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Strategic Alliances in the Internationalization of SMEs: A Qualitative Study

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This study is dedicated to my parents and my sister.

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Abstract:

In today's business environment, internationalization is everywhere, whether in daily routines or business and entrepreneur life. To be able to accompany this development markets had to follow this path and so therefore had firms.

Not only big companies started to act in international markets, also small and medium-sized enterprises (SMEs), if they wanted to succeed and achieve better results, started to try and find ways to get involved in other countries and penetrate foreign markets. However these small firms entered these new markets, most of them turned to other firms in order to build strategic alliances as a resource to achieve their goals.

Portuguese SMEs are no exception to the rule and have used other firms as a means to help them get their products known beyond national markets. The objectives of this study are to identify the reasons for the internationalization of Portuguese SMEs using strategic alliances and to build an understanding of the entire process. To do so, two case studies were carried out for the analysis, obtaining information from interviews and documentary analysis.

It was found that to internationalize, Portuguese SMEs have a preference for strategic alliances because allied firms can provide them with the resources they lack and knowledge of the internationalization process, increasing their chance of success outside their country of origin.

The study ends with contributions and implications for practitioners, policy makers and academics.

Keywords:

Alliances, Firms, Export, Foreign Markets, Internationalization, Portuguese SMEs, Strategy.

Resumo:

Na actual envolvente empresarial, a internacionalização é um termo cada vez mais comum bem como um método bastante utilizado, tanto no dia-a-dia como no tecido empresarial. Para acompanhar esta evolução, os mercados têm-se visto obrigados a seguir este desenvolvimento e, consequentemente, as empresas.

Não são apenas as grandes empresas que começam a interagir com os mercados estrangeiros, mas também as pequenas e médias empresas (PME), de modo a poderem vingar e obter resultados positivos, terão de tentar encontrar possibilidades e meios de se envolverem em mercados fora do seu país de origem. Independentemente do modo como as pequenas empresas escolhem a estratégia para penetrar nestes novos mercados, a maioria opta pela formação de alianças estratégicas, como um mecanismo para atingir os seus objectivos.

Neste contexto, as PME portuguesas não são excepção, já podem recorrer a outras empresas como um meio para divulgar os seus produtos e comercializá-los em mercados estrangeiros. Os objectivos deste estudo são: (1) identificar as razões para a internacionalização de PME através da utilização de alianças estratégicas e (2) estabelecer um entendimento sobre todo o processo de internacionalização. Para alcançar estes objectivos, recorreu-se a uma abordagem de investigação qualitativa e, dentro desta, o método do estudo de caso. Seleccionaram-se dois casos (PME) para serem estudados e como instrumentos de recolha de informação optou-se pela realização de entrevistas e análise documental.

Com base nas evidências empíricas obtidas, verificou-se que, para se internacionalizar, as PME estudadas têm a preferência em formar alianças estratégicas, já que as empresas parceiras têm a possibilidade de lhes providenciar os recursos necessários, bem como o conhecimento sobre o processo de internacionalização, aumentando assim as suas hipóteses de sucesso fora do seu país de origem.

O estudo termina ainda com algumas contribuições e implicações para os empresários e gestores das PME, para a política pública e investigadores nesta área de investigação.

Palavras-chave:

Alianças, Empresas, Exportação, Mercados Estrangeiros, Internacionalização, PME Portuguesas, Estratégia.

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1. Introduction

Nowadays, globalization has become inevitable. According to Duarte (1998), globalization means rapid changes, increasing competition and constant evolution of technologies and communication. Firms tend to establish themselves in markets outside their country of origin and numerous reasons lead to this option, but there still is a lot to learn about the strategies and processes used, as they need to be adapted and improved constantly due to the continuous development of markets, the economy and technology.

The new global situation has led national firms to compete abroad in search of a greater presence in the globalized economy with the help of the knowledge of processes and ways to internationalize (Brasil and Ortega, 2006).

In this context, strategic alliances have made it possible to simplify firms' growth, success and internationalization. However, they may also have caused a higher level of competition amongst firms within several countries and a possible dependence of smaller firms on larger ones (Teixeira, 2005).

Many firms consider the need to internationalize in their development strategy. However, the internationalization process requires the correct use of specific strategies in order to succeed (Teixeira, 2005). There is a vast range of strategies for internationalization, but this study will focus mostly on strategic alliances specifically used by and for small and medium-sized enterprises (SMEs). Strategic alliances are relationships built between independent firms (Townsend, 2003) in order to mutually collaborate, maximizing opportunities (Kanter, 1994) and allowing a firm to achieve a higher collaborative advantage through its partners (Kanter, 1994).

To create a better understanding of alliances, not necessarily formed with a company from another country, and internationalization, research has been carried out on the phenomenon of internationalization and on the concept of strategic alliances.

In spite of the opportunities that might go along with international strategic alliances, there is only limited empirical evidence of the impact of this strategy on the SME internationalization process and vice-versa, as Leiblein and Reuer (2004) and Alvarez *et al.* (2006) rightly stated. Despite the existence of some studies on this issue, it has not been much developed concerning SMEs in Portugal (Haase and Franco, 2011). Therefore, the objectives of this study are precisely to identify the reasons for the internationalization of Portuguese SMEs using strategic alliances and to understand how the entire internationalization process happens.

This study intends to give an idea of how a simple strategy can be related to a firm's development as well as to the success of some firms' internationalization and recognition in their country as there is an extensive list of internal and external motives for one firm cooperating with another (Camisón and Villar, 2009).

In this contribution of ideas on the subject of SME internationalization by using strategic alliances it is possible to notice how complex and controversial this theme is, so for easier and less complex understanding, this is a qualitative study. The internationalization of firms is crucial to the development of the Portuguese economy. However, according to Simões (2010), we are still far from achieving it efficiently. Internationalization in Portugal is becoming more prevalent but not in the best way. There are still knowledge gaps (Simões, 2010). The international market comes as an important lever to the development of SMEs (Freitas and Santos, 2007).

The remainder of the dissertation is structured as follows: First, it theorizes the main motives for international strategic alliances. In Section 3 we present the research methodology, i.e. case selection, data collection and analysis applied. Afterwards, in Section 4 we show the results and discuss the empirical findings in the light of the previous literature review. Finally, we outline several conclusions and implications setting guidelines for the direction of future research.

2. Literature Review

2.1. Internationalization

For Gomes (2007), political, social, cultural and economic changes are sweeping the world, creating a new world order – and a legion of both problems and opportunities for businesses of all sizes.

The process of internationalization is very important in improving the quality of companies, and this process begins whenever a company decides to start acting in another country (Gomes *et al.*, 2010).

The fact that information and communication technologies are constantly developing increases the need and possibility for SMEs to act in international markets (Haase and Franco, 2011).

Most large companies have already achieved internationalization. It was only recently, however, that the need for smaller firms to internationalize was taken into consideration in order for this method to be improved and attainable for enterprises of all sizes (Simões, 2010). Some of the factors contributing to this development are the way to initiate this internationalization process, the inherent choices and the targeted markets. How these situations are taken care of will dictate its success or failure (Simões, 2010).

Despite all the difficulties SMEs expect to encounter, they have shown enthusiasm and made efforts to accompany the constant changes occurring in international markets and tried to satisfy the needs of this new type of market. Through this line of reasoning, SMEs can be said to have increased their participation internationally (Freitas and Santos, 2007).

Firms' internationalization originates in globalization which, according to Garcia *et al.* (2010), is considered to be the dismantling of frontiers and increasing interdependence of countries' economies.

As noted by Gomes (2003), the idea of internationalization, as a process, comes from the administrator's cognitive and behavior limitations in understanding how the firm can move beyond national borders. This means that in opposition to the supposed limitation of firms acting only nationally, the idea arose of going beyond borders, to internationalize. Supporting this idea, Brasil and Ortega (2006) add that firms' internationalization is connected to the desire to benefit from growing industrial concentration and from reinforced market power driving firms in their search for profitability. Teixeira (2005) believes that increasing internationalization will affect all sorts of firms whatever the dimension, sector or location. Also for Brasil and Ortega (2006), internationalization is a continuous process of involvement between a company and its actions in foreign countries. According to Steele (1996), referred to by Fensterseifer (2000), even firms not yet operating internationally feel the need to be a part of these global networks in order to be able to penetrate closed markets and search for production at a lower cost.

Internationalization is no longer a phenomenon restricted to production and the most developed countries. The decentralization of technological activities has increasingly taken on its own dynamics, by using mechanisms of the globalization process (Gomes, 2003).

As many foreign firms have established themselves in other countries, competition in national markets increases specially for national small and medium firms. Kraus (2000) considers that nowadays many firms believe that action in foreign markets is the best strategy to face up to international competitors and also be more competitive in markets in their own country, gaining more experience through involvement in other markets and adopting other methods of competition. Therefore, SMEs in emerging markets often collaborate with foreign investors to acquire resources and establish beneficial relationships.

According to Haase and Franco (2011), the main reasons leading SMEs to internationalize are 'to consolidate market position', 'to enter new markets', 'to achieve competitive advantages', 'to improve innovation' and 'to share resources and competencies'. These variables will most certainly influence the way a company acts and chooses to internationalize.

Trigo *et al.* (2009) describe the effect of internationalization in firms saying that globalization "divides as much as it unites" but it is an irreversible process that affects us all. These authors believe that globalization, the link between everything everywhere, is a process developed over time and based on innovation and technological advances integrating world economies. The development of communications and transport innovations has increased international trade, making it more economically possible (Trigo *et al.*, 2009) and therefore facilitating firms' internationalization.

Before going to another country, a company must build an internationalization strategy. To do so, according to Gomes *et al.* (2010), it needs to identify and consider the factors that will strengthen the company's internationalization, define and revise the main goals that led to that decision and those related to what is expected from the internationalization process, the resources the company will need during the entire process. Only then can it start putting the measures into action ensuring the introduction of some corrective measures. The company must clearly define the motives leading it to internationalize so that it can choose the best strategy of internationalization through international alliances in order to have a better chance of success (Haase and Franco, 2011).

Lately, academic studies have focused more on SMEs' attempts to establish a strategic goal of globalization. The fact SMEs want to act in foreign markets shows that they realize the possibilities and opportunities, and to this end they choose to export, license or sell technology or to engage in direct foreign investment. From this idea it can be seen that any private company can eventually become global (Trigo *et al.*, 2009).

The globalization of markets and the economy means that enterprises now need to transform the competition and marketing into showing ownership of a capacity (Duarte, 1998). Portuguese firms are more accustomed to surviving than competing. Some of the reasons for this are suspicion of other firms and of other procedures and measures, making it more difficult for firms to ally strategically. However, allying with firms that complement their areas of action would most likely provide them with the resources, know-how and strategies they lack, making it possible to achieve and even exceed their goals (Duarte, 1998).

Trigo *et al.* (2009) find that one of the biggest difficulties Portuguese SMEs face in internationalizing is hiring qualified staff. Portuguese SMEs feel the need to qualify their employees by improving their skills in order to feel more secure and able to internationalize with confidence.

But above all, it is seen that Portuguese SMEs still need to improve their strategies and internal capabilities to be able to internationalize securely (Trigo *et al.*, 2009).

2.1.1. Types of strategy

After deciding to act internationally, a company must choose which strategy is best suited to the objectives it is hoped to achieve.

Firms need to adopt competitive strategies appropriate to the way they intend to internationalize. They must consider the place they intend to penetrate as well as the competition already there, management mechanisms, coordination of activities, development of internal dynamic competences, knowledge absorption and integration, relationships with other firms, whether competitors, clients or suppliers, and the company's capacity to adapt to different situations (Garcia *et al.*, 2010).

According to the environment based perspective (Barney, 1991), for firms to build a sustainable competitive advantage in an open market and turbulent economy, they must choose whether to compete on low-prices or on differentiation, to try to reach an advantage by linking with other firms (Niosi and Bellon, 2001; Hoffman, 2000).

Teixeira (2005) believes that when a person thinks about the activity to undertake, he is already taking action towards the basic strategy to be used. For example, if choosing to use alliances to interact in a market because that gives the possibility to achieve some advantage, the strategy of strategic alliances has already been decided on, and so merely by thinking about it, action has already begun.

Strategic analysis implies evaluations based on the classic principle of strategic suitability (Tauhata, 2004). There is a vast and diverse range of strategic alliances on which the type of alliance chosen is formed depending on all partners' motives and objectives, sometimes even relating to particular antecedents relevant to each organization concerning its markets and technologies (Hynes and Mollenkopf, 1998).

In the case of negotiating a product's entry in international markets, it is also necessary to study and understand if the product needs to be altered. Sometimes it is enough to select which product to commercialize in other markets but it may be necessary to adapt the product to the needs and demands of the target market (Arruda and Arruda, 1998).

For Simões (2010), internationalization is a process in which the firm's commitment to go beyond borders gradually increases as does its knowledge of foreign markets, international activities and awareness of the procedures involved. In this line of reasoning, it is only natural that firms seek the same results but with less need of resources such as export.

SMEs that have already begun to internationalize have the main difficulty of detecting and understanding the markets and environmental changes and may not be able to answer them promptly and correctly. Also their limited resources do not allow them to optimize their performance and therefore forecast these changes (Chtourou *et al.*, 2006).

2.1.2. Export as an Option

Export is the movement of goods from the country of origin to another and may be indirect export, direct export or own export (Simões, 2010).

Indirect export occurs when the company exports products through another firm already placed in the intended foreign market. This is an easier and simplified process used mainly by SMEs allowing them access to the necessary conditions to export that they did not possess on their own (Simões, 2010). Export allows the company to widen its markets and become less dependent on the national one. However, using indirect export the company becomes dependent on the intermediary partner and only through this other company does it get in touch with the newly penetrated market, and so it does not find out easily and directly about the market's needs and operating mode (Simões, 2010).

Direct export occurs when the company exports its products to a distributor located in the foreign market. Without an intermediary, the company interacts directly with the market allowing it to acquire the knowledge needed to possibly adapt products according to the market's needs and to have better control over the specific marketing plan. Direct export also requires the company to use its own resources more as it is present and active in the entire process (Simões, 2010). When there is a lack of knowledge of the target foreign market, direct export is preferable for SMEs that pursue a sustainable type of internationalization (Burgel and Murray, 1998, quoted by Haase and Franco, 2011).

Own export occurs when there is no contact with any other national or foreign firms. In this process the company alone is responsible for promoting the products, acquiring customers and product distribution, gaining even greater knowledge of the market with access to information and control over the entire business. Just as in direct export, this process also requires the company to use more of its own resources but in this case in greater proportions (Simões, 2010). SMEs tend to use direct or indirect export due to the reduced commitment needed concerning investment and risk (Garcia *et al.*, 2010).

2.2. Strategic Alliances

In the resource based perspective, the firm's growth (Penrose, 1959) is related to the expansion of entrepreneurial activities, uniquely by combining and developing resources (Davidsson *et al.*, 2006). In a market economy, Garnsey *et al.* (2006) say that firms should mobilize resources for a unique resource to be able to generate market income. This advantage may be reached by entering alliances with other firms, combining resources and knowledge they already possess (Garnsey *et al.*, 2006). Fensterseifer (2000) agrees, saying that cooperation is the result of external partners helping to develop the company's internal competences, and it is seen and analyzed as a competitive advantage.

The ability to perform activities at a lower cost than competitors or the ability to perform exclusively generates value for the final customer (Porter, 1991). However, when a company does not have that ability, it allies with other firms and through alliances achieves the ability to succeed (Teixeira, 2005).

Alliances arise as the result of a necessity, as for a firm to survive it is necessary to cooperate (Duarte, 1998). This statement allows the comprehension that in the developed world we live in it is almost mandatory for firms to cooperate with others for them to survive, resulting in partnerships. This is even more important if these firms are SMEs trying to penetrate international markets, where simple partnerships can become strategic alliances in order to achieve the intended objective in international markets (Krakauer *et al.*, 2010).

However, the level of competitiveness may be higher for SMEs in bigger markets, according to Haase and Franco (2011). This may be faced by SMEs through the relationships they establish with other firms, in other words, the establishment of alliances increases firms' competitiveness beyond their internal capacity. As stated by Haase and Franco (2011), "the need to cooperate and achieve an international presence has become a necessity, especially within the SME context".

Alliances take place among firms or markets that use the resources gained to increase productivity (Alchian *et al.*, 1972). It is also seen as an association of strengths to build privileged relationships between firms, allowing the share of resources and competences, to reduce risks and facilitate the accomplishment of mutual projects (Duarte,1998). According to Arruda and Arruda (1998), a strategic alliance occurs when two or more firms have mutual goals and ally simply to achieve them without compromising their independence once the alliance ends. In these cases, the firms take advantage of the benefits of the alliance and share control over its performance, each contributing to one or more strategic areas (Arruda and Arruda, 1998).

The actions taking place in an alliance come from each firm's competitive strategies, building a positive exchange of technology and products (Arruda and Arruda, 1998).

In smaller firms, the most common alliances arise from the need to export the product, and so the alliance will most likely be between producer and distributor or producer and seller (cross-selling). Cross-selling is a strategic alliance arising from the union of efforts between firms with the goal of developing the business (Duarte, 1998). By not maintaining the entire operation in one company, it is easier for firms to organize, specify and focus allowing the company to make use of market relationships. It also accelerates the company's learning process and reduces the time to launch a new product by having the possibility of accessing new technologies and know-how (Duarte, 1998).

Strategic alliances are a helpful way to expand market capacity and efficiency as they provide the opportunity for organizational learning and acquisition of new skills (ul-Haq and Howcroft, 2007; Ohmae, 1985). This learning ability, when reached faster than the competition, is the only sustainable competitive advantage (Teixeira, 2005) and can even create value (Miller *et al.*, 2008). Enterprises tend to structure themselves based on cooperation and knowledge sharing.

For Fensterseifer (2000), in order to improve the company's competitiveness, it is important to define control and guide the changes implemented in the company according to strategic goals and competitive priorities. Strategic alliances allow SMEs to acquire the strength needed to reinforce their competitiveness and to take advantage of the opportunities that arise (Duarte, 1998). If communication, authority and coordination among firms can be made easier, operations will be more efficient in order to achieve the mutual goal (Arruda and Arruda, 1998).

As referred to by Mowery *et al.* (1996), the formation of alliances has increased significantly over the last two decades and this is due to the fact that alliances have become widespread in technology-intensive industries in which they were of little or no importance in the early years. Strategic alliances are considered to be of great significance in the origins of modern day international banking, in the co-operation between banks, for example (ul-Haq and Howcroft, 2007).

Over the years, with the emergence of strategic alliances, levels of competition have also increased, resulting in changing patterns of competitive behavior and the emergence of new markets (ul-Haq and Howcroft, 2007). This resulted in a low cost and flexible opportunity to maintain and enhance the respective competitive positions of the various partners constituting an alliance (Doz, 1996). The development of an alliance requires a continuous negotiation process and interaction among partners making it easier to identify new projects and coordinate actions (Suárez, 2002).

Arruda and Arruda (1998) believe that a successful alliance is when it is possible to gain more value from cooperative tasks, and this does not occur while working on their own. In alliances, firms' learning process is crucial to maintain competitive positions, resulting in profitable cooperation and competition (Arruda and Arruda, 1998).

However, international alliances and national alliances are somewhat different, as international alliances may bring different challenges from domestic alliances. The cultural differences in each company may disturb an alliance by challenging the trust built (Sirmon and Lane, 2004).

2.3. Strategic Alliances for SMES internationalization

The main strategy focused on by this study is strategic alliances used by SMEs to internationalize, more specifically, to export and place national products from SMEs in markets outside their country of origin.

International strategic alliances are ''cooperative arrangements, with cross border flows and linkages'' that use resources and capabilities of the involved organizations in different countries (Miller *et al.*, 2008). Strategic alliances are considered to be a very important part of firms' internationalization. For Haase and Franco (2011), international cooperative alliances occur when these alliances are built within firms from different countries.

Haase and Franco (2011) also believe that a new competitive paradigm is being built due to the continuous development of international alliances. The will shared by different firms may lead to the building of strategic alliances (Hunt *et al.*, 2002), because as Spekman *et al.*

(2000) argue, strategic alliances are "a close, collaborative relationship between two, or more, firms with the intent of accomplishing mutually compatible goals that would be difficult for each to accomplish alone".

According to Suárez (2002), alliances are used to enter other countries. Alliances between firms from different countries offer both potential synergies and opportunities to exploit national markets (Miller *et al.*, 2008). That can be verified by the increasing number of foreign competitors seeking new resources and new opportunities nowadays in national markets, making them feel more pressurized (Haase and Franco, 2011).

The opportunity for SMEs to acquire the specific necessary knowledge and achieve new capabilities may come from forming international alliances (Sirmon and Lane, 2004). The specific characteristics of SMEs make international markets more difficult to penetrate (Aldrich and Auster, 1986; Knight, 2001). However, the option of establishing alliances with foreign firms may make the entire process easier and faster allowing these SMEs to benefit from opportunities they would not have on their own (Haase and Franco, 2011). This can help firms by allowing them to share costs and therefore enter new markets (Glaister and Buckley, 1996; Sirmon and Lane, 2004).

Alliances are usually formed with a company already settled in the country the SMEs want to enter. The alliance is expected to be profitable and useful providing access to numerous new technologies that can be used to achieve their goals (Freitas and Santos, 2007).

Over the years, few studies have been made on alliances established between different SMEs (e.g., Haase and Franco, 2011) with a single and common purpose. It is difficult to determine and explain the beginning of this concept, but according to Arruda and Arruda (1998), international alliances or partnerships became frequent in the 90s. This is considered a complex topic as the conclusions reached by several authors sometimes diverge. An example of this situation is the conclusion of Townsend (2003) in opposition to Ohmae's (1989). Ohmae (1989) believes that the concept of alliances was an idea conceived deliberately to create the possibility for a produced global product to understand and respond to customer needs and business system requirements at the local level of equality in each foreign market. Townsend (2003), in a more recent research, concluded that alliances are not a new concept as use of this strategy has always been an unconscious part of the social and political structure. However, the truth is that its use as a strategic instrument has increased and it is predicted to increase faster and faster as the global economy becomes more complex and harder to penetrate (Townsend, 2003).

Glaister and Buckley (1996) say that more than 50 per cent of strategic alliances are set up to pursue international expansion. These specific alliances arose from the need to expand business and capture a greater market share of an increasingly sophisticated and internationally-orientated customer base (Ohmae, 1985; ul-Haq and Howcroft, 2007).

Alliances facilitate entry into new markets allowing SMES to explore larger markets by being able to strengthen their market position and production in order to accompany new market demands (Teixeira, 2005).

It is acknowledged that firms can achieve organizational goals when working in foreign markets by establishing reliable relationships with foreign firms (Arruda and Arruda, 1998). Cooperating with other firms from other countries is a serious commitment, and that is why setting everything precisely to the proper acting process is very important and may help both firms greatly in achieving positive results with selection of the correct allies (O'Donoghue, 2005).

Among the many ways of internationalization, according to Teixeira (2005), the most common strategies are alliances. Their specific use shows the efforts, types of goals and intentions of firms and the situation of the markets in which they will be competing. Although in some cases, largee companies prefer to acquire foreign SMEs, as this seems to be the perfect solution for them, SMEs prefer to constitute partnerships so that by creating these connections each company can have an equal status of interdependence (Teixeira, 2005). In these ways of competing it is considered that competitive advantage is replaced by collaborative advantage (Kanter, 1994; Teixeira, 2005). But Teixeira (2005) also believes that forming partnerships with other firms in international strategic alliances allows SMEs to share risks and resources, as it also allows firms to gain knowledge from their partners that can be used in other foreign markets, situations and opportunities (Miller *et al.*, 2008). Ellis (2000) and Harris and Wheeler (2005) consider alliances with foreign firms for the process of SME internationalization as "widely recognized as influential, perhaps fundamental". Forming international alliances is seen as a way for firms without the ability, skills and resources to face the international market alone (Haase and Franco, 2011). In this connection, Miller *et al.* (2008) state that international strategic alliances are seen by investors in the stock market as ''good news''.

ul-Haq and Howcroft (2007) argue that the transfer of skills within a strategic alliance allows resources and competences to be considered as mobile. According to these authors, the creation of alliances is assumed to be the division of resources and capabilities to satisfy growing customer needs and the demands of a changing market environment. Strategic alliances between firms from different countries and different cultures offer both potential synergies and growth opportunities to exploit product markets (Miller *et al.*, 2008). They also allow the firm to face the challenges of globalization and technical development (Ohmae, 1989).

According to the theory of the firm's life cycle, firms normally go through a predictable series of phases known as the launch, growth, maturity and decline. Witmeur (2008) indicate some problems on this approach such as the difficulty of identifying and describing these mentioned phases. There is no certainty that every firm will actually go through each of these phases. According to Penrose (1959), the growth potential of every activity means more effective us of the firm's resources. In this way the creation of alliances between firms allows their resources to grow and so too their growth potential.

Higher development costs and risks, along with a perceived reduction in product life-cycles, also mean that rapid penetration of foreign markets is more important than ever in many technology-intensive industries, something which may be more easily achieved an alliance (Mowery *et al.*, 1996). The process of two or more firms joining competencies will allow each company to contribute in their own way with their own know-how towards internationalization, requiring less know-how from each of them than it would be needed in the case of going through the entire process on their own (Haase and Franco, 2011).

On achieving of the intended goal and in case of successful cooperation it is normal to think about extending it and to decide the new terms of the alliance such as whether to export or widen production, in which case it will also lead to the decision of whether to open a company in the foreign country (Arruda and Arruda, 1998).

However, there are also several disadvantages or threats in internationalizing. Firm size omay be considered one of the biggest obstacles to SME internationalization. However, Trigo *et al.* (2009) firms have the necessary means to overcome this difficulty by forming alliances with other, allowing them to gain the resources and knowledge needed.

Competitive tactics can also make the weaker partner dependent on the stronger one, and unable to survive on its own again. This could result in the weaker partner concentrating its resources on a specific aspect of production or a particular market niche consequently resulting in a loss of competences or processes within the organization (ul-Haq and Howcroft, 2007). The evolution of cooperation in strategic alliances is limited by the conditions when creating the alliance and influenced by the collaboration process that takes place subsequently (Doz, 1996). The most important time when building a partnership between firms, is the beginning because the firm's capacity to absorb knowledge from its alliance partners most depends on its delivery of relevant technology-based capabilities upon entering the alliance (Mowery *et al.*, 1996). Badaracco (1991), mentioned by ul-Haq and Howcroft (2007), says that in an alliance a stronger partner may use its newly acquired skills, mostly provided by the weaker partner, to improve its position and at the same time the weaker partner could lose market position. Townsend (2003) also agrees with this idea by referring to Etemad *et al.* (2001) who say that some firms intentionally create alliances with the purpose of absorbing the weakest company into the value chain of the strongest firm. For Arruda and Arruda (1998), competition among firms in the same alliance starts when they try to find out the other firm's competences and keep their own hidden. This situation leads opportunism but if the company is depending on the other company to achieve its economic goals it is more likely for the exploited firm to be willing to keep the alliance (Arruda and Arruda, 1998). That is why knowing and gathering detailed information on the future partner as well as knowing what their objectives are is so important at the beginning of a strategic alliance (Freitas and Santos, 2007).

The environment is also a crucial factor in the decision whether or not to take the opportunity to create an alliance with a company from at specific country (Camisón and Villar, 2009) as global alliances allow access to a greater diversification of resources and capabilities, since the partners belong to different geographical and cultural environments (Suárez, 2002). Nowadays, most firms are part of complex production networs and chains that go beyond their domestic market borders and only a few can work in foreign markets and cope alone (Fensterseifer, 2000). Alliances are also considered to be a more than justified mean when the costs arising from that situation are lower than firms' costs when operating individually (Camisón and Villar, 2009; Suárez, 2002). Nevertheless, there may always be unexpected costs from uinge of some strategies when two or more firms work together in an alliance.

Internationalizing a company brings some risks if the strategies do not apply to the situation of the desired market and do not allowing the firm to adapt (Teixeira, 2005).

Global markets also require firms to make an environmental analysis to obtain the information they need to understand what they can expect from the market and which opportunities can be used to their advantage (Trigo *et al.*, 2009). This brings a wide range of opportunities to those firms which are able to maintain and adapt their value chain internationally developing the necessary strategies (Fensterseifer, 2000). A company possesses many production factors, resources, knowledge and established routines which in conjunction allow them to form competences (Korolkova, 2008). According to the competences theory, enterprises compete based on their strategic abilities and processes (Barney, 1991; Hamel and Prahalad, 1994; Teece *et al.*, 1997).

When it comes to product strategy, dealing in unlimited markets does not mean that all customers want and are satisfied by the same products and services (Ohmae, 1989). There is a need to understand the market where the company intends to penetrate in order to know what the consumer's needs are and how they can be satisfied. Therefore, there is a need to establish a company in the market where the product is going to be commercialized and the easiest way to do that is to connect with a company already existing in the market, which will serve as a support and can also provide the knowledge needed to succeed in this new and different environment (Ohmae, 1989).

A company needs to be able to adapt to the various restructurings the process of internationalization involves, considering there may be positive or negative outcomes and that it may cause the company fear and anxiety (O'Donoghue, 2005).

Cultural differences between partners may be an inconvenience due to possible misunderstandings and, according to Sirmon and Lane (2004), the differences amongst firms from different countries may have great influence on alliances.

However, these differences can be beneficial, because firms tend to be more careful and aware of the potential challenges when working with foreign partners than they would be with national partners, making a great effort to avoid misunderstandings (Sirmon and Lane, 2004).

3. Research Methodology

3.1. Type of Study

This study is classified as a qualitative approach as it intends to give answers to questions such as “how” and “why” (Yin, 2009) in order to establish a better understanding of the topic of internationalization of Portuguese SMEs through strategic alliances. It is considered to be a case study approach. According to Godoy (1995), a case study is a type of research in which the object is a unit that is deeply analyzed and where the facts to be studied, can only be so in a real life context. This theory applies to this study as two firms will be deeply analyzed in a real life context.

The methods used in qualitative research are “means of gathering information to achieve results that cannot certainly be measured by or translated into numbers” (Berg, 2007). In fact, qualitative approaches connect directly with the population to be analyzed and allow, in this way, understanding of certain underlying factors (Berg, 2007). Use of this type of method is more suitable in cases of in-depth examination of certain processes, visions and experiences, to build understanding and interpretation (Yin, 2009). A qualitative study usually requires smaller but focused samples, for example, a small number of case studies. By using this method, researchers intend to analyze content and create a bond of understanding with the study to be carried out (Neves, 1996) as it requires direct contact between the target of research and the researcher (Godoy, 1995). Case studies are carried out taking into consideration that it will only be possible to obtain specific and detailed information on specific situations or firms (Neves, 1996), but nevertheless providing useful and important data for further research.

In the case study method, all actors’ points of view are considered important and taken into consideration (Godoy, 1995). In this study, however, there is only the point of view of one intervener for each company, but this is enough for good understanding.

Briefly, given the exploratory character of this study and our research objective, we adopted a case study method to examine the reasons for entering into strategic alliances and the SMEs internationalization process through this mechanism.

According to Manning, quoted by Neves (1996), with this means of gathering data for research, certain complications arise as the use and selection of words to express facts and ideas may influence understanding of the message, leading to possibly ambiguous comprehension. Also, the documents researched for gathering the information may not come from a reliable source as these means were not initially created to serve the purpose of a scientific investigation and may slightly distort the facts. One person per company was interviewed, in one firm the Manager and in the other the Chief Financial Officer. In this way any ambiguities in the information was avoided and all the collected data comes from reliable sources that have been confirmed by the firms, such as the firms' website or news in newspapers.

3.2. Case Selection

The exploratory case studies were conducted in two Portuguese SMEs involved in the internationalization process. The firms were selected because they were SMEs and selection was therefore limited to firms with fewer than 250 employees (cf. European Commission, 2003/361/EC). The geographical area was another criterion, and the SMEs are in the area of Cova da Beira, located in inland central Portugal. This area was selected as industrialization is more developed on the coast and it was of interest to collect information about the internationalization of SMEs in inland Portugal using strategic alliances with other firms whether Portuguese or not. It was also mandatory that the firms interact or are taking action to interact with markets outside Portugal, either exporting or selling their products or establishing the company or the company's name in a foreign market by using foreign firms to build alliances.

3.3. Data Collection and Analysis

The unit of analysis was the firm as a whole. The fieldwork was conducted, using some data collection techniques (interview and documents). Firstly, we used primary sources of information, with data being mainly gathered through in-depth interviews (Hjorth and Steyaert, 2004). Following the suggestion of Holstein and Gubrium (1995), we designed an interview guide to engage the respondent and establish the area of investigation.

The firms were approached in person, where they were informed of the purpose of the interview, and a time was scheduled for the interview. In some situations, the person to be interviewed was contacted by telephone and e-mail as they were not present in the company at the time.

The information was gathered during the scheduled interviews with the owner-manager, from analysis of the contents of each company's website and news in the local newspaper *Jornal do Fundão*. The interviews took place in the first two weeks of August 2012 and lasted about an hour. Although there was the possibility to record each interview this did not happen at the request of the interviewees, and notes were taken in order to collect all the information needed for completion of this study. In specific situations, the interview became semi non-structured as the information was provided through conversation but also based on the established questions in the guide lines. The interview is a procedure that can be used and so is analysis of documentation from different types of sources (Godoy, 1995) such as in this specific case the analysis of information obtained in the firms' website and newspapers.

The questions were pre-established before the interviews took place and served as guidelines to coordinate the interview because, as Godoy (1995) says, it is normal in a qualitative type of study to begin with wide questions which, in the course of the interview, have the ability to transform themselves and become clearer.

The main purpose of this interview was to establish a possible understanding of some of the reasons leading SMEs to internationalize, and in that line of reasoning how the process develops using strategic alliances. When to begin this process is also an important point in this study as it clarifies some reasons influencing the choices made by Portuguese SMEs. Therfore the data was sub-divided into two parts: (i) reasons for internationalization, and (ii) process description

Some of these questions also reveal which countries were chosen by national firms to locate their products and their reasons, allowing association of the choices made with the reasons that led to them.

The process of internationalizing is also briefly mentioned in order to shed light on the main difficulties found by SMEs when operating outside national borders. We relate this to the importance of alliances and how they manage to help or hinder the entire process, mentioning the specialization acquired through partner firms as well as their knowledge of the target market and how much effort is needed to build and keep the alliances in the case of mutual benefit.

The product is also mentioned in these questions to obtain an idea of how this type of firm achieves a level of products which are acceptable to final customers and whether they have to be altered or not. Markets influence the company and its products. Therefore a view on this subject is also of interest, justifying questions on this matter relating to difficulties imposed by markets and whether these had an important role in the choice of country to sell in.

In order to achieve more personal and experienced-based knowledge, the SMEs are also asked what they expected from internationalization using strategic alliances, whether this corresponded to what was in fact achieved and how they feel about using strategic alliances for the internationalization of SMEs.

1 - Firms' Characterization - pre-analysis of the initial ideas.

2 - International Process – analyzing and exploring the obtained information.

3 - Cross Case Analysis - treating and interpreting the gathered information.

On the last point mentioned, the individual case studies are part of a cross-case analysis applied to identify differences and similarities between the two cases.

Concerning data analysis, a research database was created, as this increases the reliability of the entire research (Yin, 2009). In doing so, organization and interpretation of the data had the following sequence:

1 - Firms' Characterization - pre-analysis of the initial ideas.

2 - International Process – analyzing and exploring the obtained information.

3 - Cross Case Analysis - treating and interpreting the gathered information.

The last-named was based on what the respondent stated, on subsequent validation and on a theoretical meaning to verify the coherence of all the information collected. Therefore, we used the content analysis technique (Neuman, 2010).

After creating the database, we took the steps recommended by Yin (2009) to conduct both within-case analysis and cross-case analysis. Through the former, the main characteristics of the case studies were summarized. Once the individual case studies were completed, a cross-case analysis was applied aiming to identify differences and similarities between the cases.

4. Findings and Discussion

4.1. Firms' characterization

Case 1: Damar

Damar is a company based in the Industrial area of Fundão. It has operated since 1993 in the food sector, producing traditional Portuguese cheese. It has about 40 employees, and exports its products to countries such as the United States of America, Canada, France, Spain and Angola. Nowadays, exports represent about 1/3 of production (Damar, website).

Case 2: Águas do Alardo

Aguas do Alardo was recently bought by a Portuguese group named WaterBunkers SGPS, located in Braga. It is a company based in Castelo Novo, Fundão. Águas do Alardo started operations in the early 1990s in the water business, not only for drinking but also for health. After a decline in production, the company went out of business until 2011, when it was bought by Waterbunkers SGPS (Jornal Fundão, 2012). Nowadays it has 26 employees. It intends to work with foreign markets such as China and USA and is preparing to enter these markets very soon.

Table I shows the firms' characteristics.

Table I – Firms' Initial Information Summary

	Case 1: Damar	**Case 2: Águas do Alardo**
Location	Zona Industrial do Fundão	Castelo Novo
Number of Employees	40	26
Market sector	Regional Food (Cheese)	Beverages (Water)
Time acting internationally	About 20 years	Just starting
Foreign markets	USA Canada France Spain Angola	China USA

The table above is intended to give a brief idea of the firms questioned for this study, providing important information. As can be seen both firms are located in the area of Cova da Beira, as Fundão and Castelo Novo belong to this region, and have no more than 40 employees. Both firms work in related market sectors in terms of products although with apparently no relationship between them. Both Damar and Águas do Alardo interact with markets outside Europe even though Damar has a wider range of European countries where they place their products.

4.2. Internationalization Process

Case 1: Damar

i) Reasons for international strategic alliances

Damar internationalized itself through exporting its products. According to the owner-manager, this process started naturally and was somewhat unintended. However, from a practical point of view, according to the owner-manager:

- "*The creation of alliances allows our company to act in foreign countries, which is beneficial as it allows Damar to sell products internationally with fewer costs when compared to the option of opening an establishment in the importing country.*"

The manager believes that:

- "*The biggest advantage of acting internationally is that it is possible to make the company and its products known worldwide and give other countries a taste of Portugal while at the same time increasing sales significantly. As for difficulties, there are none worth mentioning.*"

Alliances played a very important role in the internationalization of Damar, and according to the interviewee:

- *"By building alliances it was possible to learn new strategies and means to face the difficulties imposed by other countries, such as closing the cheeses in specialized vacuum recipients preventing them from releasing any odors or becoming contaminated. There was an opening for ideas for improvement suggested by partners and clients."*

About this opportunity the respondent mentions that: *"The use of alliances to obtain the intended goals has exceeded all expectations."*

ii) Internationalization Process

Damar's alliances are with firms located in countries such as the United States of America, Canada, France, Spain and Angola. However, it began by casually building alliances with national firms that exported to other countries and some interest was shown in exporting some Damar products. It was through this situation that Damar cheese began to be known internationally as it was selected to participate in an international blind-tasting contest, Vanityfair, which took place in the USA, and won first place among a hundred other cheeses from all around the world, proving that quality is always a good or even the best way to cross frontiers and gain success. The company has acquired a partner in the USA that exports products to several countries in the world. Although in small quantities, it is a big step towards international acknowledgement of Damar.

This strategy led the Princes of Asturias to visit the Damar stand in the fair at Trojillo, and this was a means to easily begin selling products in the Spanish market, where Damar exports to nowadays.

- *"Damar participates in International Fairs to let the brand and products be known worldwide."*

Damar's participation in small fairs is under the name *of Charcutaria Serra da Estrela*, the name of the group the company belongs to. It is a group that commercializes traditional food from the region of Serra da Estrela in Portugal. It commercializes mostly traditional pork sausages, hams and derivatives and cheeses. Under the name of the group it is possible for the company to let the products be known, the costs of participation in these small fairs falling to the group. The company also participates in fairs in Italy and has already participated in FIL to gain publicity and establish useful business connections.

According to the owner-manager:

- *"The main customers are Portuguese emigrants and or descendants who live abroad and through export of the products from Damar have the possibility to feel and taste a little bit of Portugal."*

Instead of locating in the destination country, they collaborate with other firms, confessing at the same time that: *"The idea just never came up but we do not ignore it as a possibility for the future."*

The allied firms are responsible for providing the proper transport of the products. However, when the products' destination is within the Iberian Peninsula, Damar is responsible for its own transport.

They do not have the problem about which product would sell most and knowing the foreign market as the company selling their products is well placed in that specific market in the region and has knowledge of how and what to sell. The products remain the same as those sold in Portugal, brand, name, image and taste have not been and will not be altered, as the success of the product lies in its original and unique factors. The label is correctly translated, usually to English, and attached to the label used in Portugal.

Regarding future markets, the company (case 1) intends to export to the Netherlands, Germany and Brazil. Some measures are already taking place, but for Brazil there are some difficulties concerning the paperwork needed at customs. As for Germany, it was a company located in that country that contacted Damar and they are now negotiating in order to take Damar cheese.

At the beginning, they considered there were not many difficulties in creating alliances and starting to act internationally. Nowadays, however, the difficulties are becoming more apparent, especially frontiers that are more closed and much paperwork hindering the transfer of products from one country to another.

According to the interviewee, a disadvantage of working internationally through alliances with other firms is that:

- *"There is no direct feedback that would allow us to have direct access to the opinion of our customers."*

Case 2: Águas do Alardo

i) Reasons for international strategic alliances

Internationalization of this SME is to combat the limited scale of the Portuguese market. According to the owner-manager:

- *"Nowadays, there is also the fact that the national market is in recession due to lower consumption of the products. This implies that in 2011 the water market has shrunk by approximately 8%. So as not to restrain the growth of the company, internationalization is the best measure not only relating to the economic situation of the market but also due to the image and perception that water has in Portugal."*

- *"Water is not given its real importance and value as in other foreign markets, such as Saudi markets. This view Portuguese people have of this particular product may greatly contribute to its difficult development."*

Therefore, internationalization comes as a way of developing water products from Portugal, fighting the above mentioned adverse factors by trying to introduce products into other markets that may need and value them, and in this way: *"Allow the firm to become less and less dependent on the national market and its high distribution prices."*

Some of the advantages of taking the national product into a foreign market are considered to be reducing the inherent risk of the national market with less dependence on them and more possibilities of commercialization and obviously acknowledgment of the brand. However, some of the disadvantages may be less control over foreign markets and price fluctuation which will depend on transport costs.

According to the owner-manager:

- *"Alliances are fundamental to the success of Portuguese firms, which may in this way reach other markets with innovative products at competitive prices and quality services."*

ii) Internationalization process

Águas do Alardo (case 2) intends to start acting internationally in three steps, as referred to by the owner-manager:

- *"One is the appearance in at least three international fairs and exhibitions; the other is by creating partnerships; and the third is by selling the products directly to foreign markets."*

This is possible as the sales department is responsible for studying different markets thoroughly, allowing to:

- "*Gather information so that it is possible to connect directly with the correct and best firms, presenting the products and possibly building partnerships."*

For everything to run smoothly, it is necessary to study and frame the activity of the other company so that there are no misunderstandings. According to the owner-manager:

- *"There is a contract to be signed between the partner firms regarding the rights and obligations of each company and the minimum goals intended to achieve."*

The possibility to build an alliance with a company already located in the targeted market brings more knowledge of the market. There are always some difficulties concerning cultural barriers and in this way it is possible to get round them.

Some alliances are already in place, some formed with national firms already acting in the targeted international markets. In this way it is possible to insert the product in the market more easily. Acting together with other firms is a means to reach those markets more easily as it provides a wider range of products for customers and lowers the costs of foreign market penetration. Most of the partnerships the company is interested in are from the food sector, more precisely drinks, and one partner comes from the wine sector in Portugal. This comes as a strategy, as mentioned above, to increase the range of products being offered to the final customer at a lower price.

Partner firms increase the power of negotiation by extending the diversity of products to internationalize as they too have products already placed in international markets. This sort of partnership allows the client to be given a wider range of products in wine, olive oil and different types of water. This comes as a competitive advantage for the client.

Águas do Alardo believes that:

> - *"Most of the partnerships, in order to be maintained, depend most of all on positive results achieved by each partner but also on the empathy, trust and commitment formed."*

The markets to implement the products in were chosen for their growing economies, the poor or insufficient offer of water products, the value given to the product and the possibility of implementing water products in a foreign market at competitive prices.

The products to be introduced to foreign markets will be both premium branded and low priced, depending on the type of client to be targeted. Products will also be adapted to each market, with regard to the specific country's laws and the best way for the product to be received and viewed. The brand is to be publicized through distributers and some marketing strategies to give the brand some renown and exposure to foreign clients.

It is believed by Águas do Alardo that:

- *"The initial difficulties when internationalizing a product in a foreign market come from the fact that Portuguese firms do not have the habit of trying to enter other markets. There is still some reluctance to build partnerships. However, the biggest problem comes from the Portuguese entrepreneurial mind that needs to change and adapt."*

4.3. Cross-Case Analysis

According to the information gathered with our empirical evidence, it was possible to build a table for easier understanding of the collected data.

Table II – Firms' Information Comparison

	Case 1: Damar	Case 2: Águas do Alardo
Preparations	No procedures taken initially	Studies on markets and possible allies
Alliances	National and Foreign Firms	National Firms
Future foreign markets	Netherlands Germany Brazil	(not mentioned)
Time acting in foreign markets	Acting for years in foreign markets	Just starting to act in foreign markets
Method of entering International Markets	Direct Export Indirect Export	Indirect Export
Reasons to Enter Foreign Markets	Initially – accidentally Nowadays – to continue achieving good results in other countries	To combat the limited scale of the Portuguese market
Partner firms	Traditional and Regional Supply Markets	National and International firms already placed and working in the targeted markets
Final customer	Mainly Portuguese people living in other countries	People from other cultures appreciating water more than national customers

Choice of foreign markets	Big search for Portuguese regional food	Need and Value assigned to the product
Internationalized Products	One product required more than others – *Amarelo* Cheese	All products for different market segments
Product	No need to adapt	Possibility to adapt to different needs
Difficulties	No direct feedback from customers Limited number of products allowed to enter the country (Canada) Paperwork to begin exports to Brazil	Existing cultural barriers

Source: Own elaboration

Both Damar (case 1) and Águas do Alardo (case 2) chose the strategy of export to place their products in foreign markets. Although the firms had different motives leading to this choice, both conclude and agree that it was and still is the best method, allowing them to place products in foreign markets at lower costs (Camisón and Villar, 2009). The reasons that led Águas do Alardo (case 2) to internationalize are obvious and in agreement with Hamel, (1991) and Haase and Franco (2011). They simply intend to enter new markets and through this process of cooperating with other firms, due to one of the factors considered by this author, “synergy and competitive advantage”, it is possible for the company to obtain some new competencies in new areas.

Damar and Águas do Alardo use direct export, meaning their products go through a distributor located in the foreign country directly to the market allowing them to have more control over the market’s needs and specific marketing plan (Simões, 2010). However, case 1 also uses indirect export which means that the products go through another company already placed in the foreign country before reaching the market.

For Damar, internationalization was unplanned, beginning when a partner company contacted them about starting to sell their products outside Europe and due to the product’s success, Damar’s cheese entered a contest and won against 100 cheeses from all around the world

(Jornal do Fundão, 2009). This was the needed step for the beginning of more alliances and increasing exports. For Águas do Alardo (case 2), internationalization is an intended strategy in order to gain other markets and a form of guaranteeing sales outside the national economy rather than just maintaining limited sales in Portugal. Damar is a case where quality is always the best way to cross frontiers and gain success because even if the start was unintended, it overcame obstacles and proved its value in foreign markets (Porter, 1991). All these new alliances that the firms build allow them to reduce costs, making them feeling less the disadvantage of their size in a bigger market (Aldrich and Auster, 1986; Brüderl *et al.*, 1992).

Case 1 (Damar) has been acting in foreign markets for about twenty years. However, it has chosen to maintain a secure market in countries with high numbers of Portuguese emigrants and/or descendants. Just now, it is trying to reach other international markets outside Europe and being more active in order to internationalize. The company is opting to participate in international fairs to get themselves known in other countries and cultures.

Case 2 (Águas do Alardo) is only beginning to internationalize the brand and products. However, it has built rational strategic lines and carried out studies to determine in which markets they may be more successful. This company made the choice to act internationally in order to achieve a more sustainable market rather than being dependent on the national market.

According to the information collected through the interviews and documentary analysis, it was possible to find out that Águas do Alardo, in comparison to Damar, had a more reasoned and deliberate entry into the international market. It conducted studies to guarantee future success and to be able to respond to foreign customers' needs. However, case 1 achieved success through the quality of the products being sold in other countries.

Both Damar and Águas do Alardo have preferred to choose national firms to build alliances with. This may have to do with the fact there is less loss of communication between partners and the way of working may be similar (Alchian *et al.*, 1972). In the case of Damar, it most certainly has to do with the fact that even though the products are intended to be placed in foreign markets, the final consumer is a national citizen or descendant, and since the partner company is the one in direct contact with the client there is no better way to understand a customers' needs than to be of the same nationality and culture. It is even a fact that the allied firms searched for national products in order to answer these needs. The company also has some alliances with foreign firms which were built after these allies became aware of this market niche in their country mainly because of the already existing partnerships. For Damar it simply occurred as a means to achieve a goal by allying national knowledge and possibly known firms with the fact that they were already placed in the intended markets (Simões, 2010).

The alliances built by Damar in order to interact with foreign markets are with national and foreign firms. As for Águas do Alardo (case 2) the alliances at present are with national firms already acting in foreign markets. These choices of markets are due to fact that Portuguese emigrants are located mostly in these countries in the case of Damar, and concerning Águas do Alardo these choices were made based on the need for, and value of the product being commercialized (Duarte, 1998). For future markets, case 1 intends to conclude some ongoing negotiations with the Netherlands and Germany and also try to enter Brazil. The choice of the Netherlands, Germany and Brazil follows the same reasons as the current markets. However, Brazil has presented more difficulties concerning customs arrangements. The fact that their allies are already placed in the foreign market will allow both firms to have an easier and more knowledgeable entry to the market.

For Alardo (case 2), the markets to penetrate were chosen through a conducted study and knowledge of the need and value of water to a specific foreign country. Also the fact that allied firms already act in those countries brought greater possibilities and may have been the final push towards selection of certain countries to export to. The part played by allied firms was very important, providing Águas do Alardo with the initial knowledge needed of the markets in order to better adapt and possibly predict the first opinions of the products. With this information it was possible to save time and expenses applying it immediately to the correct products to export to specific markets (ul-Haq and Howcraft, 2007; Ohmae, 1985).

For Damar, the markets where products were first established are mainly in countries with high numbers of Portuguese immigrants, descendants or from similar cultures. This fact may mean that the company is bringing the Portuguese culture to other countries, allowing Portuguese people abroad to feel closer to their country. It is possible to say that Damar reaches national customers located in foreign countries, while Águas do Alardo is trying to reach other people and cultures in foreign markets (Ohmae, 1989).

The exported product for Águas do Alardo is chosen carefully according to the country of destination, because each market has different needs which will have an effect on deciding whether the product is premium or low cost. For example, a country with a shortage of water will appreciate it much more than a country with more than enough water. Also in this type of situation, the view of the Portuguese brand if necessary may be modified in order to achieve better acceptance in the country of destination (Ohmae, 1989). For Damar (case 1), this is not yet a necessary approach as the product is purchased taking its brand's reputation into consideration and although all its products are exported, one is in greatest demand, *Amarelo* Cheese.

Accidentally or on purpose, both firms chose to interact and build partnerships with national and foreign firms working in similar sectors such as traditional, regional food and beverages, and already connected to the import and export of products. This situation is due to the fact that each market sector has its own means and rules and to build alliances with firms that already have the means and knowledge of working across borders, and more importantly in those countries, would only facilitate the entire process for the Portuguese SMEs (Duarte, 1998).

The point of view of Duarte (1998) about Portuguese SMEs' difficulty in tackling foreign markets is confirmed by the opinion given in the interview with Águas do Alardo, stating that Portuguese firms are not used to trying to penetrate foreign markets as there is some difficulty in building partnerships due to some closed minds in the Portuguese SME world.

In order to guarantee the proper functioning of alliances, Águas do Alardo (case 2) informed that the preparation of a written agreement with every item involving and securing both parties must be dealt with, avoiding future misunderstandings and safeguarding both sides' interests and concerns. In this agreement it must also be clear from the beginning what it is expected of each company and this may even guarantee the smallest company's safety (Teixeira, 2005).

The difficulties mentioned by Damar were that there is no chance for direct feedback from customers as they do not interact with them and have only a notion of their opinions through the success and sales reached. Boarders are also considered to be an issue as many barriers and paperwork have to be overcome. Águas do Alardo mentions cultural barriers as the biggest difficulty when exporting to other countries. According to Haase and Franco (2011), the entry of an SME to an international market allied with a company from the intended market will help the SME to overcome legal barriers. Continuing Haase and Franco's (2011) line of reasoning, this could be a solution for Damar's struggle with paperwork which is delaying their entry to the Brazilian market.

According to the answers given, it is possible to conclude that both firms use strategic alliances to facilitate the export and commercialization of their products and avoid some of the risks previously mentioned by Teixeira (2005), when he says that if the chosen strategies do not apply to the situation of the penetrated market the firm will not be able to adapt, and according to the information collected by these two firms the alliances provide the necessary and real information of the markets, allowing the Portuguese firms to better adapt and choose the best strategy to succeed.

Neither company has considered expanding abroad by establishing a plant or store in the countries they are working with, mainly because of the costs involved in maintaining facilities and business there.

According to Haase and Franco (2011), establishing an international cooperative alliance may be the gateway to a whole network of complementary skills and resources, due to the positive influence of the knowledge gained from cooperative alliances.

5. Conclusions and Contributions

This study analyzes some SMEs in their internationalization process and how strategic alliances can be a means towards internationalization. More precisely, it intends to facilitate understanding of the SME internationalization process through strategic alliances, exploring the reasons behind that choice. To do so, the first task was to identify the reasons leading to the choice of strategic alliances and then analyze the internationalization process.

The two firms selected for this study provided detailed information, giving the possibility of another insight into SME internationalization in inland Portugal. It is seen that the type of alliance and therefore type of export chosen by the firms can and will affect how the product reaches the foreign market and how feedback comes back to the Portuguese company.

From our empirical evidence, we conclude the countries for exports have to some extent been indirectly chosen according to the connections the company or its partners have, again involving trust and reliability possibly to decrease the possibility of failure, unlike what Freitas and Santos (2007) argue. The fact of having some security induces firms to interact more easily with a market they have already heard about and where they know what to expect, rather than entering the unknown.

Some reasons were identified by the two SMEs studied. What the firms achieve from alliances is that firstly they can decrease the costs (Camisón and Villar, 2009; Suárez, 2002) that would be involved in commercializing their products in other countries, and secondly, being SMEs, they are able to safely learn and gain some knowledge of the foreign markets and cultures, so that in the future they will be better prepared and to interact with other more appropriate strategies.

Although the firms studied work in similar market sectors, food and beverages, they have different positions and ways of penetrating the intended markets, despite using the same strategic option which is the building of alliances with firms already settled in the foreign markets.

Our findings make a number of contributions, not just in academic terms as an under-researched topic, but also in policy terms, i.e. to assist SMEs in their internationalization process. In spite of a considerable body of literature on strategic alliances, the importance and explanation of these relationships in the internationalization process still remains vague. Recent research has addressed some facets of the question of how strategic alliances with international partners can be an instrument of internationalization (e.g. Haase and Franco, 2011 Trigo *et al.*, 2009; Fink *et al.*, 2008). Our paper represents one attempt to better understand the SME internationalization process through alliances.

Through the development of this study, it was also possible to not only analyze SMEs and their strategic alliances allowing them to be able to act internationally with lower costs and more knowledge, but it was also possible to analyze different situations for the same intention concerning the knowledge and plans made specifically to internationalize.

Finally, it should be noted that our study has some limitations. The enormous amount of information found during the theoretical research for this study showed that this is a topic that can and must be developed further, specifically in inland Portugal as there is much more information and theories to be considered.

The most difficult part of conducting this research was the fact that some firms did not see the potential significance that it would bring to the company, choosing not to participate in the interview and therefore greatly reducing the case selection of firms used in the study. Thus, in the future this study can be developed using a wider range of Portuguese SMEs located in different regions. It will also be possible to continue using the same research approach in order to obtain more data and more detailed information for a wider comparison obtaining possibly new conclusions.

There is also the possibility to continue further research using the qualitative method as there is the ethnographic study that, according to Godoy (1995), is a type of analysis that involves an intense and long lasting contact with the subject of study to be able to describe events and the evolution of some important factors for the study. Obviously this was not possible in this study due to the time required and nature and purpose of this investigation. This is why it is possible in the future to widen the investigation to a larger and more detailed research.

There will also be the possibility to complement or continue the study with a quantitative approach providing more substantial and reliable statistical numbers for this study supporting the information already gathered.

It is seen through this study and many others that the possibility to use strategic alliances to internationalize a company is in fact a strategy preferred by SMEs so that, when correctly chosen, allied firms can provide them with the resources and knowledge they are lacking (Teixeira, 2005), increasing their chance of success abroad (Gomes *et al.*, 2010). In any case, a partner always has a very important role in the process of internationalization for SMEs as they are more likely to face greater difficulties than large firms in the search for success.

Lastly, we hope the insights of our study will inspire other scholars, and the combination of this and future work will surely allow valuable comparisons to be made.

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