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How corporate governance helps firms to
overcome challenges in the
internationalization process

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Abstract:

The goal of this thesis is to fill the gap in the literature concerning the corporate governance as a facilitator of the internationalization process, helping firms to overcome specific challenges during this process.

To answer our research question, we conducted a qualitative study, the case study method, based on a Portuguese international company. The data was collected mainly by primary data, interviews, and as secondary data, internal and external documents provided by the company. The findings show that corporate governance helps surpassing the following challenges: cultural differences, spatial distance, communication problems, language differences, maintaining the same reputation and image, the management of the human resources and the different subsidiaries.

The mechanisms that help to overcome these challenges are: the role of the board and its small size, the non-presence of external members, the engagement of the board, the separations of ownership and control and the good communication channels in the model of governance.

Key words: Internationalization, challenges, corporate governance

O objetivo desta tese é completar o gap na literatura do modelo de governo das empresas como facilitador do processo de internacionalização, ajudando as empresas a superar desafios específicos durante esse processo.

Para responder a questão de pesquisa, realizamos um estudo qualitativo, utilizando o método de estudo de caso, baseado numa empresa internacional Portuguesa. Os dados foram colhidos principalmente por entrevistas e como dados secundários, documentos internos e externos fornecidos pela empresa. Os resultados provam que o modelo de governo ajuda a superar os seguintes desafios: diferenças culturais, distância física, problemas de comunicação, diferenças linguísticas, manter a mesma reputação e imagem, na gestão dos recursos humanos e das diferentes subsidiárias nos diversos países.

Os mecanismos que ajudam a superar esses desafios são: o papel do conselho administrativo e a sua reduzida dimensão, a inexistência de membros externos no mesmo, o compromisso e esforço do conselho, as separações de propriedade e controle e os bons canais de comunicação no modelo de governo.

Palavras-chave: Internacionalização, desafios, modelo de governo

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1. Introduction

Globalization has changed the boundaries of the world. *“It is the process of world shrinkage, of distances getting shorter, things moving closer”* (Larsson, 2001, p.9). However, besides the opened barriers, *“retailing across borders is far from easy”* (Williams, 1992, p. 9). *“Managerial complexity increases along with increases in the extent and dispersion of a firm's dependence on its international operations”* (Carpenter and Sanders, 1998, p. 159) and the governance structure of firms is expected to accommodate the growing complexity associated with internationalization (Carpenter and Sanders, 1998). Carpenter and Sanders have shown support in their study that the corporate governance' mechanisms and characteristics indeed help firms to deal with the complexity and challenges that might occur when internationalizing.

Although, there are a lot of authors that studied corporate governance and its importance in a firm (Luo, 2005; Carpenter and Sanders, 1998; Denis and McConnell, 2003), there is a gap in the literature in terms of the links between the corporate governance mechanisms and the internationalization challenges, as cited by Carpenter and Sanders, *“although we have shown support for the argument that firms respond to international complexity through governance, extensions of this study should give consideration to conditions that may increase or decrease the strength of this argument”* (Carpenter and Sanders, 1998, p.174). Our research question addresses this gap. Moreover it is a useful tool for managers in the future to know which mechanisms of corporate governance can help in their strategy of going abroad, associated with a specific challenge of the internationalization.

The purpose of this thesis is to understand how corporate governance helps firms to overcome challenges in the internationalization process. In order to answer this question we divided into 2 sub-questions: *“What are the challenges in the internationalization process of a company”* and *“What are the mechanisms of corporate governance that help to overcome the challenges during the internationalization process”*. We chose a qualitative approach and conducted a case study in order to answer our research question.

The structure of this thesis will start by the literature review, where a deep analysis of the existing studies about internationalization and corporate governance are presented and compared. First, we go through the process of internationalization and the challenges that arise with it. Then, we define corporate governance and emphasize its importance for firms. Subsequently, we present corporate governance as a facilitator of internationalization and the most relevant mechanisms. The following section is composed by the methodology of this

study. We justify the use of a qualitative method, more specifically a case study approach, the data collection and its analysis. Afterwards, we present the case study of Ascendum and the foremost findings with a comparison with the literature, in the same chapter. Finally, in the last section, we highlight the main conclusions from the case study and the future research.

2. Literature Review:

In this section we present the literature review, a deep analysis of the existing studies related to the topic we are going to investigate in an effort to answer our research question.

So, first we will focus on the internationalization process, its definition and its challenges. Afterwards we will introduce the concept of corporate governance in order to understand the broad topic of the research question. Finally, we establish a relationship between corporate governance and internationalization and the mechanisms of corporate governance as a facilitator of the internationalization process.

The main findings of the existing literature are that the challenges most companies face during the internationalization process are the cultural issues and differences, the spatial distance between the parent company and its subsidiaries. Consequently the management of the different subsidiaries, the communication and the language differences. Besides, the knowledge of the new market, the transferability of the same image and reputation, the management of the human resources and the lack of it. Finally, the political and economical instability faced in the new environment.

The mechanisms of corporate governance that help to overcome some of these challenges are the role of the board, its size and structure, the engagement of its members, the separation of ownership and control, the compensation structure and the clear communication channels present in the corporate governance model.

2.1. Internationalization

Globalization is a manifestation of an economy in change that *“has driven firms to the same competitive arena”* (Fraser and Oppenheim, 1997, cited by Cedrola et al, 2009, p.455) and has led to the process we know as internationalization. It has become one of the greatest challenges for firms due to its added complexity and by creating pressures for competition (Sanders and Carpenter, 1998). Firms need to coordinate their resources between various geographies and manage the contact with various cultures (Sanders and Carpenter, 1998).

2.1.1. Internationalization process definition

The internationalization process of a firm has been addressed by many researchers. Johanson and Vahlne (1997) define this process, based on the *Uppsala Internationalization Model*¹, as the phenomenon in which firms gradually expand their domestic business into more distant regions, as an evolution of their international involvement. “*Internationalization is the product of a series of incremental decisions*” (Johanson and Vahlne, 1997, p.23). As their market commitment and knowledge rise, they increase their geographic diversification and become more international. Welch and Luostarinen (1988) also address internationalization as “*the process of increasing involvement in international operations*” (Welch and Luostarinen, 1988, p. 36).

Sullivan (1994) affirms that “*a firm's degree of internationalization reflects its dependence on foreign markets for customers and factors of production, and the geographical dispersion of this dependence*” (Sullivan, 1994, cited by Sanders and Carpenter 1998, p. 158).

For the purpose of this thesis, we will use the definition of Sullivan as being considered the most complete one.

2.1.3. Challenges of Internationalization

Indeed, internationalization adds complexity arising from the fact that companies need to deal with more variety. “*In the international arena, quality of management seems to be even more critical than in domestic operations*” (Tung, 1984 p.129). The global world demands firms’ human capital to have an augmented effort in order to successfully allocate and transform the resources in the different subsidiaries (Tung, 1984). So, even when a firm has a better performance when operating locally, the challenges faced in the host countries restrict its success (Cuervo-Cazurra, Maloney and Manrakha, 2007, p.709). “*Most foreign direct investment (FDI) theories suggest that foreign subsidiaries are at a disadvantage relative to domestic firms with respect to several aspects of doing business in host countries*” (Mezias, 2002, p. 265).

So, in the next section, we will go through the challenges that seemed more pertinent in the existing literature as the cultural distance, the spatial distance, the communication problems,

¹ The Uppsala Internationalization Model was developed by Swedish researchers from the Uppsala University, Jan Johanson and Wiedershiem, 1975 and Jan-Erik Vahlne, 1977 to explain the internationalization process of the firms.

the language differences, additional costs, market knowledge, maintain the same reputation and image, management of the human resources and different subsidiaries and the political and economical instability. Nevertheless, these challenges are considered to be faced during the process of internationalization. According to Leonidou (2004) this group is called “*current exporters, that is, firms currently engaged in export activities, who experience problems during their day-to-day involvement in overseas markets*” (Leonidou, 2004, p.281).

2.1.3.1. Cultural Distance

Many authors have defined culture in the literature. However, Hofstede, one of the key authors in this field, defined it as “*the collective programming of the mind which distinguishes the members of one group or society from those of another*” (Hofstede, 1984, p. 82), which is transferred from generation to generation and is also rooted in companies demanding managers to have a “*deep understanding of their values, beliefs, and expressions*” (Hofstede, 1984, p. 82). As organizations rely on society’s culture and beliefs, there are differences among countries that must be taken into consideration when companies move their activities to other geographies (Hofstede, 1984).

“The cultural context largely impacts on how individuals act, think, communicate and do business with other actors” (Battaglia and Tzannis, 2009, p.3). So, companies must adapt to this difference and manage their relation depending on the perceived cultural distance, (Battaglia and Tzannis, 2009) due to the fact that “*what works in one country does not necessarily work in another*” (Hofstede, 1994, p.7). Companies that operate internationally, profoundly rely on the culture of the local country to succeed (Hofstede, 1994).

2.1.3.2. Spatial distance between the parent company and its subsidiaries

The spatial distance between the parent company and the different subsidiaries increases the difficulty of managing the business as “*internationalization increases the problems of board monitoring. Specifically, the spatial complexity associated with the geographic dispersion of sales, assets, and personnel may make information gathering and processing more difficult for the board members*” (Sanders and Carpenter,1998, p.162). So, as the activity of the company is more dispersed and spread over the world as internationalization rises, operations of the company get more challenging.

2.1.3.3. Management of the different subsidiaries

Another challenge arising from the establishment of international business in distant locations is the control of the various companies in the different geographies in order to get an uniform strategy (Doz and Prahalad, 1986 p.55). It calls for a trade-off between acting global as the parent company or as a local firm (Doz and Prahalad, 1986).

“The internal variety needed to match the growing external variety calls for flexibility and adaptiveness” The difficulty arises when controlling the company as *“too tight control may lead to missed opportunities, while too little also creates difficulties”* (Doz and Prahalad, 1986).

Moreover, the management of the different subsidiaries also gets more challenging due to *“the diversity of customers, competitors, and regulations accompanying internationalization increases the volume, variety, and disunity of the information that TMTs must process”* (Weick & Orden, 1990, cited by Sanders and Carpenter, 1998, p. 160).

2.1.3.4. Communication problems

“Communication flows within the multinational are an essential element of its ability to control and coordinate global activities, and to respond rapidly and flexibly to changing circumstances” (Marschan-Piekkaria, Welchb and Welchc, 1999, p.425), due the challenging environment faced by firms. It constitutes a challenge for international companies for two main reasons. First, there are additional channels tangled between the mother company and its subsidiaries that result in a challenge for international companies (Marschan-Piekkaria, Welchb and Welchc, 1999). And also, due to the distance between cultures within the company, as *“communication between people from different cultures from the point of view of language, values, customers, and ways of thinking, will be far more difficult, with a degree of miscommunication being almost inevitable”* (Ferraro, 2006, cited by Tian and Borges, 2011, p. 111). Therefore, it is crucial for international business to domain their communication skills in the competitive world as it is a guide to the success of a firm (Tian and Borges, 2011).

2.1.3.5. Language Differences

As a barrier in the communication of multinationals is also the difference in the language between the various countries. *“Indeed, communication across cultural borders frequently*

involves misunderstandings caused by language and other barriers” (Marschan-Piekkaria, Welchb and Welchc, 1999, p. 426).

It is claimed that the language determines the course of communication and the personal relations (*Marschan-Piekkaria, Welchb and Welchc, 1999*). The uncertainty behind a new market and the risk of investment will be lower if the countries have the same language and culture due to *“the ready transferability of marketing, technology, and human resources to similar countries”* (Davidson, 1980, p.16).

2.1.3.6. Additional costs

Internationalization also implies a huge effort in terms of investment for companies as it involves complex processes (Hutchinson, Fleck and Lloyd-Reason, 2004).

The liabilities of foreignness refers to the *“phenomena that cause foreign firms to incur costs domestic firms do not, incur costs to a greater extent than domestic firms do, or be denied benefits only domestic firms are eligible to receive”* (Mezias, 2002, p.266) but different authors consider different sources of costs.

We will focus on Zaheer’ view (1995), who argues that the spatial distance between the home country and the different geographies result in costs associated with the host-country economy and legislation (Mezias, 2002, p. 268), constituting a challenge in terms of costs that were not expected when the decision of going abroad was made.

2.1.3.7. Market knowledge

Johanson and Vahlne argue that the main difference from the domestic market to an international is the knowledge about it (Johanson and Vahlne, 1977).

For market knowledge we understand *“the present and future demand and supply, to competition and to channels for distribution, to payment conditions and the transferability of money”*, which differ in terms of geography and period (Carlson, 1974 cited by Johanson and Vahlne, 1970, p.27) and can result in an obstacle for the international decisions, because when companies face unstable markets which are different from a previous situation, the internationalization process will become more challenging and slow (Johanson & Vahlne, 1977).

2.1.3.8. Maintain the same reputation and image

Another big challenge of moving the operations to a different country is to succeed when transferring the image and reputation (qualities and competencies) to that new market and a lot of companies face this difficulty (Alexander, 1995, cited by Hutchinson et al, 2009). By this, we mean that transferability of the concept overseas is not easy in many situations.

It has been pointed out that “*retail formulae may be viewed as ‘culture bound’ (Dressman 1980), which means that barriers may result from a ‘lack of fit’ between foreign customer acceptance and the exported retail formula*” (Hutchinson et al, 2009, p.253). So, the transferability of the products is an important factor to consider when operating internationally.

In fact, a lot of firms that succeed in their home country, “*often fail to convey the same image and distinctive qualities to consumers overseas when they transfer that operation to a new market*” (Alexander, 1995, cited by Hutchinson, Fleck, Lloyd-Reason, 2009, p.545).

2.1.3.9. Management of human resources

“*Like all organizations, multinationals are held together by people. The best structure at a given moment depends primarily on the availability of suitable people*” (Hofstede, 1994, p.12). In fact, the lack of human resources can constitute a challenge for companies who expand their business as the human resources are crucial for the survival of the subsidiaries when operating internationally and when they are not successfully exploited can become a constraint to the performance of a multinational (Tung, 1984, p. 129).

Besides all the implications it has, it comes to discussion which practice applies better: “*the pressure for internal consistency or the pressure for local isomorphism*” (Rosenzweig, Philip M., Nohria, Nitin, 1994). The first one has the advantage of allowing the mobility of the employees between units and geographies and the strategies are consistent as the “*practices are shaped mainly by the pressure for internal consistency*. (Rosenzweig, Philip M., Nohria, Nitin, 1994). On the other hand, there is the pressure for local practices where the human resources are adapted to the local rules in order to be more effective. “*These pressures, separately or in combination, would lead MNC affiliates to adhere to HRM practices found in the local environment rather than those of the foreign parent*” (Rosenzweig, Philip M., Nohria, Nitin, 1994).

2.1.3.10. Political and economical instability

International decisions are challenged by the different systems faced in the new countries, which lead to higher “*levels of economic and political risk*” (Kapila and Hendrickson, 2001, p. 186).

Therefore, firms are faced with external obstacles that are “*derived from foreign market conditions within which the firm has to operate. These barriers are affected by rapid external changes, incorporate high levels of uncertainty, and usually fall beyond the control of the individual firm*” (Leonidou 1995a, cited by Leonidou, 2004, p. 284). Firms face exogenous forces that make the environment unstable and hard to control.

2.2. Corporate governance

There are many definitions for corporate governance that had been exposed by several researchers (e.g. Kent and Ronald, 2010; Crow and Lockhart, 2015; Gillan and Starks, 1998; Aoki, 2000; Aguilera and Jackson, 2010; Margaret, 1996; Monks and Minow, 2004). As a result, in the next section we present the definitions we consider more complete, as according to Morten Huse “*corporate governance definitions will often be biased and reflect the values of those using them*” (Huse, 2007, p. 14), meaning that depending on the analysis, the authors use different definitions according to what is more suitable for their explanation.

2.2.1. Corporate governance definition

Corporate governance is a term addressed by many authors in the literature, so it has many definitions. In this section we consider as being more suitable for the purpose of this thesis, the following definition gave by many academics (e.g. Margaret, 1996, Sanders and Carpenter, 1998, Williamson, 1984, Crow and Lockhart, 2015, Denis and McConnell, 2003). Corporate governance is considered as a set of arrangements that define the structure of control of the company, about who controls it, how the resources are allocated and how the board exercises this control and monitor the operations.

2.2.2. The importance of corporate governance

Corporate governance has been gaining attention due to its importance for companies in the past years as an *“effective corporate governance is crucial to succeed in the competitive world we live in and a tool for success”* (Tricker, 2012, cited by Anand, 2017, p.555). The need for it comes from the possibility of conflict of interests between the stakeholders of a firm (Gillan and Starks, 2003).

Nevertheless, *“good corporate governance contributes to sustainable economic development by enhancing the performance of companies”* (Sarbah and Xiao, 2014, p.40), *being fundamental for companies’ growth*. Their capability to survive and performance relies on the networks between the company’s members (Sarbah and Xiao, 2014).

2.2.3. Principles of corporate governance

Knowing that there are different applications of corporate governance and various models that each country and firms applies, there is no single solution for an effective corporate governance model. So, there are some principles to help companies to act in a more standardize way (Siljanovska & Matovska, 2017). The *OECD*² defined as principles for corporate governance, combine equal relations and equal treatment to all shareholders, in order to protect its rights; Assume responsibility, ensuring cooperation and agreement between all the shareholders; Guarantee transparency in the disclosure of information of the company; Certify the accountability of the firm assured by the corporate governance through the board’s monitoring (Siljanovska, and Matovska, 2017). In this way, firms will assure a better corporate governance model.

2.3. Corporate governance and internationalization

The globalization has demanded firms to adapt their strategy in order to become consistent with the change and be successful (Doz and Prahalad, 1986, p.55). *“The question of how large firms strive to manage and cope with the complexity arising from the internationalization of their operations remains one of the most pressing issues in the fields of international and strategic management”* (Sanders and Carpenter, 1998, p. 158). As a firm gets more international, it is important to adjust its governance structure in order to adapt to

² Organization for Economic Cooperation and Development

the new environment, as it constitutes a crucial factor for companies to answer to the complexity of internationalization faced by its board team (Sanders and Carpenter, 1998, p.158).

Therefore, adapting and having an efficient governance model in the environment of an international company as it gets more compound, is vital for the survival of companies (Sanders and Carpenter, 1998, p. 160).

Additionally, firms that act internationally have to deal with more institutional constrains, depending on the country they are operating due to “*more demanding and more diverse global shareholders and stakeholder groups*” (Freeman and Reed, 1983, cited by Luo, p.5). Also, they may have many boards and executive teams that are more difficult to manage as well as more complex strategies. The relations within the corporate governance also get more complex as the distribution of rights and responsibilities must be done across the parent company and all the different subsidiaries (Luo, 2005, p.5), that is why “*MNEs need additional mechanisms*” (Klapper and Love, 2002, cited by Luo, p.5).

2.4. Mechanisms to overcome the challenges of internationalization

According to some authors there are mechanisms that can help firms to have a more efficient corporate governance model and, therefore, overcome challenges that might occur when internationalizing. Some authors predict that as firms internationalize, they will rely on corporate governance to facilitate their operations, using some mechanisms that we will present on this section (Carpenter and Sander, 1998, Huse, 2007, Aoki, 2001, Aguilera and Jackson, 2003, Sarbah and Xiao, 2015).

2.4.1. The role of the board of directors

The relation of the board of directors and the enhanced performance of a firm is addressed by many authors (Kummamuru, 2016; Carpenter and Sanders, 1998; Petrovic, 2008; Huse, 2007; Jensen, 1993). Petrovic (2008) justifies this association due to the board’s impact and authority in a company. The board of directors plays a master role in the corporate governance due to their position in the firm. They “*reside at the strategic apex of a firm (Mintzberg, 1973) and together are the information processing center of the organization in its relationship with the environment*” (Thompson, 1967, cited by Sanders and Carpenter, p.161). When facing external markets, this involvement becomes crucial as the

responsibilities increase. As Williamson (1983) claims: *“the importance of board as corporate control mechanism will be greater in corporations operating in markets where takeovers are difficult”* (Kose and Senbetb, 1998, p.391).

2.4.2. The Board size:

In fact, internationalization adds difficulty to the board’ tasks and may require larger teams (Sanders and Carpenter, 1998 p. 163). However, the size has influence on the performance of the team members and affects the capacity of management (Sanders and Carpenter, p.161). On one hand, there are studies that prove that increasing the size adds difficulties due to the *“incremental cost of poorer communication and decision-making associated with larger groups”* (Lipton and Lorsch (1992) and by Jensen (1993)), cited by Kose and Wsenbetb, 1998). That is why Yermack believes that *“limiting the size of the board may improve efficiency”* (1996) as there is a clear inverse relation between firms' market valuation and the sizes of boards of directors. On the other hand, some scholars (Hill, 1982; Jackson, 1992; Dutton & Duncan, 1987) claim that a bigger capacity of teams is associated with more capabilities that allow better problem-solving and rapid process of information (Carpenter and Sanders, 1998, p.163).

2.4.3. Board structure/composition

“Various European commissions have embraced the idea that appropriate board composition is important to good corporate governance” (Denis and McConnell, 2003, p.7). We will approach the proportion of external directors to internal ones and the duality of the CEO. Carpenter and Sanders expect that internationalizing produces less CEO duality and less external directors in the board (Carpenter and Sanders, 1998 p.165).

2.4.3.1. Proportion of external directors

The component that has been more studied in the structure of the corporate governance is the proportion of outsider directors and if their actions are as positive as insider directors. The main conclusion of the study conducted by Hermalin and Weisbach is that more external directors can result in better management decisions but not linked to a better performance of the company (Denis and McConnell, 2003). According to Carpenter and Sanders, Baysinger and Hoskisson (1990) defend that internal directors *“positively affect its ability both to*

process complex information about the businesses of the firm and to make strategic decisions” (Carpenter and Sanders, 1998, p.165). So, their decisions will be more conscious and complete about the environment as internal directors have more access to information. Moreover, they guarantee that the managers’ interests are ensured (Meckling, 1976; Rosenstirn and Wyatt, 1997).

2.4.3.2. Duality of the CEO/president

The CEO duality consists in a person in the company being the CEO and the chairman of the board at the same time. *“Some scholars have argued that duality may help establish unity of command and clarify decision-making authority (Daily & Dalton, 1997; Finkelstein & D’Aveni, 1994)”* (Carpenter and Sanders, 1998 p. 163). Nevertheless, when firms are faced with internationalization, the complexity arises and the assignment of responsibilities increases, diminishing the probability of the duality of the CEO as it would compound the corporate governance.

2.4.4. The engagement of the board members

The engagement of the board members is an essential mechanism for good corporate governance in the way that it exercises a powerful impact over the rest of the company and its results (Crow and Lockhart, 2015). Crow and Lockhart (2015) prove in their study that *“when the directors were actively engaged in the strategic management practices the board was operating in a functional manner”* (Crow and Lockhart, 2015, p.92). Moreover, they state that *“collective empathy can change the performance”* as the workers feel engaged in the company too. Likewise, it allowed for faster decision-making.

2.4.5. Separation of ownership and control

According to Denis and McConnell, the ownership structure is defined as *“the identities of a firm’s equity holders and the sizes of their position”* and it is crucial for corporate governance. Going back to Adam Smith (1776), *“when ownership and control of corporations are not fully coincident, there is potential for conflicts of interest between owners and controllers”* (Denis and McConnell, 2003, p.1). However, separating ownership and control also have

paybacks (Denis and McConnell, 2003, p.1). Normally, the separation between ownership and control result from the non-alignment of the interest between managers and shareholders (Raffournier, 1995) and will result in a better disclosure of information between the company as *“managers are more likely to provide quantified information about reserves in the annual reports”* (Craswell and Taylor, 1992, p.299). *“So, the ultimate effect of managerial ownership on firm value depends upon the tradeoff between the alignment and entrenchment effects”* (Denis and McConnell, 2003, p.3).

Moreover, companies that do separate the ownership and control between executive members and non-executives members do not can have an advantage using the non-executive committee as *“external view to help develop the company’s strategy and bringing in fresh perspectives”* (Petrovic, 2008, p.1376).

2.4.6. Clear communication

“Governance arrangements best facilitate the transfer of information when there are information asymmetries between a firm’s management and its board, whose members represent the firm’s owners (Eisenhardt, 1989; Gerhart & Milkovich, 1990; Gomez-Mejia & Wiseman, 1997, cited by Sanders and Carpenter p.161). The structure of the corporate governance should enhance a clear communication throughout the added channels, where the functions are clear, in order to have a faster and better decision-making (Siljanovska and Matovska, 2017). This structure passes by having a strengthened trust atmosphere and an engagement of all human resources.

2.4.7. Compensation structure

Compensation structure is a powerful incentive alignment mechanism (Jensen & Murphy, 1990), so it should also be associated with board structure. *“Therefore, and recognizing that information-processing needs may dictate a positive relationship between the proportion of insiders on a board and a firm’s degree of internationalization, such board structure may require the complementary governance afforded by long-term compensation”* (Carpenter and Sanders, 1998, p.165).

In order to overcome the difficulty of monitoring that arises with internationalization, *“boards can increase the use of long-term pay in the mix of total pay as an alternative and more efficient control mechanism* (Carpenter and Sanders, 1998, p.162). When a subsidiary

has autonomy on its operations, the local responsible will be more encouraged by “*performance incentives*” due to the “*difficulty of home office monitoring in high-control situations*” (Roth and O'Donnell (1996), cited by Carpenter and Sanders, 1998 p.162).

3. Methodology

3.1. A qualitative method

We decided to conduct a qualitative research in our study as we believe it is more appropriate to answer investigate “how” questions (Bettis et al, 2015). Moreover, since our concern is to identify patterns to produce new possible insights, this approach seems more framed; *“We believe that qualitative research often provides a means of identifying generalizable patterns concerning important questions in the field of strategic management”* (Bettis et al, 2015, p. 237).

3.2. Case study approach

The case study approach fits better in the case of our research question as it permits *“multi-faceted explorations of complex issues in their real-life settings”* (Crowe et al, 2011, p.1). Moreover, according to Yin the “how” type of question usually primes the case study approach as *“such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence”* (Yin, 2009 p.9) and the case study focuses on contemporary events.

Specifically, a qualitative single-case design was conducted as it fills one of the five rationales that demand this type of investigation. We wanted to investigate how corporate governance helps firms to overcome challenges in the internationalization process, an important contribution to the international management (Yin, 2009). Furthermore, conducting a multiple-case study requires more time and resources that are not available in the period of this study (Yin, 2009).

3.3. Data collection

The data was collected by primary and secondary type of data. Regarding the first one, we conducted 5 semi-structured interviews with formal appointment that lasted on average 45 minutes and were made to the managers that work at the holding in Portugal due to their contact and presence in all stages of the internationalization and the knowledge of the changes in the company during the last years. This was also the moment where we were able to understand all the internationalization process and challenges, to know the history of the

company and the corporate governance model. It was interesting to have the different points of view that allows us to obtain the best information. Moreover, we had access to the annual reports of the group of the last years, internal magazines and bench markets provided by the company permitting us to know the history and the facts, the revenues and have access to all the numbers. Nevertheless the participant direct observation by working in the company before, which allowed us to know the culture of the company.

Finally, throughout this study, the research diary with field notes and observations helped us to organize all the information before and after the interviews made.

Data Source	Type of Data	Use in the analysis
Interviews	5 semi-structured interviews	History of the company, internationalization and figures
Archival data	Annual reports of the last relevant years (2011 and 2016)	Figures and general company information
Direct participant observation	Internship at the company	The culture of the company
Diary	Personal notes	Organize all the information

Table 1 - Data collection

Date of evidence	14 th September	19 th October	7 th November	15 th November	20 th November
Interviewee characteristics	Interview 1 – Corporate Brand Manager	Interview 2 – Executive Board Member*	Interview 3 Executive Board member*	Interview 4 – CFO	Interview 5 – Executive Board member and local CEO*

Table 2 - Interviewee characteristics and date of evidence

* Also member of the local administrative committee of some subsidiaries

3.4. Data analysis

3.4.1. Coding approach

For the data analysis, we used the coding approach alongside with the data collection, which permitted to link the data.

Coding had different phases. Started with the definition of broad codes, pre-defined according to our research question and existing literature, before the analysis, such as challenges, board, internationalization, process and corporate governance. After the data collected and thought out its analysis, there were some codes that merged and new ones arose, as regard as, local culture, direct communication and rapid decision-making. From the quotes and information we had, we selected a code we considered more suitable. Some quotes may belong to more than one code.

A segment of our coding table is present in order to give a complete example.

Code	Interview 1 – Corporate Brand Manager	Interview 2 Executive Board Member	Interview 3 Executive Board member	Interview 4: CFO	Interview 5: Executive Board member and local CEO
Proximity with the employees	“Our corporate governance model also permits more proximity between the employees and more integration due to the effort of all members to have a better communication between them and improve the proximity. This allows for an easier company culture share”			“Our experience makes it easier to adapt. The specificity of the culture is overcome by the corporate governance so the board member responsible for that country gains knowledge about how to aboard the people of that specific country.”	“The way to overcome difficulties is always to dedicate more time, being closer to the local teams, be very quick to cut with who does not interest and permanently attract good professionals”

Table 3 - Segment of the coding table

4. Case Study

In this section, we present the company Ascendum's context divided by its history, products, its internationalization process and main results.

4.1. Presentation of Ascendum

4.1.1. History of Ascendum Group

Ascendum is a Portuguese family group with 58 years of history, founded in 1959, in Coimbra. The company started its operations as a Volvo concessionaire in the center region of Portugal, distributing cars and trucks. One of the most important steps was made in 1970 when it became an importer and distributor of the brand Volvo Construction Equipment (CE) in Portugal. In 1999 Ascendum decided to increase its range of products and portfolio and the first internationalization of the group took place in Spain. In the last years, Ascendum expanded its portfolio of brands between different countries and also diversified the correlated sectors of actuation. That implied a societal reorganization in 2012 and a change in its corporate governance structure, separating the executive committee from the non-executive. Also there was a transition that made Ascendum brand unique and transversal across its geographies in order to be recognized by its clients all over the world, even though these geographies had their designations endorsed by the Group.

Ascendum is a standard in the automotive sector, providing and distributing construction equipment, cars, truck and parts. It was always characterized by ambition, mainly by the tremendous desire of this 3rd generation for growth that is shared by the company's owners and main leaders, helping the group to turn in what it is today. Nowadays, Ascendum is a successful international Portuguese group that will have a turnover higher than 900 million euros. It works in 14 different countries and deals with 12 different languages due to having 1400 employees across all regions.

Its purpose is *“to be one of the world's largest suppliers of equipment and integrated solutions for construction, industry, infrastructures, cars and trucks”* (Annual report, 2016, p.20).

4.1.2. Business and products

Ascendum has more than 30 brands worldwide and acts in 4 different big areas: machinery and industrial equipment, infrastructure equipment, trucks and cars, in several different and diversified sectors as constructions and public works, extractive and transforming industry, transport of goods and the business of trade cars and trucks. *“Ascendum’s business lines also include equipment for ports, airports and railways, agricultural machinery, and multi-brand parts for industrial applications”* (Annual report, 2016, p.22). Its main brands are Volvo, Ponsse, Terex, Sandvik, Yale, Kioti, Sany, Carlson and Senebogen.

The core business is the sale of machines, equipment and parts but it also passes through the technical assistance and equipment solutions for the maintenance of the products sold and the rental of machinery.

“Ascendum’s customers include construction companies, quarries, mines, the paper, marble, glass and wood industries, industrial waste, waste and biomass operators, domestic and international freight carriers, port terminals, town halls, armed forces and many other public and private entities” (Annual report, 2016, p.20).

4.1.3. The structure of the company:

Ascendum’s structure is composed by the holding, the executive committee and the administration committee. At the same level of the holding there is a general meeting composed by all the shareholders.

The holding is the head of the group and responsible for the strategic management and to support all the activities of the group. It has 7 different areas: Control and strategy; financial operations; Audit and accountability; Communication and Image; People and Culture; Institutional relations and IT/ business development. All of them exist in all the different geographies. Then, there is the sub-holding which aggregates the different businesses, by dimension. And the 3rd level is exclusively related to the business. On all geographies, there is a local CEO which with more 2 to 3 members of the executive committee constitutes the local board of each subsidiary.

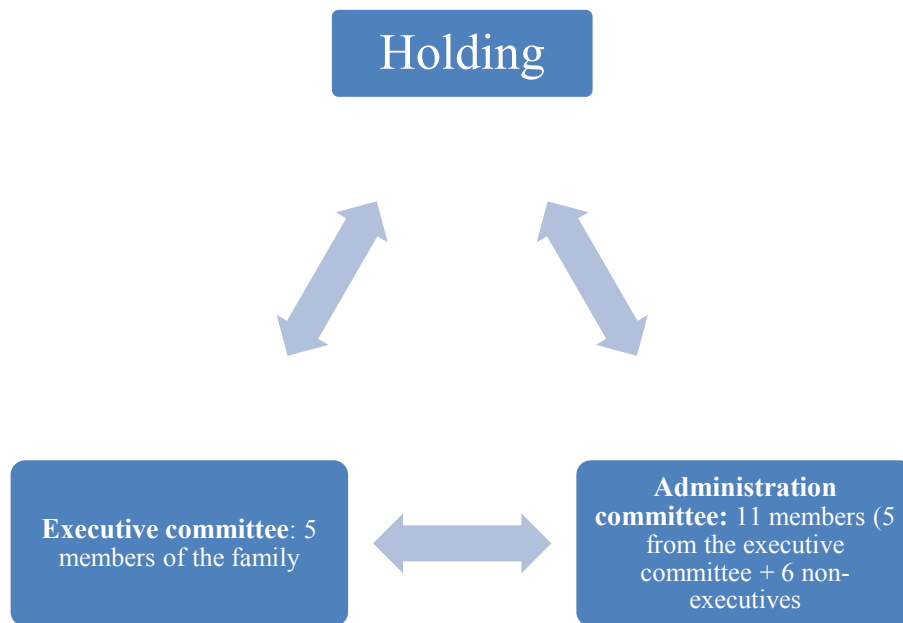


Figure 1 - The structure of the company

Source - Interviewee 4

4.1.4. Ascendum context

4.1.3.1. Distribution of the employees by geographic section

Ascendum has a workforce of 1409 employees distributed by all the geographies where it is present. Portugal is the country which represents the biggest proportion of employees, with 27% of the total workforce, followed by Central Europe.

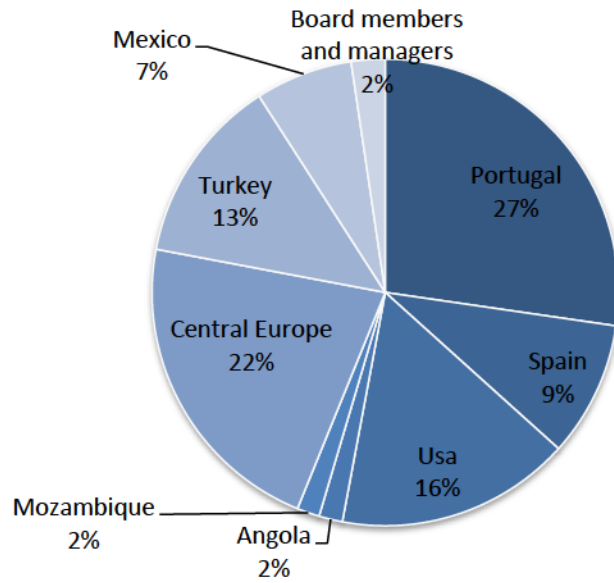


Figure 2 - Distribution of the percentage of employees by geographic region

4.1.3.2. Evolution of the turnover

In terms of the turnover, Ascendum registered an evolution since 1999, despite the years between 2007 and 2010 where it was affected by the crisis. After 2010 it has been rising reaching a peak in 2016 of 862 million euros, even though the challenging environment of the sector.

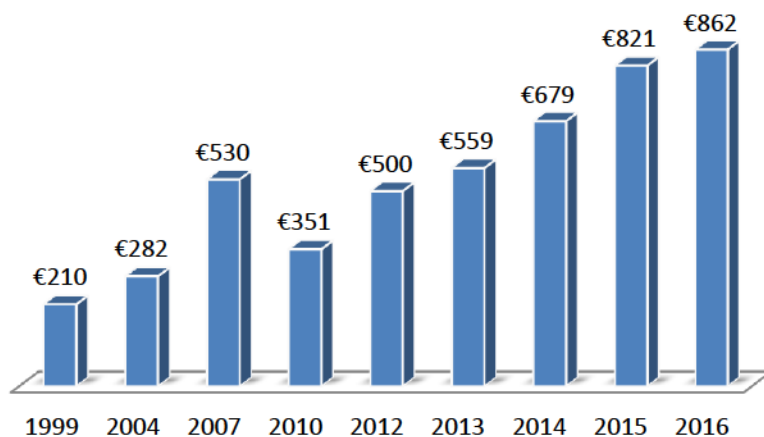


Figure 3 - Evolution of the turnover in million €

4.1.3.3. Contribution of each business area to the turnover in 2016

Ascendum's business areas are spread into the construction and industrial equipment, the infrastructure equipment, cars and trucks (vehicles). The construction and industrial equipment is the business area that registered the biggest contribution for the turnover in 2016. Also, it is the unique that is common for all the geographies.

Business Area Unit: Thousands of €	Iberian Peninsula	Americas	Turkey	Central Europe	Total
Construction and Industrial Equipment	123,48	342,691	188,604	133,753	788,528
Infrastructure Equipment	23,809	n.a.	n.a.	n.a.	23,809
Vehicles	50,066	n.a.	n.a.	n.a.	50,066
Total	197,355	342,691	188,604	133,753	862,403

Table 4 - Turnover by business area and geographic section in 2016

4.1.3.2. Countries by business area

The infrastructure equipment and the vehicles' business areas are only present in the Iberian Peninsula and the construction equipment area is present across all the locations.

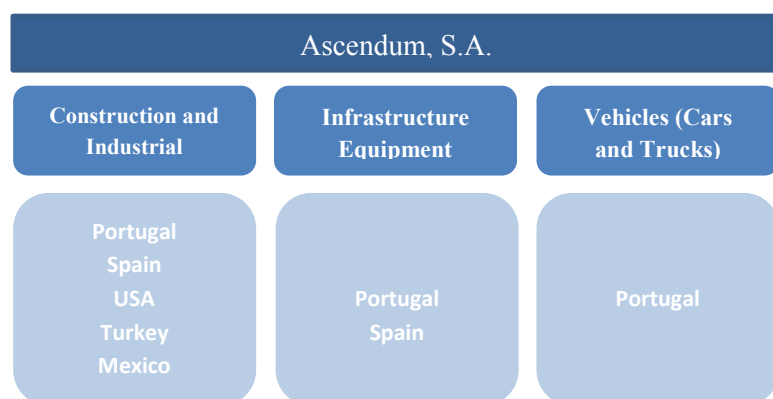


Figure 4 - Countries by business areas

* Czech Republic, Slovakia, Romania, Croatia, Slovenia, Bosnia Herzegovina and Moldova

4.2. The internationalization strategy

As stated previously, Ascendum has an ambition to growth always present in its culture and soon they realized that it was necessary to look outside the boundaries. The

internationalization decision of Ascendum is defined by the proposal of Volvo CE for the acquisition of dealers in the respective countries. So, everything started when Volvo CE invited Ascendum to be its dealer in Spain due to the big success of Ascendum in Portugal where they improved the entire market share between 1977 and 1999. Volvo CE believed in its capacity and capabilities to transfer the operations to Spain.

In 2003, the improved products and increased market share resulted in a second proposal from Volvo CE to go to the USA. As they showed knowledge about the business and had done a good work until then. It implied courage to go to EUA, a mature market and where the leader competitor was, but Ascendum end up increasing the market share between all the American dealers.

In 2010 the 3rd internationalization took place in turkey and it was crucial for the group due to the diversification of business for infrastructure equipment. 2012 was the year that Ascendum decided to go to Mexico but without the support of Volvo CE this time, so they started from the zero and it turned out more challenging, due to the differences regarding the culture of the country. The last step in the internationalization process was made in 2013 characterized by the group internationalization to the central Europe and north Dakota (6 countries). Thus, currently Ascendum has operations in Portugal, Spain, USA, Turkey, Mexico, Austria, Hungary, Czech Republic, Slovakia, Romania, Croatia, Slovenia, Bosnia Herzegovina and Moldova.



Figure 5 - Internationalization process timeline

Source: Annual report, 2016

4.3. Results of the internationalization process

The internationalization process of Ascendum turned out to be a successful case and it can be verified by the increase revenues in the last years and the awards it received. *“Ascendum’s excellent performance in the markets in which it operates has placed it in a prominent position among VCE dealers and it is now recognized as one of the largest and best dealers worldwide. At the same time, the Group has repeatedly achieved better performances — leading to increased recognition, turnover and market share — than Volvo CE itself as a dealer in the markets in which it is established”* (Annual report, 2016, p.22).

In 2016 Ascendum was ranked in 4th position in the internationalization ranking of Portuguese companies, developed by Indeg-IUL Iscte executive education, in collaboration with the strategy and international business unit of FDC (Fundação Dom Cabral) and with the institutional support of AICEP Portugal Global in 2016 and in 2nd place in 2017 between the Portuguese companies. It also received the International Prize in the large companies' categories – organized by Novo Banco and Jornal de Negócios in partnership with IGNOIS. These awards prove the continuous growth of the company and constant effort to obtain the best results.

Moreover, the managers are satisfied in the company as it was conducted a study of the organizational climate, worldwide, and 80% of the employees are proud of the brand Ascendum and 69% have a global satisfaction of working within the group.

5. Findings and discussion

In this section, we will analyze the data collected in order to answer our research question: How does corporate governance help firms to overcome challenges in the internationalization process, separating the analysis into the two sub research-questions and comparing the results with the literature.

5.1. What are the challenges in the internationalization process of a company?

5.1.1. Cultural distance

The cultural distance between the local parent and its subsidiaries can constitute a major obstacle for the process of internationalization as it implies different approaches to each situation. From the data collected, we could perceive from interviewee 4 that *“one of the biggest challenges was the cultural differences”* during the internationalization process. As interviewee 4 also said: *“The challenges consist in the cultural differences and the specificity of each culture. For example: in Austria they like objectivity, something already implemented, so they accept better than turkey or Mexico. In Mexico the culture is very different and implied a higher adaptation”*;

These results are consistent with Hofstede (1984) and Battaglia and Tzannis (2009) who argue that companies must be aware of the cultural environment as it influences the way individuals act and perceive things and adapt their approach to each country as they do not react the same way.

5.1.2. The spatial distance between the parent company and its subsidiaries

From the primary and secondary data we could perceive that Ascendum was challenged by the spatial distance between the parent company and all its subsidiaries, resulting in the necessity of a reorganization of the group in order to better coordinate the functions and the operations of the different subsidiaries. The expansion of its activity resulted in a complex management of the business and a difficulty to coordinate all the subsidiaries present in distant countries demanding the creation of the holding company to control the operations;

“With the internationalization, we had the necessity to restructure the company and have a corporate holding that hangs the geographies” (Interviewee 2).

This is in accordance with Sanders and Carpenter (1998) who expressed the difficulty of operating in more than one country which increases the difficulty of information process and monitoring.

5.1.3. Management of the different subsidiaries

The first nuance of this challenge took place in the first internationalization of the company when they start to think of the complexity arising from managing a subsidiary from a spatial distance. *“Still without experience of internationalization and moving to a country that is much bigger than Portugal, we start to think how we would manage that and control”* (Interviewee 2). Later on, they conclude that *“It is impossible the presence of all of managers in every geography”* (Interviewee 4) so they needed to have a common strategy to know what was happening in every location.

Our results are in agreement with Prahalad and Doz (1984) that it is challenging to manage all the different subsidiaries, due to their differences, even in the same location. The allocation of the resources, guarantying a consistent strategy and also focus local and global at the same time constitutes a difficulty for most companies. Moreover, evidence is shown of the control management challenge in order not to be too constricted or too slight.

5.1.4. Communication problems

The international activity of Ascendum, expanding its operations to other countries increased the difficulty in the communication within the group, assembling as a priority the implementation of effective intra communication tools. This difficulty arose from the added channels within more subsidiaries, which creates misinterpretations as the communication is not as direct as it is within the same location. This is stated by interviewee 1: *“Since the internationalization increases the difficulty of communicating, as more channels surge and gives space to misinterpretations, we needed to have internal tools to promote the open communication of all the company and be close to the workers”*.

Moreover, internationalization turns the internal processes more intricate adding the necessity of greater flexibility in the communications capabilities of the firm. As disclosed in the annual

report: *“In 2016, Ascendum focused its efforts on optimizing internal processes and on creating common management and communication tools capable of ensuring greater flexibility in its business in the different geographic platforms and fostering sharing of information and best practices”* (Annual report, 2016 p.12);

This is in agreement with Marschan-Piekkari, Welch and Welch (1999), Tian and Borges (2011), Hymer (1960), Kindleberger's (1969) and Mezias (2002), arguing the importance of the communication tools to successfully control the operations in a company, investing in communications skills to avoid the bias of the information, due to the added channels of internationalization.

5.1.5. Language differences

Besides dealing with 11 different languages the group does not consider it as a constraint during the internationalization process as the different lines of the company communicate in the same language. The board members communicate in English with the local CEOs. As it is the board who recruits them, they make sure they know English. While local CEOs communicate with the other lines of workers in the local language.

As interviewee 2 states: *“We use English as the language to communicate with almost all the local CEOs, which, in turn, communicate in the local languages with the rest of the lines”*.

And in fact, the language as a constraint in communication is consistent with several authors: (e.g. Marschan-Piekkari et al, 1999; Adler, 1991; Usunier, 1993; Davidson, 1980), who argue that the language act as a barrier when is different leading to ambiguity and doubt. However, under the same language the problems for communication that result in misunderstandings and interpretations due to the language are overcome.

5.1.6. Additional costs

From the data collected we can argue that the company deals with the challenge of having increasing costs due to the inclusion of more countries on their spectrum.

First there are the additional investment costs which arise from the complexity of the information processes and communication resulting from having more subsidiaries within the group. From the 2016 annual report we quote *“Ascendum will continue to promote the easing of operational structures, through a clear investment in business information systems to the various geographic platforms (...) maximizing the efficiency of the Company’s operations in the various geographical platforms in which it operates”* (Annual report 2016 p.82).

Also, there are costs arising from the exchange differences in the various countries. The devaluation of some currencies result in added costs that are impossible to predict before the process of internationalizing; *“Financial expenses increased significantly in 2016, compared with the previous year due to negative exchange differences cleared in bank loans in other currency than the Euro, which resulted primarily from the devaluation observed throughout the year, on the Turkish Lira, Kwanza and Metical”* (Annual report 2016, p.141).

Further, additional costs can arise from the currency risk in terms of the translation of the financial statements that are expressed in local currencies. “Accordingly, Ascendum’s currency risk exposure arises because, firstly, the preparation of the Group’s consolidated financial statements requires the translation of the financial statements of the subsidiaries into euros and, secondly, because of the existence of transactions/financing in currencies other than local/functional currencies (local financial statements)” (Annual report 2016, p.77).

According to the literature, these results are consistent with Hutchinson, Fleck and Lloyd-Reason’s (2004) views who argue that, in fact, internationalization involves high investments from companies to answer to the complexity. Moreover, this view is consistent with Zaheer (1995), Hymen and Mezias (2002) with the “liabilities of foreignness” which underlies the costs that firms face in the international markets that do not occur in their own countries due to distance between the geographies and the differences in the economic and cultural regulations.

5.1.7. Market knowledge

From the interviews conducted, it was possible to perceive that Ascendum does not consider facing the challenge of market knowledge in their internationalization activity as they go to markets proposed by Volvo CE which already has operations established there. Having a huge experience on the business and the products, the transition consists in passing from Volvo to other brands also, which they already know. As stated by interviewee 3: *“We keep the human resources team, we just change the knowledge of the business. We have a big knowledge of the business model that we work so we apply it to every geography we go”*.

Interviewee 4 also supported this view: *“We have a huge knowledge of the business, which leads to personal fulfillment and responsibility.” “Moreover, we transfer the knowledge we have of the business constituting an asset for the board”*.

Besides that, the experience by working in the business for several years and the management capacity gives Ascendum the tools to operate in a different market; *“Focus and management capacity and financial commitment, huge operational knowledge - there is no big intrusion from the holding company but the people on the board can go to a very deep level of detail which helps to overcome a set of issues”*; *“Management - huge experience in the retail business – that is why we are so fast in making decisions and also the experience of the operations based in the absolute value” (Interviewee 4)*.

However, despite the knowledge of the sector and business that the managers have, in Mexico they faced more difficulties as *“The market in Mexico was reduced”*, stated by interviewee 4.

From the literature we can find evidence from Johanson and Vahlne (1977) that the knowledge about the host market may differ in the internationalization, like the demand and supply and some specificities of the new market. The process of internationalization can be more challenging if the markets faced differ from other previous experiences.

5.1.8. Maintain same reputation and image

There are two sources for this challenge, according to the interviewees: The transferability of the concept and image of the company culture: *“One big challenge is the transition from Volvo, an international known company to Ascendum, a Portuguese company the workers still do not know”* (Interviewee 4) and going for a market that has a established a negative reputation and image: *“Besides that, in EUA they had a negative connotation. We entered in the market with that stigma. The image of the sector was bad due to the performance of the last dealers. Were hard years”* (Interviewee 4).

Authors like Alexander (1995), Dressman (1980), Hutchinson, Fleck and Lloyd-Reason (2009) emphasised this challenge in the literature as it is hard to allocate the same characteristics and status when moving to another country, facing different culture characteristics and a lot of firms do not succeed in this transition.

5.1.9. Management of human resources

It can happen that the human resources are different in the ways they work or the lack of it, which constitutes a gap for a company’s human resources and a challenge to find the right people. *“One challenge faced in Mexico was that the human resources were very distinct and this was transversal in sectorial ways. There always exists a gap in the ways of working”* (Interviewee 4). However, Ascendum only faced this challenge in Mexico where the operations started from zero, as in the other geographies they kept the human resources present in the Volvo concessionaires as they were already in the field and had knowledge about the sector, the clients and the operations. In order to have an internal consistency, Ascendum opts for the adaptation in the local geographies as the local CEOs define their own human resources, depending on the characteristics of their country.

These results are consistent with Tung’s (1984) stating that stated that the human capital is vital for companies who expand their operations internationally and can become a difficulty for them due to the absence of the right human capabilities in the host countries.

Also, Rosenzweig, Nohria and Nitin (1994) add that this challenge also include the pressures for an internal consistency or adapt the operations and human resources to the local markets.

5.1.10. Political and economical instability

When going to other country, companies are faced with exogenous conditions that are hard to control and constraint the operations in the new environment; *“every step we took in new countries was not always successful at first. The exogenous circumstances have a determinant weight in this same success”* (Interviewee 5).

Moreover, the events worldwide in the economy generate a reaction in the markets that can affect the international investment of the group as, for instance, in 2011 the debt crisis caused a deceleration in advanced economies which contributed to the *“fears about the worsening of conditions for financing and a corresponding lack of access for the government, businesses and the financial sector, resulting in a loss of confidence on the part of international investors”* (Annual report, 2011 p.42). Nevertheless, the international financial standards in the banks has an impact on the group’s operations as it hinders the access to credit for companies; *“The uncertainty surrounding access to medium/long-term credit persists, with potential impacts on the Group’s financial operations”* (Annual report, 2016 p.78).

“The uncertainty surrounding the exposure to exchange risks in the subsidiaries where the local currency is not euro is also carried out by the company due to the transactions and bank loans in other currencies that due to changes can result in losses or reductions on the favorable exchange rate differences” (Annual report, 2016).

Comparing with the literature, Kapila and Hendrickson (2001), Ghoshal (1987) and Miller (1992) are some of the authors in the literature that underline this challenge as being an obstacle for the operations of multinationals, due to the different currencies and regulators which make companies being exposed to economic and political risks caused by instability of the foreign environments.

5.2. What are the mechanisms of corporate governance that help to overcome the challenges in the internationalization process?

5.2.1. The role of the board members

The board of directors constitutes one of the reasons of Ascendum’s success guaranteeing the control of the operations of the business due to three reasons, having a holding which controls

all the subsidiaries, its local boards and the regular presence of the board family members in the geographies.

The holding is where the board of directors is present which allows for *“an evaluation of the business and have the best practices which can be adapted to the different geographies”* (Interviewee 2). Moreover, the holding gives support to all other areas and permits a consistent strategy. This helps to deal with the management of the different subsidiaries.

Finally, the functions of the holding pass by *“strengthening the corporate center in order to ensure adequate support to critical areas of the company”* (Annual report 2016, p. 65).

The group has a direct control with the local human resources due to the existence of a local board composed by local members but also members of the holding which are in permanently contact and can disseminate the company culture. In terms of the cultural distance, is overcome by the fact that the CEO of each subsidiary is local which helps in the integration of the company. Interviewee 2 describes how the board helps to deal with the different cultures: *“The culture is not an issue for us, because it is the local CEO who has to deal with that”*; *“In turkey, they feel they are working in a Turkish company even though it is part of multinational company that is Portuguese, but they are all Turkish so they feel Turkish”* and also highlighted the importance of choosing a local board and a local CEO in order to overcome the cultural differences faced in the new countries: *“It is very important for us to choose a local CEO for the different geographies to respect the local culture so we are very careful in that way. Then we construct a board that includes members of the holding group to help with the experience they have”*;

The rotation of the board members between the subsidiaries is a key factor to have control over the operations besides the spatial difference. As interviewee 2 stated: *“Our experience makes it easier to adapt. The specificity of the culture is overcome by the corporate governance so the board member responsible for that country gains knowledge about how to onboard the people of that specific country”*.

This is in agreement with Kummamuru (2016), Carpenter and Sanders (1998), Petrovic (2008); Huse (2007) and Jensen (1993) regarding the association of the board members and its responsibilities with a better performance, due to their important role within a firm. According to the literature, Williamson (1983) and Kose and Senbetb (1998) underline the importance of the board of directors in order to have an augmented control over the operations apart from the spatial distance between the subsidiaries.

However, we did not find support for the cultural distance being overcome by the role of the board of directors.

5.2.2. The small size of the board

Ascendum's board is only composed by 5 members of the family that are responsible for the control operations. This gives space to have a better communication between all the members; *"Our board size is composed by 5 family members. This creates space for direct communication and less bureaucracy"* (Interviewee 1).

So, we found evidence that the company considers a small size of the board linked with better performance of the group as it leads to a straight and faster communication, solving part of the communication challenges that come with the internationalization process.

From the literature it is possible to perceive the influence of the board size on the operations of a company, as suggested by Carpenter and Sanders (1998). However, it is controversial in terms of an ideal size to deal with the complexity arising from the international activity. Though, our results are in accordance with Lipton and Lorsch (1992), Jensen (1993), Kose and Wsenbetb (1998) and Yermack (1996) who argue that having a larger board size increases the difficulty of communicating and to make decisions so, regulating the board size is associated with a better performance of the company.

5.2.3. Non-external members in the board

The non-existence of external members decreases the complexity of the communication within internationalization. The decision making is faster due to the proximity of internal members and results in a better management of the different subsidiaries of the companies as the information disclosure is faster. So, it can help in the management of the different subsidiaries due to the fast and direct decision-making.

Interviewee 1 emphasized the advantages of the presence of only internal members in their board of directors: *"The board of directors has only internal members that are part of the family in order to make faster decisions. This also facilitates the communication between them because they all have something in common; they assure the best for the company"*.

Moreover, being the board composed by only family members also affects positively the decision-making due to the proximity of the members; *"And the fact that is a familiar*

company reflects in a positive way - faster decision making and the idea of family creates a link between the shareholders and the managers and the share of the knowledge of the business” (Interviewee 4).

Comparing with the literature, we found evidence from several authors like Hermalin and Weisbach, Denis and McConell (2003) that claim that the presence of external members can result in superior decisions in the company. However, our results are consistent with the evidence found from Baysinger and Hoskisson (1990) and Carpenter and Sanders (1998) that internal directors permit to deal with complex information and improve the strategy of the company, due to direct access of all the information.

5.2.4. Duality of the CEO/president

The model of governance of Ascendum is not characterized by a duality of CEO/president as it is not the same person who is in control of both positions.

And in fact, besides carpenter and sanders (1998) state advantages in terms of consolidation of the operations, it is also claimed that due to the internationalization added complexity and the added tasks for the CEO and the chairman, the duality is not reasonable to happen as it would difficult the corporate governance model.

So, as our results show and according with the literature, the duality of the CEO/ president is not a good mechanism to answer the internationalization complexity.

5.2.5. Engagement of the board

From the interviews conducted, it was possible to perceive that the company’ corporate governance is also characterized by the engagement of the board members and that has positive implications in terms of overcoming some challenges from working abroad. This engagement is characterized mainly by being close to the field.

The engagement of the board is part of the recipe in order to have an effective corporate governance model in order to be close to the local teams. As interviewee 5 said: *“The way to overcome difficulties is always to dedicate more time, being closer to the local teams, be very quick to cut with who does not interest and permanently attract good professionals”*; *“I consider the management attitude important. Members of Ascendum's Executive Board often intervene in the management of geographies, helping local teams overcome the obstacles that*

arise. In other words, if the members of the executive committee had a distant attitude as a spectator, waiting for the results, then the model of government would serve no purpose”.

Moreover, the engagement of the board allows for a direct communication due to the proximity and relation constructed with the employees; *“Our corporate governance model also permits more proximity between the employees and more integration due to the effort of all members to have a better communication between them and improve the proximity. This allows for an easier company culture share”*; This also allows for breaking the differences in the practices that result from cultural issues: *“We share the practices due to our involvement in the field” (Interviewee 4).*

Our results are consistent with the results of Crow and Lockart (2015) distressing the importance of having engaged members in the board for corporate governance due the influence they have in the company. The engagement of the members, according to Leblanc & Gillies (2005) allows for the involvedness of the workers which permits a better performance and rapid decision-making, which in turn, facilitates the share of the company practices and culture and the communication.

5.2.6. Separation of ownership and control

Ascendum corporate governance has the executive and non-executive committee separated. According to interviewee 4, after the growth of the group it was necessary to do a strategic analysis and separate the executive and non-executive board. This change was a result of the internationalization that increased the complexity on the management. *“This generates a need to create a company to bring together all strategic coordination for the Group in a way that makes it possible to draw a distinction between executive and non-executive duties, thereby instilling a greater sense of hierarchical accountability” (Annual report, 2011 p. 20).*

And according to interviewee 1, this separation of ownership and control empowers the direct control of the operations; *“The existence of an executive and non-executive committee gives the opportunity of having more control of the operations by the members who have direct contact with the business and the markets”*. This helps to have a better access to the market knowledge as the ones who control are directly related to the operations and to the business and they have a huge experience.

According to Smith (1776), Denis and McConnell (2003) and Petrovic (2008), the separation of ownership and control avoids the conflict on interests within the company, so it incentivizes the alignment between the managers and can help in the company strategy considering the non-executive committee as an outsider viewer, having a different point of view. So, we did not find evidence in the literature that the separation of ownership and control helps to overcome the management of the different subsidiaries and the better market knowledge.

5.2.7. Communication channels within the corporate governance

From the data collected it was possible to link good communication channels with a faster decision-making, fewer language problems and misinterpretations. As interviewee 2 argued, *“We use the English as the language to communicate with almost all the local CEOs, which, in turn, communicate in the local languages with the rest of the lines”*.

Also interviewee 1 enhanced the importance of their corporate governance structure in terms of communication channels: *“The corporate governance model consists in a corporative center that holds the local companies with the same support areas in the various geographies, which permits a direct communications between all areas”*.

Interviewee 4 describes one example of a line of communication that facilitates the operations: *“The CFO reports to the local CEO and the CEO reports to the rest of the local board. In every area, they need to report to the local CEO”*, meaning that they communicate in the same language.

From the literature, our results go in the direction of Sanders and Carpenter’s view (1998) that in order to have a good decision-making process, firms should pay attention to their communication channels in their corporate governance structure, reinforcing the trust and the engagement of the workers. We found no support in the literature in terms of the channels helping to overcome the language differences.

5.2.8. Compensation structure

According to the literature, the compensation structure is viewed by Jensen (1976) as an incentive mechanism for workers besides the distance from the parent company. We did not find any information regarding the compensation structure of the company but we found a study that was conducted in the company that showed that 80% of the employees were happy

and proud to work in Ascendum. However there is no evidence that this is caused by workers' compensation structure.

Challenges faced by Ascendum	Solution(s) for the challenge	Consistency with previous studies
Cultural distance	<ul style="list-style-type: none"> • Role of the board; • Engagement of the board members 	<ul style="list-style-type: none"> • No evidence in the literature • Yes
Spatial distance	<ul style="list-style-type: none"> • Role of the board; • Compensation structure 	<ul style="list-style-type: none"> • Yes • Only evidence from the literature
Communication problems	<ul style="list-style-type: none"> • Board size; • Engagement of the board members; • Communication channels • Non-external directors in the board 	<ul style="list-style-type: none"> • Yes • Yes • Yes • Yes
Language differences	<ul style="list-style-type: none"> • Communication channels 	<ul style="list-style-type: none"> • No evidence in the literature
Additional Costs	<ul style="list-style-type: none"> • None 	
Market Knowledge	<ul style="list-style-type: none"> • Separation of ownership and control 	<ul style="list-style-type: none"> • No evidence from the literature
Reputation/Image	<ul style="list-style-type: none"> • Engagement of the board members 	<ul style="list-style-type: none"> • No evidence from the literature
Management of Human Resources	<ul style="list-style-type: none"> • Communication channels • Engagement of the board members 	<ul style="list-style-type: none"> • Yes • Yes
Management of the different subsidiaries	<ul style="list-style-type: none"> • Non-external directors in the board; • Role of the board members 	<ul style="list-style-type: none"> • No evidence in the literature • Yes
Management of the human resources	<ul style="list-style-type: none"> • Engagement of the board members 	<ul style="list-style-type: none"> • Yes
Political, economic and legal instability	<ul style="list-style-type: none"> • None 	

Table 5 - Summary of the challenges and mechanisms of corporate governance

6. Conclusion

The aim of this thesis was to answer the research question: “How does corporate governance help to overcome challenges in the internationalization process”. The analysis was divided into two sub-research questions: “What are the challenges faced in the internationalization process” and “what are the mechanisms of corporate governance that help to overcome the challenges of internationalization process”.

It fills a gap in the literature concerning the link between the corporate governance and the challenges of the international activity. The contribution of this paper will be useful to managers in companies facing expansions on their international activities that can adapt its corporate governance model in order to facilitate the process.

After the findings we can conclude that the company’s challenges that can be facilitated by the corporate governance structure are the cultural differences, the spatial distance, communication problems, language differences, maintaining the same reputation and image, the management of the human resources and the different subsidiaries.

The mechanisms that help to overcome these challenges are: the role of the board and its small size which allows a flexible and adaptive model. Likewise, the autonomy given to the subsidiaries but also responsibility, the non-presence of external members, the engagement of the board and its structure are crucial for following-up all the subsidiaries, the separation of ownership and control and the good communication channels in the model of governance that results in fast decision-making, not bureaucratic and direct communication between all areas and all countries.

We did not find support for Ascendum to face the language differences nor the market knowledge and this different from the literature can be explained by the fact that *“two firms at the same stage of export development will not perceive necessarily and/or will not experience the same impact from obstacles, nor will they react in the same way. Moreover, the same firm may perceive the same barrier differently at different points in time and in relation to different export destinations”* (Leonidou 2004, p.284).

However, our study has some limitations, starting by the fact that the company analyzed is a family business, which have characteristic that can be different from other companies and

when the company faces more complexity, there are some characteristics that can not be applied anymore to the internationalization challenges.

The future research should strive to apply the framework in another company or use a quantitative approach in order to confirm the new insights found.

7. Appendices

Challenges found in the literature	Challenges faced by Ascendum
Cultural distance	✓
Psychic distance	✗
Communication problems	✓
Language differences	✗
Additional Costs	✓
Market Knowledge	✗
Reputation/Image	✓
Management of Human Resources	✓
Management of the different subsidiaries	✓
Political, economic and legal instability	✓

Table 6 - Challenges faced by Ascendum in the internationalization

RIEP – Índice de Transnacionalidade

CLASSIFICAÇÃO	EMPRESA	ÍNDICE	VARIAÇÃO 15/14
1	INAPA	0,9088	↘
2	LOGOPLASTE	0,8794	↗
3	CASAIS	0,8034	↗
4	GRUPO ASCENDUM	0,7896	↗
5	GRUPO RAMOS FERREIRA	0,7361	↘
6	MOTA-ENGIL	0,6699	↗
7	GRUPO PCG	0,6446	↗
8	HOVIONE	0,6348	↘
9	NBC MEDICAL	0,6289	↗
10	GRUPO LENA	0,6069	↘

Figure 6 - Indeg-IUL Iscte and AICEP Portugal Global ranking of internationalization of Portuguese firms in 2016

Coding: Data Analysis

Code	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5
Internationalization Process				“The corporate governance model was not satisfactory anymore. So, in 2009 there was a strategic analysis and Ascendum separated the executive board from the non-executive”	“the key to the success of internationalization is the unswerving desire of the company's leaders to grow and understand that internationalization was the only way to grow the company, doing what we already knew how to Do”;
Process (stages)					“Internationalization is a process as a set of coherently organized procedures / steps for an objective.”
Corporate Governance		“Our success key it has, in fact, been this corporate governance”; “So we have the holding (corporative center), the administrative board and executive board and each geography is hold in this corporative center and has its own administrative board”; “With the		“Our CG model is characterized by autonomy, flexibility but also more responsibility for them. More rapid decision-making and extended functions also make them feel more accomplished but also with a greater degree of demand - it helps to make the transition more	“Corporate governance models facilitate the resolution of some problems”; “Ascendum's governance model is comprised of an Executive Committee which is an integral part of the Group's Board of Directors together with other non-executive

		internationalization, we had the necessity to restructure the company and have a corporate holding that hangs the geographies”		conciliatory”; “In this internationalization we have the first nuance of the governance model characteristic of the group – displacement of one shareholder to Spain, one member of the family – crucial to the culture and the CG of the group – the capacity to move and allocate the knowledge of the business and the culture.”	directors. Below the Executive Committee are the Administrative Councils of the geographies, formed by members of the E.C. and the General Director of Geography. The General Director of Geography is always the same as the nationality of Geography. (local CEO)
Holding		“The objective was to create one area that allows an evaluation of the business and have the best practices which can be adapted to the different geographies. The human resources policies help to disseminate the corporate governance model.” “The existence of the holding supports the finance area – distinctive capacity of the business, negotiation with banks and			

		in terms of tax to manage the risk.			
Cultural Distance				<p>“The challenges consist in the cultural differences and the specificity of each culture. “For example: in Austria they like objectivity, something already implemented, so they accept better than turkey or Mexico”;</p> <p>“One of the biggest challenges was the cultural differences that were overcome by the freedom and autonomy we give. For example, the financial autonomy we give to the geographies.”</p>	
Communication channels	<p>“Since the internationalization increases the difficulty of communicating, as more channels surge and gives space to misinterpretations, we needed to have internal tools to promote the open</p>				

	communication of all the company and be close to the workers ”				
Language	“we deal with 11 different languages”	“We use the English as the language to communicate with almost all the local CEOs, which, in turn, communicate in the local languages with the rest of the lines”			
Challenges				“Challenges in Mexico: The market was reduced; The culture was very different and implied a higher adaptation; The human resources were very distinct – transversal in sectorial ways - There always exist a gap, Different ways of working”	“On the other hand, every step we took in new countries was not always successful at first. The exogenous circumstances have a determinant weight in this success.”
Direct Communication	Our board size is composed by 5 family members. This creates space for direct communication and less bureaucracy” “The corporate governance model consists in a corporative center that holds the				

	local companies with the same support areas in the various geographies, which permits a direct communications between all areas”				
Rapid decision-making	“After the internationalization process it was necessary to re-organize the structure of the group and to change the model of governance by having a local board for each geography that permits less bureaucracy and faster decision-making”	“This model helps in the making decision of the group with is very fast, which is one reason for the success of Ascendum” “Why is it fast? Because who decides is the executive committee, as they are in the boards of the geographies they work, it is much more flexible and fast”		“we have a huge experience in the retail business – that is why we are so fast in making decisions”; “The CFO reports to the local CEO and the CEO reports to the rest of the local board. In every area, they need to report to the local CEO”	
Proximity with the geographies				“Local board: part: chairman + 3 to 5 members of the holding, which allows that 2/3 of the 5 family members have direct knowledge about the operations in the different geographies; impossible the presence of all of them in	“The most important is the proximity of the cupula bodies to the geographies. And require Local Directors to be responsible not only for P & L but also for BS.”

				every one but at least one of them is present and has a deep understanding on the specific business of that country; This gives a lot of flexibility and knowledge of the holding about what is happening”	
Proximity with the employees	“Our corporate governance model also permits more proximity between the employees and more integration due to the effort of all members to have a better communication between them and improve the proximity. This allows for an easier company culture share”			“Our experience makes it easier to adapt. The specificity of the culture is overcome by the corporate governance so the board member responsible for that country gains knowledge about how to aboard the people of that specific country.”	“The way to overcome difficulties is always to dedicate more time, being closer to the local teams, be very quick to cut with who does not interest and permanently attract good professionals”
Network	“Our network plays an important role as for instance in Mexico, our entrance in the market was different from all others. For the first time we did not entered as a Volvo				

	<p>concessionaire so it was important going to the field and meet the people to start the business and it has been a case of success too”</p>				
Control of operations	<p>“The existence of an executive and non-executive committee gives the opportunity of having more control of the operations by the members who have direct contact with the business and the markets”</p>	<p>“Still without experience of internationalization and moving to a country that is much bigger than Portugal, we start to think how we would manage that and control. So we sent someone from the family (we are a family business) to live in Spain and having control of the operations, creating an administrative local board but with someone from the Portugal board.”; “Each month one of us goes to the specific country and has a meeting with the administrative board where we have de opportunity to control the operations”</p>			
Local		“It is very	“In the control		

Culture		<p>important for us to choose a local CEO for the different geographies to respect the local culture so we are very careful in that way. Then we construct a board that includes members of the holding group to help with the experience they have”; “we respect the local culture of every geography, we never impose the Portuguese culture, every country has their own local CEO, we adapt and accept that each geography has their own culture and so, each local CEO deals with the cultural issues and adaptation for his own country” “as he is local, he knows the culture and how it works”; “The culture is not an issue for us, because it is the local CEO who has to deal with that”; “In turkey, they feel they are</p>	<p>of the operations it is corporative and equal for all but that is management” of course adapted to each country but in terms of the language, the way they live, they deal with clients it is all local and do not interfere”</p>		
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		working in a Turkish company even though it is part of multinational company that is Portuguese, but they are all Turkish so they feel Turkish”			
Image				“Besides that, in EUA they had a negative connotation. We entered in the market with that stigma. The image of the sector was bad due to the performance of the last dealers. It was hard years”	
Adaptation		“Of course that going so much to the countries, we know the culture already to deal with the CEO that is why we never rotate between each other, because we already know the market, we have a relationship with the CEO, the company, the team, the difficulties, the human resources”; “Each local CEO deals with the cultural issues and adaptation		“Our model allows for adaptation due to the fact that is not rigid” “Our corporate governance model has a common trunk but it adapts to the local reality and also to the phase and the business cycle”; “Holding - The objective was to create one area that allows an evaluation of the business and have the best practices which can be adapt to the different	

		for his own country”		geographies” – the creation of the holding”	
Flexibility		“+Flexibly, we pass our culture, opportunity to growth, we open ways to the people, they have a notion of the local company”		“The main characteristic of our model is its flexibility; “There is a lot of flexibility in terms of the management of the areas, but this flexibility varies depending on the necessities of the market and knowledge from the members of the local business”; Besides the theme, the approach must be distinctive country to country even the person who is in various countries;” But, again, the flexible approach giving space to the local culture but also transmitting the culture of the company Ascendum and the knowledge of the business allowed to turn this operation profitable. strong culture transversal - giving value – all the history”; “The approach must	

				be distinctive from country to country”	
Commitment		“This also helps in the commitment and ambition to grow that the local CEOs have - it is determinant”			
Culture Share/ transition	“Our corporate governance model also permits more proximity between the employees and more integration due to the effort of all members to have a better communication between them and improve their proximity. This allows for an easier company culture share”	“The monthly meeting are also the moment of culture share as we also try to meet every line of the company”		“One big challenge is the transition from Volvo, an international known company to Ascendum, a Portuguese company. The workers still do not know, but it is achieved through knowledge of business, filling people, increase in terms of duties, responsibility, autonomy given to the various teams. It has been working well” “We share the practices due to our involvement in the field”; “The cultural change is gradual; fast decision making; flexibility of the decision; the fact that the culture of the company is	

				based on the long term perspective”; “Financial issues – being a family business turns us more conservative which gives security and helps in the local transitions.”	
Autonomy		“Of course, if we give more autonomy for the geographies it demands more responsibility for us but the autonomy that we give to the local CEO gives him a big empower so, they feel true entrepreneurs and owners of the company in the country they live”; “We give more or less autonomy depending on the person and on the country; it varies for instance, the time we go there”	“we believe that this autonomy that we give to the geographies the respect for the local culture (without sending expatriates to the field) it gives trust and control but with autonomy” – success key for the group	“When we take care of an operation we deliver the management of that operation to the local CEO”; “We give some autonomy but also orientation, which facilitates the process of internationalization”; “In terms of the culture of the group: Ascendum opted to stay in the middle: without taking out the autonomy of the different geographies. Of course, there are areas which effectively we will gain having a line stronger from the holding company (holding) – common trait”; “We are not	

				<p>very intrusive and we give autonomy so the question of culture is overcome”; “One of the biggest challenges was the cultural differences that were overcome by the freedom and autonomy we give.”</p>	
Market knowledge			<p>“We keep the HR team, we just change the knowledge of the business” we have a big knowledge of the business model that we work so we apply it to every geography we go”</p>	<p>“Focus and management capacity and financial commitment, huge operational knowledge - there is no big intrusion from the holding company but the people on the board can go to a very deep level of detail which helps to overcome a set of issues”; “Management - huge experience in the retail business – that is why we are so fast in making decisions and also the experience of the operations based in the absolute value”</p>	
Transfer knowledge				<p>“Moreover, we transfer the knowledge we have of the</p>	

				business constituting an asset for the board.	
Experience				“We have a huge knowledge of the business, which leads to personal fulfillment and responsibility”	
Geographies proximity				“There are some tools that promote the interaction between the different locations”	“We encourage a big proximity; we take the projects to the geographies”
					“Transforming managers into entrepreneurs ; give much autonomy and responsibility to local teams; be judicious in the choice of human resources so that they are culturally compatible with our company; that local teams recognize in Ascendum added value. Given this Ascendum attitude, the major challenges are almost always Human Resources.”
Internal board	“The board of directors				

members	has only internal members that are part of the family in order to make faster decisions. This also facilitates the communication between them because they all have something in common, they assure the best for the company”				
Board’s attitude					“I consider the management attitude important. Members of Ascendum's Executive Board (administrators) often intervene in the management of geographies, helping local teams overcome the obstacles that arise. In other words, if the members of the executive committee had a distant attitude as a spectator, waiting for the results, then the model of government would serve no purpose.
Limitations				“However there are	

				<p>limitations in this model, from my point of view: When we start to grow, it will become harder to manage all of this; Complex in terms of logistics ; It starts to have an objective restriction in terms of the limit of the management of the people; It can be a challenge in the future; At certain point, it would come the necessity to increase the scope of people”</p>	
Company general information			<p>“1999 – important year for Ascendum due to the first internationalization to Spain. Acquisition of the sales company Volvo CE in Spain. (Control of Volvo operations in all Spain – the invitation surged due to the big success of Ascendum in Portugal</p>		

			<p>where it improved the all the market share between 1977-1999, of the clients that Volvo believed in its capacity to go international with their products. Volvo CE (construction equipment settled down in a country themselves when they do not have a dealer that they think will be efficient, passing the internationalization to Ascendum showed the trust they have on them. (think they have the right capabilities)</p> <p>99-2003: improved products and increased market share resulting in a proposal from 2004 – second internationalization USA - Volvo to Ascendum to</p>	
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			<p>go to EUA. (a broken American dealer). As they showed knowledge about the business and had done a good work until then. It implied courage as going to EUA, a mature market and where the leader competitor was but Ascendum end up increasing the market share between all the American dealers.</p> <p>2010 – 3rd internationalization for Turkey and crucial for the group due to the diversification of business for infrastructure equipment.</p> <p>2011 – Reorganization of the group and creation of a corporate center – change in the corporate governance</p>	
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			<p>due to added complexity of the business present in a lot of different geographies.</p> <p>2012 – Internationalization to Mexico: different approach where they started from zero. More challenging because the human resources had less capabilities, needed more work</p> <p>2013 – Internationalization or central Europe and north Dakota (6 countries)”</p>	
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Table 7 - Coding table used in the data analysis

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