical, economic, etc.), knowledge or experience to approach foreign markets. Yet, through a network of partnerships with companies that possess the skills that the company lack, the company will be able to supply its products/services abroad.

Recent events did also potentiate the expansion of companies abroad. The past financial and economic crisis that shook and still is shaking the world, with special incidence in the American and European continents, severely damaged several countries' economies, and eroded social welfare and wealth which have not been replaced to pre-crisis levels in some countries. There is a sense of urgency for companies to rethink their strategy, since economic and financial conditions are very deteriorated, and this must be done by cementing their businesses (if customers need or desire the company's products/services), or by seeking new business opportunities, in their home country or abroad, where conditions could be more favourable.

[2] On their study of the internationalization of SMEs, Schulz, Borghoff, and Kraus (2009) state that the "Key factors for the long-term establishment of a solid globalization trajectory are the development of local network positions abroad and of internal business co-ordination mechanisms that are based on a trust-filled relationship." (p. 7).

It is vital, then, to analyse how the world's economy and companies are evolving to these changes. Beginning with a closer look into the composition of today's economy, according to the "World Trade Report 2016: Levelling the trading field for SMEs" from the World Trade Organization (WTO), in non-high income, non-OECD countries, the SMEs amount to 93% of the total number of companies, while in OECD countries this number is even higher: 95% (p. 13). Additionally, in a sample of 99 developing countries, the SMEs (from the non-agricultural private sector, excluding companies with 1 to 5 workers) accounted for 67% of total employment (p. 17). Similarly, in a sample of 17 countries from the OECD with the addition of Brazil, MSMEs (micro, small and medium-sized enterprises) employ 63% of the total workforce (p. 17). It is clear, then, the importance that these types of companies have on the world's economy. However, these companies' contributions to international trade are still very shy. In developing countries, SMEs' exports amount to, on average, 7.1% of the total exports, while in developing countries, MSMEs account for, on average, 34% (p. 29). Several reasons can explain the low participation of these companies in international trade. These are some of them: manager's frail knowledge of the process of internationalisation; reduced capacity or resources (financial or human) to engage in an internationalisation strategy; more difficult access to financing; high levels of bureaucracy and legal entanglements related to imports and exports of goods and services; rise of conservative and extremist policies towards international trade.

This work will, then, focus on an in-depth study of the internationalisation process, contributing to enrich the knowledge of managers that seek to internationalise their businesses. It will highlight its advantages and disadvantages, the factors to which companies must be aware of, and, at the same time, it will propose a step-by-step process for the initial steps for the formulation of a strategy of internationalisation, based on the literature and on a case study.

The process of internationalisation should be divided into the analysis of the company and its environment, and the analysis of foreign countries' business environments. This work will be complemented with the knowledge acquired during an internship at a consultancy firm specialised on the internationalisation of enterprises. The examination of the company's process of internationalisation will be made by direct and participating observation (undertaken during the internship) and by an interview (which layout is present in Annexe 1) with the company's CEO, Michał Dąbrowski, who is responsible for the design and application of the company's internationalisation strategy.

The company in question, Konsulting Group (KG) International, is a consultancy firm specialised on the internationalisation of companies to several countries and regions: Poland, Czech Republic, United Kingdom, Spain, Middle East, and Sweden. The company's roots extend to Poland, the country which KG International has more knowledge and experience about. The close business relationship with Poland and with the Czech Republic resulted in KG International being the sole representative in Portugal of one of the biggest trade fair complex of each country (Poznan International Fair and ABF, respectively). These partnerships facilitated the participation of KG International's clients in international trade fairs (by exposing or visiting the fairs), which have the purpose of being a prospection visit to the target market, a crucial step in the strategy of internationalisation. Additionally, KG International works very closely with several Portuguese agencies (AEP – Associação Empresarial do Porto, AIP – Associação Industrial do Porto, ANJE – Associação Nacional de Jovens Empreendedores, e PPCC - Câmara de Comércio Polónia-Portugal) in scheduling business trips for Portuguese companies to foreign markets, in helping companies to exhibit in international fairs (Polish and Czech specially), and in reaching more clients that wish to expand to countries where KG has experience and/or knowledge. Michał Dąbrowski, also of polish roots, is KG

International's founder and CEO, being also the leader and creator of the company's strategy internationalisation. The operations of the internationalisation strategy of each project will be performed by the manager allocated to it, with the close supervision of the CEO.

This work will be divided into four segments. The first will focus on an in-depth study of past authors' recommendations and findings regarding the internationalisation strategy, and propose a step-by-step process for development of this strategy, filled with tools and frameworks for the analysis of each factor. The second segment will present a description of the method of investigation used in this work. The third segment will be devoted to the study of the processes of internationalisation that Konsulting Group (KG) International developed and uses, extracting its key features and sources of differentiation from its competition. The final segment will reach, analyse and propose several recommendations to the internationalisation of enterprises that were perceived by the comparison between the literature's findings and KG International's processes.

Chapter 1

Literature Review

Since the purpose of this work is the in-depth comprehension of the internationalisation of companies, it is critical to first analyse conclusions and findings of previous research on this topic. A thorough analysis of the concept, benefits, costs, evolution, and reasons that stand behind an internationalisation strategy is present in the first part, which is followed by a careful study of the main theories that explain its development and evolution. In the final part of this chapter, several tools and frameworks will be suggested for a complete and thorough analysis of the several critical dimensions that companies should consider when engaging in the internationalisation strategy.

1. The internationalisation of enterprises

1.1. Internationalisation and international company concepts

To understand the process of internationalisation of companies one must, first, comprehend the meaning of internationalisation. Since it is a concept not easily defined and easily overlapped with that of an international company, it varies across authors. Johanson and Vahlne (1977) distinguished two sides of internationalisation: "…increasing involvement of the firm in the individual foreign country, and successive establishment of operations in new countries" (p. 23). Calof and Beamish (1995) go further and state that internationalisation is "…the process of adapting firm's operations (strategy, structure, resource, etc.) to international environments" (p. 116). In conclusion, the internationalisation strategy represents the search and deployment of resources to meet or to entice foreign demand for the company's products/services.

Bearing these definitions in mind, are they enough to build a concept of an international company? Is it enough to have regular exports or trade deals with foreign partners; a sales team localised in a foreign country; investing in the delocalisation of production; …? Bartlett and Beamish (2014) argue that a firm is international (Multinational Enterprise, or MNE, in the words of the authors) if it "…has substantial, direct investment in foreign countries and actively manages and regards those operations as integral parts of the company, both strategically and organizationally" (p. 2). Having a clear concern regarding the international operations demonstrates the commitment of the firm to deploy the necessary resources – human, financial, and others - to keep the business unit or branch profitable and successful, in line with the company's strategy and future goals. This commitment to foreign operations, which is the work of satisfying and meeting markets' demand, will lead to the acquisition of more market-related knowledge and experience, which will constitute a relevant source of competitive advantage[3].

3 The contributions of Alavi and Leidner (1999) and Villar, Alegre and Pla-Barber (2013) are suggested to better understand the field of knowledge management, that studies the formation, transfer and use of knowledge inside organisations.

1.2. The benefits and costs of business internationalisation

It is evident, then, that this process could bring business and learning opportunities that were not possible solely at the home country's market. Yet, one must be conscious that it bears some costs and could possibly endanger one's business. Ruigrok and Wagner (2003) begin their work by identifying in the literature both the costs and benefits of the internationalisation of companies.

The benefits are divided into the financial and managerial scopes. The financial advantages rank from the establishment of economies of scale [4], economies of scope [5], financial benefits [6], and fiscal benefits (multinational enterprises usually benefit from tax reductions– for instance, when the country where they are establishing has a struggling economy and/or unemployment rate and is in need of Foreign Direct Investment, which is the case of Portugal). The opportunity to have leverage (e.g. when a company is so big to miss doing business with, it will have an extremely high bargaining power) or arbitrage advantages, and the attainment of knowledge (from the confrontation with different realities, problems, customers, workers, and so on) belong to the universe of benefits from the managerial scope.

On the other side of the scale are the costs of the internationalisation process. With the expansion of operations abroad, the coordination of these activities will

---

4 By producing in large scales or batches, several cost advantages can be reached. Henderson (1974) concluded that, as the output of production doubles the experience acquired during the production processes will also double, resulting in a decrease in the labour time by 10% to 15%. In other words, it results in a cost decrease of 10% to 15%.

5 Economies of scope, which are associated with the diversification of production, can be achieved by using common features, services, processes, etc., to produce and sell its products (complementary or not). For example, a company, by hiring a branding department will gain economies of scope when publicising its products, by removing the costs of outsourcing the task of creating advertisement material for each product.

6 Companies in early stages of internationalisation may face higher costs of capital. Yet, as companies cement their international presence, its diversification of risk through its operations, not being solely dependent on its home country operations' profitability, will lead to decreasing costs of capital. However, business internationalisation bears risks such as the effects of exchange rates, different countries central bank's costs of capital (Federal Reserve, European Central Bank, Bank of Japan, Bank of England, etc.), and so on.

bear, inevitably, costs: capital; time – e.g., time spent collecting, compiling and processing information from foreign operations -; resources - both physical and human[7] -; along with the difficulties in the communication between different business units. There is also the possibility that political risks (e.g., the transition of governments) could add friction to the well-functioning of operations abroad.

A further look into this matter will be made later when discussing which factors of the new country or industry should the company be aware and protect itself against.

1.3. Evolution of the process of internationalisation

It is of the utmost importance for any manager to know what could lie ahead of an internationalisation path, in order to assess if this strategy is worthwhile. Lu and Beamish (2001) studied the evolution of firms that internationalise its operations in various forms, time lengths, and levels of investment. In their work, first, they add to the costs of internationalisation the liability of foreignness[8] and the liability of newness[9]. The result they reached is a "… complete sideways 'S'

[7] The internationalisation of business is strongly dependent on the company's human capital. The management of expatriates - the workers that are assigned to foreign operations - is divided in Harvey and Moeller's work (2009) in eight stages: "…identification, selection, training and development, compensation, performance appraisal, retention and turnover, succession planning and repatriation…" (p. 276), each one with differences regarding the management of home country's workers.

8 Concept developed by Hymer, in 1976, which represents the incompatibility of the knowledge, strategies, experiences, etc., developed at the company's home market with the new market's challenges. Johanson and Vahlne (2009) relate the "lack of institutional market knowledge – that is, lack of knowledge about language, laws, and rules" (p. 1416) to the liability of foreignness and to psychic distance. This will be further addressed.

9 The difficulty of doing business in new countries, with the need to establish almost from zero (and in sometimes even from zero) business networks, partnerships, agreements, suppliers or customers' relationships, etc., is similar to the process that a new born native company would have to undergo. This concept is defined by Johanson and Vahlne (2209) as the "...lack of (…) market-specific business knowledge…", which "…is related to a firm's business environment that, according to the business network view, consists of the firms with which it is doing business, (…), and the relationships between firms in this environment" (p. 1416).

curve conception of the relationship between internationalisation and performance" (p. 582). At the first stages of internationalisation, as its costs begin to increase, its benefits (here expressed as the financial performance of the company) tend to decrease. As knowledge and experience are acquired, and as a greater market presence is developed, companies will be better suited to successfully surpass the challenges of the new market. Yet, at higher degrees of internationalisation, the authors argue that the company's performance begins to deteriorate. The coordination of the costs of international operations (the costs of transmission and analysis of information between all branches/business units/etc., worker's salaries, the implementation or adaptation of the company's strategy in international units, and so on) surpass the profits and benefits.

One should, however, pose a question to these conclusions: could Small and Medium Enterprises (SME) reach a high level of internationalisation where the costs of coordination of international operations overcome its benefits and profits (excluding the first stages of the process of internationalisation)? First, it is important to understand the definition of an SME. The authors use the Small Business Association of America's definition of SME, in which fall the companies with less than 500 workers. The European Union, on the other hand, classifies a Medium Enterprise as one with less than 250 workers (and less than €50 million of turnover) and a Small Enterprise a company with less than 50 workers (and a turnover as high as €10 million). Bearing in mind that these definitions will tend to be adjusted to the reality of the countries/regions which are covered by it, the answer to the previous question should be no. SME's (whether following the American or the European definition) should feel struggles when reaching high levels of internationalisation, due to the lack of organisation, financial, and operational resources (provided that the companies stay within the aforementioned limits). One must bear in mind that at high levels of internationalisation, foreign markets may be as important as the company's home country market and, as such, the level of commitment to those markets will be beyond the reach of most SMEs' capacities. Either the companies evolve into a Large Enterprise, proceeding with the expansion of the internationalisation strategy; or continue has an SME, needing, then, to resize its operations and strategy, to avoid incurring losses that could result in the bankruptcy of the company.

1.4. What are the reasons behind internationalisation?

The reasons for which firms decide to internationalise are closely dependent on the firm's strategy. A company that seeks to increase its internationalisation might opt for a country that has infrastructures that support this strategy, for instance. Portugal is a good example for companies - from the American continent, for instance – that wish to enter in Europe or Africa, since Portugal has good infrastructures – seaports, airports, railways, etc. – and trading deals with these geographies. This is what Beamish and Bartlett (2014) categorised as market seeking. On the other hand, a company whose strategy is to supply the customers with the best product for the lowest price will consider exploiting cost differences in production inputs (e.g. wages, raw materials, among others), when choosing the location of the next international venture. To this motive, the authors called efficiency seeking. Resourcing seeking occurs when firms choose to internationalise to certain geographies to benefit from existing resources - oil, coal, highly skilled students (for instance if a country has a strong academic tradition – e.g. the USA with management universities or Germany with Engineering Universities), etc. Additional motives are arising, such as competitive position, which occurs when a firm chooses to internationalise to locations where its competitors are already or will be present, to continue the "battle" for market share. Global scanning[10] is another emergent motive, which appears when companies choose a specific location to internationalise to search for new tendencies, technologies, products, etc., from which the company could benefit from.

It is also interesting to understand the reason behind what is, perhaps, the second most committed initiative by any company in an internationalisation strategy -in terms of resources and strategy - which is the establishment of production abroad (while the first would be the delocalisation of headquarters). John Dunning, in 1979, identified three distinct factors that explain why companies choose a certain country for its production facility, factors that form the Eclectic, or OLI, Paradigm. The choice of a foreign country will depend on either ownership (of a profit generating or differentiating resource/skill/ability by the company), location (related to the country's specific resources – natural, human, etc.), or internalising advantages (when the company benefits more from internalizing the operations in question than to outsource them), or a combination of the three.

Concluding, a company must first truly understand what sets it apart from its competition, what are its competitive advantages, and from them design its international strategy, seeking new markets that have the factors that are compatible with its strategy.

10 This motive is present in Beamish and Bartlett's work, being cited from Raymon Vernon's "Gone are the Cash Cows of Yesterday" (1980).

2. The mechanics of the internationalisation process

Bearing in mind what is an international company, what benefits it can reap from this process, and at what costs, and why this process unfolds, one must, then, understand how the internationalisation process is developed.

2.1. The harvesting and usage of knowledge

The most widely known and accepted theory of internationalisation is the Uppsala Model, conceived by Johanson and Vahlne (1977). The Uppsala model focuses on two variables to explain the degree of internationalisation of any firm in any environment: the degree of market commitment (in other words, the resources allocated abroad - either financial, human, products, etc.-) and the amount of knowledge regarding company's operations. This model describes the internationalisation process as a cyclical one, where the amount of market knowledge (acquired *in loco* through experience, networking, etc.; or through the transmission between foreign operations) will influence the degree of market commitment (i.e. the level of investment - monetary, human or material - and presence in foreign markets), which in turn will lead to an increase in the amount of market knowledge (through the evolution and adaptation of existing operations to the progress of the business). Holistically speaking, this model can be summed to an incremental learning process and adaptation of operations to the acquired knowledge and experience. Additionally, the authors concluded from their study of the internationalisation of Swedish firms that companies will begin this process in countries psychically closer[11].

11 This is a reference to the concept of psychic distance, which is defined by the authors has "…the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development" (Johanson and Vahlne, 1977, p. 24).

In 2009 the authors revised this work due to the appearance of a new search field in international management: business networks. The internationalisation process is now influenced by the company's position in its business networks and by the knowledge opportunities that arise. The amount of knowledge will influence the commitments the company has in its business networks, which, in turn, will lead to learning, creating, and trust-building opportunities. These opportunities will redefine or strengthen the company's position in its networks. One sentence that describes the need to include business networks in the Uppsala Model is from Contractor and Lorange (2002), which is cited by Johanson and Vahlne (2009, p. 1422), and states that "it is often said that environmental changes such as globalisation, rapid technological change, and deregulation, force companies to enter into alliances and joint ventures, because no single company owns all the resources required to exploit larger and continuously changing markets". The establishment and maintenance of business networks adopt a larger role than the entry mode a company chooses to follow.

2.2. A galloping internationalisation

A new theory arose in 2004 through the work of Knight and Cavusgil who advocate the existence of fast-internationalising companies, nearly or from its start. "Born Globals" (p.1) is a name that clearly encompasses the purpose of the company: spreading internationally to reach as many customers as possible, in the quickest and most successful way.

This goes against the generally accepted thought that, in order to have a successful international strategy, companies had to spend a considerable amount of resources and time to develop their international strategy. This commonly held belief helped mystify the international company as one with large resources (financial, human, etc.), discouraging small enterprises to seek international ventures.

This type of business arose due to the lowering of geographical and trade barriers by the emergence and development of "…information, communications, production, and logistics technologies…" (Knight and Cavusgil, 2004, p. 136), that empowered the creation of trade agreements or zones (e.g., NAFTA, EU, among others). These factors were and still are pushing the boundaries of globalisation and, particularly, of international trade.

Nevertheless, these factors are common to all agents that are covered by these changes. Something must set apart a Born-Global from a company that follows an "uppsalian" strategy of internationalisation. Knight and Cavusgil (2004) found that what powers the internationalisation of these types of companies is dependent on "(a) global technological competence; (b) unique products development; (c) quality focus; and (d) leveraging foreign distributor competences." (p. 132). The focus on the creation of unique and differentiated products/services, working to meet and exceed customers' needs, which are possible by dominating and integrating technological solutions in all business operations (from the procurement of raw materials to after-sale services), is, in itself, a winning combination for almost every company. Although, what truly defines a born-global company is the establishment of strong business relationships with suppliers that will follow the company's way of doing business on their field of action. A born global's management team has the capacity to know that it cannot perform every part of the business by itself. So, it has to rely on its partners, both in upstream and in downstream operations, to work alongside with it in the first three aforementioned factors (global technological competence, unique products development, and quality focus) to establish a long-lasting and profitable (for all parties involved) relationship.

2.3. A cost analysis

In a different line of thought, the Transaction Costs theory, created by Ronald Coase (1937), being later perfected by Oliver Williamson (1985), states that company's managers perform a cost analysis between the internalisation of a certain operation or its outsourcing, in every business discussion. This reasoning is, then, extended to the internationalisation of the company that, in its early stages, begins by outsourcing the sales of its products abroad (to a distributor or a business partner, for instance), since it is cheaper than developing a sales operation abroad (e.g., sales department). As the company's commitment in its foreign markets increases (through the deployment of more resources - human, financial, etc. -, or through the increase of the strategic importance of the operation), the ratio between its costs and benefits will begin to decrease. This iterative process of comparing costs and benefits will change the strategy of the company, which could translate into more investment (delocalisation of production abroad, for instance), or divestment (resizing or downgrading operations, for example) in foreign markets.

2.4. Business networks

On the other hand, the Industrial Networks Theory advocates the importance of the establishment and nurturing of business relationships, towards the achievement of successful business ventures, either abroad or in the home country. Johanson and Mattson (1987) argue that "…the firm's activities in industrial markets are cumulative processes in the sense that relationships all the time are established, maintained, developed, and broken in order to give satisfactory, short-term economic return and to create positions in the network, securing the long-term survival and development of the firm." (p. 3). This model is based on the concept that a company will benefit more from cooperating with its partners when creating and delivering its products/services than to internalise all the operations. According to Snehota (1995), a company that is present in business relationships is "… a company having located parts of its value chain with external companies, maintaining vertical coordination and control through non-hierarchical measures." (p. 373).

There are, naturally, potential hazards when establishing a business relationship. Snehota (1995) points out the risk of overdependence on the business partner, that could endanger one's business if the partnership erodes; the "… increasing costs of coordination…" (.364) of joint actions; the likelihood that the workers involved will need to acquire a new set of skills from the workers involved; the "… management of the personnel…" (p.365) involved in the partnership; the "… access to confidential information and proprietary skills…" (p. 365); and the "… lack of commitment…" (p. 366) of one side of the partnership.

However, according to the author's opinion, the establishment of successful business relationships will depend on "…(1) selecting the right partner, (2) identifying and motivating the right person(s), (3) formulating clear-cut agreements (…) and (4) managing the ongoing relationship." (p. 367-368).

Moreover, another benefit a company would reap from establishing solid business relationships is the "…indirect and specific dependence relations to those firms with which its counterparts have exchange relationships" (Johanson and Mattson, 1987, p. 3). The business relationships form, then, a complete web of relationships - a business network -, from which all the parts can benefit.

3. The creation of a strategy of internationalisation

In this section, a step-by-step process of internationalisation will be compiled using as guidance the work of two authors of reference in the fields of international marketing – Svend Hollensen – and of business strategy – Robert Grant -. Their devotion and dedication to these fields resulted in an extensive, practical and excellent work filled with references from classical authors (such as Michael Porter, Johanson, Vahlne, Ghemawat, among others), along with the author's exceptional contribution.

3.1. Analysing the company's international competitiveness

Hollensen's (2014) work provides a framework for analysing the company's international competitiveness, and it will be the foundation for this study, although, with some changes that resulted from the comparison of his work with Grant's (2010).

3.1.1. Company's home country's role on its competitive advantages

In order to successfully internationalise, the company must first understand how it develops its competitive advantages, which factors proportionate its development, and if they are strongly tied to the company's home country. Hence, a thorough assessment of the competitiveness of the company's home country must first be done. Hollensen (2014) states that "the home base is an important determinant of a firm's strengths and weaknesses relative to foreign rivals" (p. 101). Grant (1991) adds that "since firms typically develop within a domestic context prior to expanding internationally, the home base plays a key role in shaping the identity of the firm, the character of its top management, and its approach to strategy and organization, …" (p. 536). So, in order to analyse the competitiveness of the company's home country, Hollensen (2014) recurs to Michael Porter's Diamond framework (developed in this author's work "The Competitive Advantage of Nations", 1990), which divides the analysis into six dimensions:

- Factor conditions, which encompass the country's resources (natural resources – oil, gas, charcoal, etc. – which are the basic factors; and advanced resources – the degree of human knowledge, scientific investigation, among others);
- Demand conditions, which represent the impact of the characteristics of the demand from the company's home country;
- Related and supporting industries, which encompass the complementary industries from which the company could benefit from by engaging in partnerships;
- Firm strategy, structure and rivalry, which, according to Grant (1991) enclose "…strategies, structures, goals, managerial practices, individual attitudes, and intensity of rivalry within the business sector" (p. 538);
- Government, which measures the impact of government actions and initiatives that could benefit or difficult businesses;
- Chance, which stands for the uncontrollable and unpredictable events that dictated the evolution of industries in the past, to which companies must be aware and learn from.

Once this analysis is made, the company should be able to understand which factors enabled the development and sustainment of its competitive advantages. The company must bear this in mind when choosing the location for its internationalisation since its differentiating factor(s) could be dependent on a set of inimitable and immutable factors.

3.1.2. Analysing the company's business environment

Hollensen (2014) proposes next an analysis of the company's industry, which falls, once again, in a Porter framework, this time in Porter's Five Forces Framework (Porter, 1979). Yet, following Grant's (2010) work, a new factor will be added to Porter's framework, which will be described below.

Porter's Five Forces Framework is an incredible tool for the company to understand the industry where it sits in, and how it can develop and establish its position in it. It encompasses:

- The power of suppliers. The company must be aware that suppliers could be a key partner if a strong relationship is developed. Quick access to the best raw materials; know-how and experience can be taught or transferred into company's processes; access to new business partners and clients; etc. On the other hand, the supplier could add friction to the successful pursuance of company's goals, either through high bargaining power (resultant from a degree of monopoly in its industry), up to the possibility of the forward integration of processes, becoming now a competitor for the company;
- The power of customers. This has a similar reasoning to the power of suppliers'. Customers could become a vital part of business, if, for instance, there is a strong tie to them, unshakable by competitors,

ensuring the continuous supply of goods/services. Customers could also endanger the supplier's business by backwards integrating operations;

- Threat of substitute products, which could endanger the company's market share;
- Threat of new entrants in the market, which could disrupt the market if a better and/or cheaper offer is introduced;
- The rivalry between market players, which could erode business, customer service, relationships with different partners (suppliers, customers, and other companies), and so on.

A thorough read of Porter's (1979) work and the aforementioned author's work is advised to fully grasp the factors that influence each force, to which any company must be fully aware.

As mentioned above, Robert Grant (2010) proposed a new force to be added to Porter's framework: complements. The complementary industry does enhance the value of a product by offering more solutions or services that, otherwise, could not be offered. For instance, could the photographic camera industry grow the way it grew without the support from the complementary industry of lenses? Some companies chose to specialise on its core business (the manufacturing of the body of the photographic camera), developing its products to the best of its abilities, establishing a partnership with a company from the complementary industry of camera lenses (e.g., the partnership between the photographic camera manufacturer Sony and the lenses manufacturer Carl-Zeiss). This partnership increased the value of the product that both Sony and Carl-Zeiss offers, benefiting both the companies and the customers.

It is, then, evident that the industry of complementary products should be considered when analysing any industry, especially when analysing a foreign industry to which a company would hope to do business in. The search for a partner in a complementary industry should be in the mind of companies during the quest for internationalisation, either a partner from a foreign country or from the company's home country. In addition to the knowledge that a business partner could bring to the partnership about the target market (where it could be present, have knowledge about, or its home country could share similarities with the targeted market– e.g. Portugal and Brazil), a joint approach to the targeted market could bring several advantages. The combination of both companies' products and expertise in one offer could have a higher value to the customer than the individual value of each product, which, ultimately, would pose a greater competition to the foreign market's leading producers, that each company could not attain by itself.

3.1.3. Company's internal analysis

After analysing the sources of the company's competitive advantages and the structure of the industry or industries where it is inserted in, managers must, then, evaluate the internal competencies of the firm - those that are present and those that should be developed or acquired.

A complete internal analysis of the company's competencies is made using the 7 Ss framework, proposed by Waterman, Thomas, and Phillips in 1980. These authors compiled a series of aspects that encapsulate the essence of the company, its competencies, and its business. This analysis covers the company's:

- Superordinate Goals, that enclose the ultimate goal of the company, its vision, that every part of the company will work and add value to;
- Strategy, which summarises the way the company will achieve its vision. For instance, a company could envision supplying its products/services to the broadest array of customers possible, basing

this purpose in a cost competitiveness strategy (achieved by searching for cheaper raw materials, lower wages, higher robotisation of operations, for instance);

- Structure, which is a description of the company's functional structures and divisions, and how control and management are exercised;
- Systems, which comprise all the systems and interactions inside the company, that are involved, directly or indirectly, to the production processes of the company/ the provision of the services to the customers;
- Style, which is how the organisational culture is present in everyday processes. How a manager organises its teams and supervises it, how management reporting is done, how work relationships are established, and so on;
- Staff, which, in the words of the authors, can be resumed in two ways: "At the hard end of the spectrum, we talk of appraisal systems, pay scales, formal training programs, and the like." (p. 23); and "at the soft end, we talk about morale, attitude, motivation, and behaviour" (p. 23);
- Skills, which represent the knowledge and know-how employed in every system of the company, which encompass both explicit and tacit knowledge.

3.1.4. Creation of a strategy of differentiation

The next step should, then, be an examination of what is being supplied in the industry and how can the company establish itself and earn both its spot in the market and the trust of customers. Hollensen (2014) cited Kim and Mauborgne's (2005) work regarding industry analysis and the division of industries into two types: Red Ocean Industries, those which are at a mature stage of development, filled with competitors fighting for every new customer and market share - a battleground of fierce competition -; and Blue Ocean Industries, niche markets, populated by few or by no companies, that are not remotely focused on direct competition between companies, since there are none to compete with or so few that each is focused on its own niche. A company should work to create or to establish itself in a Blue Ocean industry, working to supply to customers a differentiated product/service from what is already existent (either through lower costs, by adding differentiating features, etc.). This analysis, although closely related to Blue Ocean Industries, could also be used by a company seeking to establish itself in a Red Ocean industry, by beating the competition, conquering market share, instead of creating it.

Company's managers should focus on assessing what are the customers' needs and desires, on the key and differentiating features of its products/ services, and on what is being offered in the market. Kim and Mauborgne (2005) identify four questions that should be addressed in order to fully understand the demand of the market and to build the company's value curve[12]:

- "Which of the factors that the industry takes for granted should be eliminated first?" (p. 24). A good example is the action of Tesla, an electric car manufacturer, that began producing fast-charging stations, demystifying the thought that cars should have an extremely long range. Tesla discovered that, in fact, customers are willing to exchange

[12] The value curve is an analytical and graphical construct of the level and characteristics of the company's offerings in relation with its competitions'. A scale is attributed to measure the client's desire or needs for different characteristics or specifications of the product/service in question (this information can be collected directly from the customer – e.g. through questionnaires -, or through the company's knowledge of the market's demand).

some range of its cars and thirty to forty minutes of their time for recharging their vehicle, which nearly restores the car's total battery;

- "Which factors should be reduced well below the industry's standard?" (p. 24). A clear example of this situation is the case of OnePlus, a smartphone manufacturer, that chose to reduce the resolution of its cell phone screens in order to gain more battery autonomy, which was more valued by its target customers;
- "Which factors should be raised well above the industry standard?" (p.24). Holmes Place, a chain of commercial gyms, sensed that their prime target customers preferred a more personalised accompaniment by personal trainers and group fitness classes. The company specialised on perfecting its offer of these services, setting itself apart from its competition;
- "Which factors should be created that the industry has never offered?". (p.24). The case of Uber, a company specialized in car ride services, is a good example since it developed an online platform for the request of a car driver, which could be done anywhere in the world, just in a matter of seconds, without the need to call a service centre or to be in a designated location (taxi squares for instance).

Below is an example of a value curve for a chain of budget hotels, which proceeded to evaluate what is being offered in the market and what is valued by it's the company's target customers, then proceeding to adapting its services to the unmet demand.

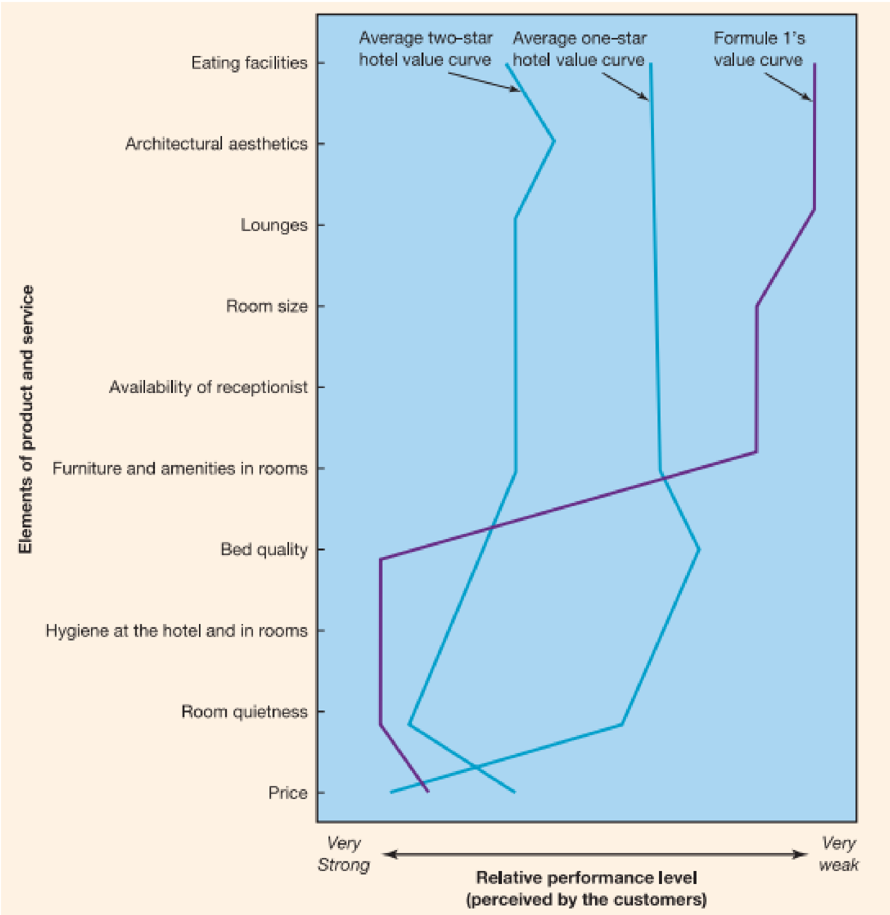

Figure 1: Value curve of the budget hotel chain Formule 1, from Hollensen (2014, p.130).

The company can, then, perceive what is being demanded by the customers and what is being offered to them by its competition, proceeding to establish its offering to supply an unmet demand.

3.2. The international analysis

Past frameworks and analysis are extremely useful for a company to develop its strategy towards achieving the best possible match between the customer's desires and the company's product(s)/service(s).

However, a more thorough analysis must be made when the company decides to expand abroad. There are numerous factors that differ from the company's home country and foreign countries, which could endanger the success of this venture. Do customers from different geographies have the same demand as customers of the company's home country? Do they have the same purchasing power or the same habits as home country's consumers?

These type of questions, that reflect few of the many differences between countries, were encompassed by Ghemawat (2001) in a framework that is divided into four scopes. The CAGE framework is divided into Cultural (e.g., language, traditions, ethnicities, etc.), Administrative (laws, taxes, governmental incentives, and so on), Geographic (the development of transportation networks, the accessibility of the country, the state of technology infrastructures, atmospheric differences, among others), and Economic factors (the country's natural resources, labour's skills, cost of labour, purchasing power of consumers, etc.) to evaluate the differences, or similarities, between countries.

Below is a description of the main factors that influence each one of the CAGE framework dimensions.

Once again, a thorough read of this work is essential to know all the factors that influence each of this framework segment.

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
attributes creating distance	different languages	absence of colonial ties	physical remoteness	differences in consumer incomes
	different ethnicities; lack of connective ethnic or social networks	absence of shared monetary or political association	lack of a common border	differences in costs and quality of: • natural resources • financial resources • human resources • infrastructure • intermediate inputs • information or knowledge
	different religions	political hostility	lack of sea or river access	
	different social norms	government policies	size of country	
		institutional weakness	weak transportation or communication links	
			differences in climates	

Table 1: Ghemawat (2001) CAGE framework's attributes that create distance.

3.3. The approach to the market

Having studied the different aspects that allowed the company to establish itself in its home country and to develop its competitive advantages, in addition to an in-depth analysis of both the industry and the targeted markets, it is essential, then, to know the different possibilities to approach these markets. There are several entry modes, differing from each other in terms of the level of investment and resources allocated to it, and the level of dependency on external entities (and subsequent loss of control of different operations – marketing, sales, production, and so on).

Having as a foundation Hollensen's (2014) work, the entry modes of foreign markets are divided into three groups: Exports, Intermediate Entry Modes, and Hierarchical Modes. A brief description of the lesser known entry modes follows next.

3.3.1. Exports

This category of entry modes is the one with the lowest level of investment and control from the firm, due to the retaining of its production facilities and knowledge associated with the production and development of the products in its home country, leaving the marketing and selling tasks to external entities. It can be done in one of three ways, which will be described next.

3.3.1.1. Indirect exports

By delegating the task of supplying foreign markets to an external entity in its home country, the producing company is indirectly exporting. This can occur by:

- An "Export buying agent" (Hollensen, 2014, p. 350), which is an entity that acquires the products and sells them directly to the foreign market. This entity has the responsibility of shipping the products, advertising and selling, while the producing company is withdrawn from these activities. The major advantage for the producing company is the "prompt payment" (p.350) from the export buying agent. However, it does not have any control on how the product is sold, to which price and conditions, and how the connections with customers are established.
- A "Broker" (p.350), which is an entity specialised on the legal and technical aspects of an agreement between the producing firm and a buyer in the foreign market, which are joined also by the broker. This entity "does not actually handle the products sold or bought" (p.350), being especially suited to deal with commodities.
- An "Export Management Company" or "EMC" (p.351), which is an entity specialised on a set of markets or products that establish the

contact with foreign markets' partners, negotiating in the name of the producing firm, always requiring its authorisation for the establishment of any deals. This type of entities has more knowledge, experience and resources to tackle the task of internationalising than the producing firm, which project is only accepted if it does not compete with the EMC's existing clients. However, there are some risks when recurring to its services: these entities may lack knowledge on the markets that the producing firm may desire to enter in; since EMC's earnings are based on commission payment, it may divert its efforts to "…products with immediate sales potential, …" (p.351); and the EMC may lack the knowledge or ability to understand all the details of the product, and thus may not be able of selling it appropriately.

- A "Trading company" (p.352), a group of companies that controls all the imports and exports of a country (a practice very common in Japan where, for instance, the general trading firms, or "soge shosha" control "50 per cent of Japan's exports and 67% of its imports.", p. 352).
- "Piggyback" (p. 352), which happens when a smaller company with no resources or knowledge to export partners with a larger, more resourceful company that possess sales structures abroad. For the larger firm, the advantage is to fill in any gap in the capacity of its sales structures or to enrich its offer without having to engage it the production of the added product. However, the quality and supply of the new product are beyond its reach. For the smaller firm, it presents an enormous opportunity to reach foreign markets without developing the structures. However, they cannot control marketing and sales operations.

3.3.1.2. Direct Exports

Conversely, when the producing firm has full control on the sale of its products to an entity from the foreign market, the company is, then, resorting to direct methods of exporting, which can be done recurring to a:

- "Distributor" (p. 354) or an;
- "Agent" (p. 354).

3.3.1.3. Cooperative export modes

This is a category of export where companies with low resources to engage solely in the building of sales structures abroad partner between themselves and approach together the internationalisation of their businesses. These companies' offerings should be complementary and target the same type of clients to avoid any competition in the foreign market and to create an offering to the foreign entity that has more value than the sum of the value of each offering on its own.

3.3.2. Intermediate entry modes

At this stage, the company is now faced with a growing demand for its products, which it is unable, or is not possible anymore, to supply from its home country. Hence, its strategy may evolve to other means of penetrating the foreign market, using an entry mode in which it can exert more control, without transferring its operations abroad. Furthermore, these entry modes require a greater transfer of knowledge and skills than the export entry modes.

The "intermediate entry modes" (p. 369) rank from:

- Contract manufacturing;
- Licensing;
- Franchising;
- Joint ventures, and;
- "Management contracting" (p. 389), which occurs when the exporting firm, when selling its products/services to a foreign entity, owns the necessary know-how for the completion of the project, which the foreign client does not have. A good example occurs in the construction industry, where a construction company is contracted from a foreign investor, which does not possess the know-how to perform the project and hence relies on the contracted firm to do it.

3.3.3. Hierarchical modes

At this point, it becomes easier and more profitable for the firm to move its operations abroad, to have complete control of its businesses, without depending on external partners. The entry modes that fall into this category are:

- "Domestic-based sales representatives" (p. 400), in other words, an employee dedicated to selling the company's products abroad;
- "Foreign sales subsidiary" (p. 400);
- "Sales and production subsidiary" (p. 402);
- "Region centres" (p. 404), which are subsidiaries that work to supply the demand from a certain region, which could englobe several countries' sales and or production subsidiaries;
- Relocation of the company's headquarters.

Chapter 2

Method

Being deeply grounded on contributions of several authors of reference from the fields of International Management and International Marketing, this work's purpose is to better understand what are the essential tools, frameworks, factors, and skills that should be taken into account when developing a strategy of internationalisation of companies. This will be achieved by a comparison between the best practices appointed by the literature and a real life example of the internationalisation of enterprises.

The object of study will, then, be Konsulting Group (KG) International's internationalisation processes and strategies, that are in constant development to guarantee a successful and profitable internationalisation of its clients' operations.

In this work will be adopted a case study strategy, which, according to Yin (2003, p.13), 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". KG International's processes will be described by direct and participating observation, acquired during an internship performed at KG International, in which several tasks were performed that were strictly related to the scope of internationalisation. Furthermore, a semi-structured interview was made to the CEO of KG

International, Michał Dąbrowski, in order to fully understand the company's way of internationalisation. This type of interview was chosen due to the possibility to add questions as the interviewee answers the pre-established questions, which enable a deeper comprehension of the subjects under scrutiny, far beyond the interviewer's conceptualisations prior to the interview (Harrell, and Bradley, 2009). A sample of the questionnaire is present on Annex 1.

Moreover, in addition to shed light on the aforementioned fields (which have had a crucial role in the pursuit of success and profitability of companies in recent decades), this work's purpose is also to be a source of practical knowledge that could be easily interpreted, understood and internalised by those that are considering, going through, or that haven't even though about the internationalisation of its businesses. Corley and Gioia (2011) argue that theoretical contributions made in the fields of social sciences should also be more focused on the practically of the knowledge under study, on how could organisations and companies benefit from it. Hence, these contributions should be conceived and written bearing in mind the audience they are set to reach. This work is not trying to undermine the importance of pure theoretical contributions, that focus on pushing the boundaries of scientific knowledge forward. If anything, it elevates it to its rightful place, since this work's analysis of the internationalisation process is based on the best practices appointed by the literature. This work's conclusions will, therefore, be focused on the practicality and on the real life application of the knowledge analysed. This is a noble quest since to enhance companies' prosperity, especially when it comes to the internationalisation of processes, managers should seek to comprehend the reality they are set to face, to better act on it.

Chapter 3

Results and Discussion

In this section, the processes of Konsulting Group (KG) International for the internationalisation of enterprises will be examined. The purpose is to understand the role of each segment of the analysis and how they are connected and dependent on each other. In that sense, a thorough analysis of the factors that compose each segment will not be pursued since it greatly depends on the particularities of each product, company, client, industry, market, country, and so on. Still, some factors will be presented, namely, those identified by the interview and due to the direct and participating observation. These factors should help to better explain each segment. Additionally, this section will be devoted to the study of the development of an internationalisation strategy for companies that produce tangible goods since this is the field of KG International's clients.

KG International's approach towards internationalisation is segmented in three stages, which will be described next.

1. The internationalisation strategy

1.1. The creation of the internationalisation strategy

The first phase of this process involves the obtainment of as much information possible regarding the client and its product(s). The main source of information is the client, and the most frequently used means to acquire information are personal meetings; tours to the client's facilities; and visits to KG International clients' clients' facilities, to observe the product(s) performance in real life scenarios. KG International then complements this with its own information regarding the company and the product, which is collected from a variety of sources - online databases, technical and academic books, reports, and others. The analysis of the product falls into two scopes: quality and price. The former is a composition of all the features, composites, requirements and means of usage, the added value to the customer, and the differentiating characteristics of the product; while the latter is a conjunction of the costs of production and the product's final price.

The product and company analyses are the foundation of the internationalisation strategy and should be followed by the market analysis, which is divided into several scopes. The economic scope comprehends the structure of the industry, its stage of maturity, the structure of the entire value stream, the competitors' offers – the degree of differentiation, the price level -, the state of development of the complementary industry, the characteristics of the labour force – degree of specialization, wages, etc. -, and the degree of internationalisation. The social scope covers the customer's perceptions, requirements, desires, and needs. Finally, the cultural scope studies the cultural habits and traditions of the target customers.

These analyses form an essential prelaminar study of the market which will be complemented with a prospection visit. The purpose of this visit is, as KG International's CEO Michał Dąbrowski stated during the interview, to put the product in the context of the market. Feedback from potential customers and partners is easily and quickly obtained, which will be a crucial contribute to the market analysis. The prospection visit is also a great opportunity to establish contact with potential partners, to further advance the process of internationalisation.

This information will be compiled into a strategy for the approach to the foreign market, which could precede the prospection visit, or could be a result of it. If the product is worth to internationalise and if there is a room for the product in the selected market, then KG proceeds to the next stage.

1.2. Sales channel creation

From this point forward, KG, working alongside with its clients, will choose the most suitable mode of entry to the newly approached market. Similar to the previously described analyses, this choice is strongly tied to the particularities of each project, product, company, client, and country. Yet, the more recurrent modes of entry of KG International's clients are through indirect export to a final client, through the creation of a sales representative in the market, or through distributors or agents in the foreign market. Nevertheless, what is important to retain is the closeness that characterises the working relationship between KG International and the foreign market's partners. KG International tries to establish sound business relationships with its clients – which, with KG's role in its client's strategy, resembles the role of a division of its client's company specialised on the internationalisation -, at the same time as it works to find and cement working relationships with foreign business partners that fully comprehend the market and its client's product.

1.3. Development

The third stage focuses in the constant assessment and control of the strategy implemented, in order to perceive and predict necessities and opportunities of improvement. In other words, once the strategy of internationalisation of KG's client is successfully completed, KG continues to analyse the market in all of its contexts, in order to perceived if the strategy is still viable and the most accurate to face the challenges that the strategy of internationalisation imposes. This is what sets KG International apart from its competition. The company guides its clients in every process of the creation of the strategy, especially during the approach to the market, and after the strategy is implemented. This constant monitoring is made in consonance with the client and the foreign business partners, being the latest those with the closest contact with the final client and the market, whose feedback is extremely valued.

2. KG International's differentiating factors and the cornerstones of its internationalisation strategy

Throughout the description of KG processes, there are some factors that are important to highlight and address with more care. The awareness about these factors can reinforce the success of the internationalisation.

KG International's strategy of internationalisation is very dynamic. The multitude of factors that are analysed and that influence the entire strategy can change very rapidly, from the economy of an entire continent to the characteristics of the industry where the company is inserted in. It is important to prevent and foresee the way an industry will change, how a country's economy will grow, what are the political forces on the rise and its political proposals, and so on; and incorporate this thinking in the resources applied to the strategy. Yet, it is impossible to anticipate every possible risk, since many of them are too complicated to be understood and forecasted by most people (e.g., the financial crisis of 2008) and/or come out from nowhere (e.g., the fall of the Portuguese bank Banco Espírito Santo in 2014). Thus, a dynamic strategy will allow the adaptation its participants and resources to the predicted and the unforeseen events.

The question that arises at this point is how can KG create a dynamic strategy with its clients? It is critical to establish a balance between the quantitative analysis (of the company's home country, industry, and products/services, as well as of the foreign market, foreign competitors, etc.) and the strength of the relationship established with all the company's partners. One cannot substitute the other, neither do they (alone or together) translate into immediate success. Though, through KG's experience, several issues that can arise can be solved by the balance between these two factors.

In the majority of KG International's projects, the client's operations will not be completely present in the foreign market (i.e., the approach to the foreign markets is made through partnership with local distributors or agents, or by hiring a local sales representative, including a third party into the strategy), hence the control by the client on its operations abroad is weak. The control on foreign sales, on how clients are approached and served; how after-sale, maintenance and warranty services are provided; etc.; will fall within the responsibility of the foreign partner. Even with clear directives from the client on how to perform these and other tasks, ultimately it is the foreign partner that is representing the firm, that will have the contact and establish a long-lasting relationship with the client. Hence, it is critical to establish solid relationships with the foreign partners, embracing them in the strategy of the firm, so that both participants are aligned to pursue the same objectives and goals. Overshadowing the power of the relationships by a cost analysis is nonsensical in Michał Dąbrowski's opinion. For instance, through a cost analysis, it could prove to be more advantageous for a firm to disengage from the partnership with its foreign distributor and establish an own sales team. However, the unquantifiable characteristics of the relationship with the foreign distributor can help overcome its higher costs: clients can be extremely attached to the distributor, which might be the reason why they buy the product/service (which could result in the appropriation of clients by the distributor when the partnership is dismantled); if the foreign market or the company itself is going through a crisis, a fully committed distributor will work alongside with the company to resolve this issue; and so on. These are some of the unmeasurable aspects of a business relationship that cannot be despised. Strong relationships with all partners that can influence the success of the internationalisation of the company (from upstream suppliers that should have the flexibility to supply the company during peaks of demand from new markets; to agents and distributors) are imperative to achieve a dynamic and "live" strategy to counter most risks that arise. KG International is a fine example of the power of business relationships, since it performs the tasks that would have to be done by an entire department dedicated to the internationalisation of the company's operations, for a fraction of the cost (since it does not include the costs of recruiting, selecting and training personnel, for instance), with a greater amount of knowledge and experience in approaching the targeted markets, and capability of managing the different roles of each player in the strategy. It is worth noticing that it may be argued that by engaging and depending on external partners, a company may be exposing its competitive advantages or knowledge, incurring the risk of losing them to its competitors. Yet, trade law is increasingly more developed to respond to the most diverse ways of laws violations, and more and more accessible to a greater diversity of firms, on a crescent number of countries[13].

Furthermore, an in-depth study of all the possible factors that characterised the various dimensions of the foreign market; of the client's company, product/service, and industry, and so on; is also indispensable. Fully engaged partners must deeply comprehend the company and the product/service with which they are teaming up (i.e., KG International must know its client's products as well as they do, since it intercedes on behalf of them with its foreign partners and clients), as the company that wants to internationalise must also extensively study the industry, its competitors' products/services, the characteristics of foreign markets, etc. As Sir Francis Bacon stated (in its work Meditationes Sacrae, in 1597) "ipsa scientia potestas est" (in English, knowledge in itself is power), which is a major determinant of success in many business ventures. As an example, during the internship at KG International, it was possible to witness the high requirements of polish workers, that have a propensity to demand the highest professionality from every worker of any nationality they will be working with. Their high standards require their partners, in this case, Portuguese managers - that wish to approach the polish market -, to be fully informed about every possible variable of the strategy.

Also worth noticing is the choice of KG International of not selling studies of any market (which is very recurrent in the internationalisation consultancy industry) and instead choosing to accompany or to help companies to visit international fairs. In KG's CEO opinion, a visit to an international trade fair (either to expose the company's products or simply to visit the fair) will give the company a direct experience and knowledge of the market, of the natives of the

[13] On the World Bank Group's Doing Business 2017 report is stated that "Conscious of the important role played by judicial efficiency, governments have been active in reforming different aspects measured by the *Doing Business* enforcing contracts indicators. Worldwide, revisions of alternative dispute resolution legislation and applicable civil procedure rules was the most common reform feature in 2015/16" (p. 37).

country, how do they do business, what are the competitors' offers, and so on; that cannot be matched by any other mean. Other means available, for instance, market studies, may have a lesser impact in helping the company to choose a foreign market to approach. These are tools that may serve different purposes (e.g., a market study can be asked just to assess the viability of the market for the company's strategy). Yet, with a crescent line of financial aid from the European Union - Europe 2020 Strategy - more and more companies have easier access to financial grants that can help them become more competitive (which includes the expansion of the company's operations abroad), and this justifies, then, the investment in a better and more complete knowledge about the foreign market, which is the case of a visit or an exhibition in an international trade fair.

Chapter 4

Conclusion

It is clear by now that the approach to international markets is reliant on a multitude of elements, the majority of which being equally influenced by a panoply of dynamic factors. This is the result of the phenomenon of globalisation, that enabled the contact and connection of almost every society, exposing its elements (economy, culture, etc.), which, inevitably, bears advantages and disadvantages. An election of a conservative government, disruption of trade deals, economic and financial crisis, fluctuation of exchange rates, etc., are events that could put at peril a company's international operations, and also endangers the aspirations of companies to internationalise. Even at a smaller scale, customers' habits, tastes and behaviours are not immutable, which can translate in fast changing and evolving cultures and societies.

This work aims, then, to shed more light into the theme of the internationalisation of enterprises. Its purpose is to, first, complete an in-depth study of this subject. It is of the utmost importance for any company, even more for those that wish to approach foreign markets, to fully comprehend its business; its operations; its products/services; its business environment (which is not solely confined to the company's industry); the cultural, administrative, geographic, and economic (Ghemawat' CAGE framework) forces at play in the company's domestic market and in foreign markets. This study is, then, a valuable tool for companies (not just SMEs, but all sort of companies) to evaluate their business and their position in their industry, even if these companies do not seek to internationalise. It is also of paramount importance for companies to understand what encompass the internationalisation of companies, how it unrolls itself, by which means, and at what costs. From this thorough examination, a series of steps filled with tools and frameworks was compiled, recurring to the exemplary and exceptional work of Svend Hollensen (2014), which was complemented with other author's noteworthy contributions to the fields of international business and business strategy, like Robert Grant (2010), Ghemawat (2001) and Waterman, Thomas, and Phillips (1980).

A complete analysis of the frameworks and tools used by Konsulting Group International in the different analysis undertaken during the development of the internationalisation strategy of its client's operations was not possible. It is understandable that most of this knowledge constitutes a source of competitive advantage and differentiation of KG International. However, it was possible to understand that at KG International these analyses try to encompass every possible information, and do not consider a formal set of guidelines or frameworks. It would be important to do so, not just for KG International but for all companies, to avoid incurring the risk of overlooking certain dimensions or factors; to facilitate the successful completion of this task for both those that are specialised on it and those that are new to it; and even for clients, so that they can better understand the analyses undertaken (e.g., instead of characterising a country in multiple and disperse dimensions, by following Ghemawat's CAGE framework it will be simpler and easier to understand the different dimensions of the analysis).

In the second part of this work, through a closer look at the processes of internationalisation of Konsulting Group International, it was possible to understand the importance of the business relationships; the dynamism that the strategy of internationalisation must possess; the importance to contextualise the product (or service) in the foreign targeted market, and the first-hand experience that the company gains of the market by doing so.

The reliance on external partners that possess different but complementary skills and knowledge will considerably help managers of SMEs to achieve a more successful internationalisation of their operations. Concluding, however, that business relationships must overcome a cost analysis would be hasty and false. The two must complement each other, since the company's funds are not unlimited, neither would the company benefit from dismissing the importance of external partners in its strategy. Companies must always evaluate the costs and disadvantages over the benefits of engaging in different partnerships, which could accrue in a shorter (e.g., when KG contributes to establishing sales channels on foreign markets for its clients), or in a longer time span (e.g., the experience and market know-how that an external partner has could prove to be advantageous when the company's strategy is to evolve to stages that involve a greater commitment of the company to the market -). There is no formula to achieve a perfect balance between these two approaches; yet, the experience at KG International highlighted that the development of strong business relationships is of paramount importance, and hence it is critical to first establish and nurture these relationships and only then engage in further development and strengthening of the client's internationalisation.

Furthermore, the closeness that characterises the business relationships between KG International and all the participants in the internationalisation of its client's operations – from suppliers of raw material to the partner in the foreign market – shows that these proximate relationships are a vital part of the success of this quest. They will allow the development of a dynamic strategy of internationalisation, and thus to better act on unpredictable events that could harm its success.

Last but not least, the importance of acquiring knowledge and experience regarding the targeted market through visits to this market and/or by exhibiting the company's products/services in an international trade fair was also perceived. The contact with foreign partners and/or clients; the possibility to understand how the market works, its requirements and nuances; the ability to demonstrate the unique functionalities/characteristics of the product/service; etc.; can be extremely advantageous. Nevertheless, it is crucial to, as previously stated, complement these with a thorough analysis of the company's different environments.

This work has some limitations since it grounds its conclusions in a small sample, a case study of a single company, of a single reality. The knowledge gathered may be prone to a subjective point of view, although the best efforts were channelled to keep an objective and impartial analysis of all the processes. Still, the experience of KG International in the field of internationalisation with several companies allowed to gather a substantial knowledge about this subject and was important to address in more detail the subjects under study.

These work's conclusions regarding the cornerstones of an internationalisation strategy are strictly directed towards small and medium-sized enterprises since KG International's processes - the object of study of the case study – are more suited for this type of companies. It would be interesting, then, to deepen the knowledge of the internationalisation of SMEs especially in the phase of the management of established international operations and different stakeholders' business relationships, with real cases of companies, to provide relevant insights for international and national trade associations; supranational, national and local governments; and to help these businesses succeed in ever more internationalised business environments. It would be also interesting to deepen the study of business networks and measure their impact on the internationalisation strategy of a company, as this would be of enormous help for different institutions, for instance, European Union’s committees, that evaluate the applications for grants for the internationalisation of companies.

Bibliography

Alavi, M., Leidner, D. (1999). Knowledge Management and Knowledge Management Systems: Conceptual Foundations and Research Issues. *MIS Quarterly*, 25(1), 107-136.

Bartlett, Christopher A., and Paul W. Beamish. (2014). *Transnational Management: Text Cases and Readings in Cross Border Management*. 7th ed. Burr Ridge, IL: McGraw-Hill/Irwin.

Calof, J., Beamish, P. (1995). Adapting to foreign markets: explaining internationalization. *Journal of International Business Studies*, 4(2), 115-131.

Cateora, P., Gilly, M., Graham, J. (2011*). International Marketing*. New York, USA: McGraw-Hill Irwin.

Corey, K., Gioia, D. (2011). Building theory about theory building: what constitutes a theoretical contribution? *Academy of Management Review,* 36(1), 12-32.

Johanson, J., Vahlne, J. (1977). The internationalization process of the firm – A model of knowledge development and increasing foreign market commitment. *Journal of International Business Studies*, 8(1), 23-32.

Johanson, J., Vahlne, J. (2009). The Uppsala internationalization process model revisited: from liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40, 1411-1431.

Ghemawat, P. (2001). Distance Still Matters. *Harvard Business Review.*

Grant, R. (1991). Porter's 'Competitive Advantage of Nations': An Assessment. *Strategic Management Journal,*12, 535-548.

Grant, R. (2010). *Contemporary Strategy Analysis.* West Sussex, United Kingdom: John Wiley & Sons Ltd.

Håkansson, H., Snehota, I. (1995). *Developing Relationships in Business Networks.* New York, USA: Routledge.

Harrell, M., Bradley, M. (2009). *Data Collection Methods. Semi-structured interviews and focus groups.* California, USA: National Defense Research Institute.

Harvey, M., Moeller, M. (2009). Expatriates managers: a historical review. *International Journal of Management Reviews*, 11(3), 275-296.

Henderson, B. (1974). The Experience Curve - Reviewed III – Why Does It Work. *The Boston Consulting Group*, 128.

Hollensen, S. (2014). *Global Marketing*. Harlow, United Kingdom: Pearson Education Limited.

Kim, W., Mauborgne, R. (2005). Value innovation: a leap into the blue ocean. *Journal of Business Strategy*, 26(4), 22-28.

Knight, G., Cavusgil, S. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 35, 124-141.

Lu, J., Beamish, P. (2001). The Internationalization and Performance of SMEs. *Strategic Management Journal*, 22, 565-586.

Porter, M. E. (1979). How Competitive Forces Shape Strategy. *Harvard Business Review*, 2, 137-145.

Schulz, A., Borghoff, T., Kraus, S. (2009). International Entrepreneurship: towards a theory of SME internationalization. *International Journal of Business and Economics*, 9(1).

The library of Economics and Liberty. (2000). An inquiry into the Nature and Causes of the Wealth of Nations. Retrieved 8 February 2017, from http://www.econlib.org/library/Smith/smWN13.html#f32.

Villar, C., Alegre, J., Pla-Barber, J. (2013). Exploring the role of knowledge management practices on exports: A dynamic capabilities view. *International Business Review*, 23, 38-44.

Waterman, R., Thomas, P., Phillips, J. (1980). Structure in not an organization. *Business Horizons*,14-26

Williamson, O. (2010). Transaction Cost Economics: The Natural Progression. *American Economic Review*, 100, 673-690.

World Bank Group. (2017). *Doing Business 2017: Equal Opportunity for All*. Washington, United States of America: International Bank of Reconstruction and Development/The World Bank.

World Trade Organization. (2016). World Trade Report 2016: Levelling the trading field for SMEs. Retrieved 8 February 2017, from https://www.wto.org/english/res_e/publications_e/wtr16_e.htm

Yin, R. (2003). *Case Study Research. Design and Methods.* California, United States of America: Sage Publications, Inc.

Annexe

Annexe 1: Questionaire of the interview of Michał Dąbrowski, CEO of Konsulting Group International.

1. Beginning with the first step of KG's internationalisation process, how do you perform a product analysis? What factors do you weigh in?
2. Do you also look at the maintenance that the product requires?
3. What factors weigh in on measuring the differentiation of a product?
4. What do you take into account when doing the analysis of the company?
5. Do you look at the workers, the processes of the company, how things are done?
6. How much weight do that factors have on the definition of the strategy?
7. Do you think then that the strategy is dynamic?
8. How do you analyse the competition?
9. How do the company's resources and willingness affect the strategy formulation?
10. Do you think a company should not dictate the path of the industry?
11. Then, how should a company be innovative to keep up with the competition, and be able to evolve their product? Should they work close to complementary products?
12. What factors do you reckon that are crucial in an economic analysis or in a country analysis?

13. Which scopes do you connect to create the strategy?

14. Do you think that the market entrance must be an incremental process? If so, what are the main factors that shape this process (company's market knowledge, company's market share)?

15. How do you analyse these factors? Is a cost analysis unavoidable?

16. How close do you work with a distributor?

17. To what extent do you work with the final clients? If there is any work with the final clients?

18. Do KG work mainly with customers that supply custom designed solutions?

19. Does KG analyse and change the company's strategy in accordance with the internationalisation strategy?

20. What do you do when you feel that the company's strategy isn't completely optimised to fully integrate an internationalisation strategy?

21. Do you believe that there is a trade-off between efficiency and the strength of the relationships, being preferable to wait and develop the relationship, being able, further down the road, to make suggestions?

22. What are the factors to have in mind when starting an internationalisation strategy?

23. Do you believe it is possible to "tell the market" the strategy, to create a new strategy in the market? For instance, create a differentiation strategy in a mass production market?

24. As I understand you consider the personal relationship as the most important factor when entering a new market…

25. Do you think a manager of an SME will look at all that data that you present them?

26. You believe in the power of business relationships?

27. What are the benefits of outsourcing this creation of the internationalisation strategy to a consultancy firm?

28. How do you do when the company wants to internationalise to a country that you have no knowledge about?

29. What is the hardest part for a consultant on an internationalisation process?

30. What skills and traits do you reckon to be essential to a consultant, mainly in this field?

31. Do you think that to have a critical mind the most important skill?

32. What is your view of Portuguese PMEs? Its management skills, and its competitiveness when compared with foreign companies?

33. What is the difference between KG and competition?