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Internationalization of SMEs in Portugal: Focus on the shoe manufacturing industry of Portugal

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ABSTRACT

Due to economic conditions currently in place in the domestic markets, and to the fact that the vast majority of companies in Portugal being micro, small and medium enterprises, there is the need to differentiate from the competition which leads to the international market. However, these companies, most of the times lack resources, both financial and intellectual such as the knowledge of how to approach the process of internationalization. In addition, it is frequent that the process itself is very complex, reason why most of decisive factors must be carefully analyzed and taken into consideration before supporting any decision.

This way, the present study proposes the creation of a model that evaluates, through a series of pondered financial variables, together with smartPLS methodology, that allows for the formation of constructs of variables to understand what influences the internationalization level of a company. In second plan, understanding how Portugal and Italy still differ in the shoe manufacturing industry, comparing two countries.

The results obtained prove that the methodologies used are able to conclude that the models of evaluation are transparent and have utility in supporting the decisions taken along the process of internationalization and also to which extent a company should or should not internationalize. There was the understanding of characteristics within a company that have more impact when it comes to an internationalization process of a SME. During the construction of this same model it was also approached its own advantages and limitations.

Key-Words: Internationalization; International commerce; International approach strategies; SMEs; smartPLS model

ABSTRATO

Devido às condições económicas correntes do mercado de Portugal, e pelo facto de o tecido empresarial do país ser maioritariamente composto por pequenas e médias empresa, há cada vez mais a necessidade das empresas se destacarem da sua concorrência, a solução é o mercado internacional. Contudo, estas empresas muitas vezes têm falta de recursos, quer financeiros quer a nível do conhecimento para abordar um processo de internacionalização. Para além disso, o processo em si é complexo, como tal, os fatores que têm impacto nesse mesmo processo devem ser analisados de forma cuidadosa para poderem suportas as decisões tomadas.

Deste modo, o presente estudo propõe a criação de um modelo que avalie, através de uma série de variáveis financeiras, juntamente com a ajuda da metodologia SmartPLS, de que modo é que os diferentes constructos formados influenciam o nível de internacionalização de uma empresa. Em segundo plano, tentar perceber as diferenças entre Portugal e Itália no que toca a indústria da produção de calçado, comparando os dois países.

Os resultados obtidos provam que as metodologias usadas foram capazes de concluir que os modelos de avaliação foram transparentes, foram úteis na medida que suportaram a tomada de decisões durante o processo de internacionalização e se uma empresa deve ou não internacionalizar. Houve uma compreensão mais sustentada das características que têm um maior impacto aquando do processo de internacionalização de uma pequena ou média empresa. Durante a construção do modelo houve também uma ponderação das suas respectivas vantagens e limitações.

EXECUTIVE SUMMARY

Currently, in the economic and technological times we are living, SMEs (Small and medium size enterprises) face a lot of competition, not only between each other but also against larger companies. Additionally, this competition is intensified by the fact that technologies are developing at a much faster rate than they were ever before, and, due to the phenomenon of globalization, meaning more competitors from outside economies. The domestic market is most of the times not enough to achieve the desired results, it is either saturated or does not have enough costumers, forcing the SMEs to internationalize. However, the internationalization process is most of the times very complex and expensive. Typically, SMEs are organizations with very limited amount of resources available, both human and financial, and also, they have very limited knowledge regarding this subject of the internationalization, which creates a lot of difficulties when they are going through their respective internationalization process, leading to failure and most of the times. Accordingly, there is the need for a creation of a support framework that can support the SMEs in the shoe manufacturing business with their decision-making process and resource investment alongside their internationalization process. Nonetheless, the studies that were done until today, regarding this subject, had several limitations and were not easy to apply to a real-life context. There were limitations in identifying the main areas to invest in, meaning that there were resources that were not correctly deployed, and there are still difficulties in creating a scale of importance of these same areas when in an internationalization process. So, from here, arises the opportunity to create a framework that can try to fill in some gaps in the previous limitations presented, while at the same time having a big potential of applicability in real life context. The present dissertation proposes the creation of a model that can evaluate the importance of different financial variables and their correspondent importance in the internationalization process of SMEs. With the use of databases that given information about companies in shoe manufacturing industry and their correspondent exports they were treated and used in a way to try to answer the formulated question: *"According to their size, what is the degree of exports of Portuguese companies? Are certain characteristics directly related to it?".* Relying, on the financial data available, and by making a comparison to Italy, the current leading country for this business sector, there were created seven clusters: Size by employees / operating revenue (control cluster); Size of Board; Size of Network; Capitalization of the Company; Debt Control; Financial Position; Employees Performance. The results allowed for the creation of a

model that allowed the understanding of which variables are and are not important in the decision-making process of internationalization. Lastly, as the model was made out of data from real life companies, and compared with the leading country of the industry, it can be concluded that is ready to be applicable to other industries, besides the shoe manufacturing, helping SMEs in the correspondent business area, on their internationalization process.

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1 CHAPTER

General Contextualization

In the first chapter of this present dissertation, there will be done a brief contextualization and presentation of the study, its subject as well as the methodology used. As such the topics will be: (1) Problem Definition; (2) Objectives of the investigation; (3) Methodology used; (4) Structure of the Dissertation; and Expected results.

1.1 Problem Definition

In today's world the small and medium enterprises (SME's) are responsible for the most part of the world's economy. When compared to big and large companies they tend to appear and disappear at a much faster rate, and due to the technological and commerce development some tend to look for opportunities abroad by either exporting or internationalizing. However, this is not yet a common practice. Only a small percentage of SME's looks for internationalization, and, on top of that, within those that seek to internationalize the majority still fails to do so successfully.

Many authors define Internationalization with slight differences from one another, we shall assume the definition given by Calof and Beamish (1995), *"'internationalization as the process in which a firm steps up in incremental stages, its involvement in international operations".* This also allows companies to gain more knowledge, innovate or enhance their financial position bringing benefits not only for them, but for the national economy as well.

Despite all the challenges and barriers, the number of attempts to internationalize has been growing throughout the years, several facts have contributed to this. First off in most economies the domestic markets are not enough for the survival of the companies. In addition to this there is also the competition factor. The competitors are constantly expanding their business and entering new markets, therefore there are constantly new competitors trying to expand to other markets. Companies can no longer be passive and expect their market share to be constant throughout time. Competition factor is important, it acts as a driver for evolution and development, makes the companies be in a constant changing environment which fuels innovation.

Following the facts already mentioned before, due to the pressure that SME's have to internationalize, and the complexity of the process most of the companies still either fail or end

up having too much wastes and flaws along the way when going abroad. In addition to this most of the times, these SMEs are faced with the fact that they need fast return rates, as this process is usually expensive. Putting these factors all together and adding the lack of skills from entrepreneurs or the fact that businesses are often family owned with a limited knowledge difficult a lot the decision-making process. From here on arises the need of a deeper study that works as support to the SME's decision making, allowing them to make more thoughtful decisions, while also minimizing wastes and correcting the wrong steps made. In turn, it will make the internationalization process easier, and fill the knowledge gaps that exist within the companies. Furthermore, this need is intensified by the fact that the literature regarding this subject is still limited. There is then support for the development of this dissertation.

1.2 Investigation Question

Knowing this, the question that follows was created having in consideration, with criteria of possibility of being answered, transparency and even relevance as was mentioned before was: ***"According to their size, what is the degree of exports of Portuguese companies? Are certain characteristics directly related to it?"***

Regarding the criteria of relevance and transparency, it was considered that the question is formed in a very simple and straightforward way, such as it is as easy to understand as possible. This way, even during the previous investigation and literature review there is a clear path and guidance towards the objective, throughout the whole dissertation it is very much visible this line of thought.

Going in specific about why the question is relevant and very present in today's enterprise society. It is an everyday subject that is becoming more prevalent in small and medium sized companies that now more than even try to reach new markets and tend to expand faster than before and as such they need to export. It is useful in a way that it can be used as tool or framework to help these types of companies before or even along the process of internationalization or export of goods produced, while not only helping in certain way of how knowing how to do it, but also doing it both at right time and with the right amount of resources that they need for the process. About being an achievable study, there is a very large number of studies already on this area, especially because as said before it has been becoming more and more relevant in countries such as Portugal that the vast majority of the economic and business sector is made by small or medium enterprises. Although some of concept might still

be very recent and with a lot of growth and development potential, most of these information was relatively easy to be accessed which allowed for a good and vast gathering of knowledge and data collection about this subject, and on top of that there is still the fact that many of the articles and information collected still has a lot of limitations which means that there is still space for more new insights and the learning curve is still going in a uptrend regarding this topic.

1.3 Objectives of the Investigation

The main objective of the present dissertation study is within the analyzes of the database to be able to find the main aspects that impact SMEs in the Portuguese shoe industry when internationalizing and understand their correspondent different levels of exportation. Hopefully there is the possibility to cluster groups of variables, these different groups should have common characteristics within themselves, and therefore should allow the perception of what constructs have more impact in the internationalization. With the correct information analysis, different challenges and barriers shall be appointed to the SMEs as well as best common practices that some companies use, or even the best assets or attributes that those companies have. These characteristics should then be deeply studied in order to understand which type of assets or attributes allows companies to place themselves with higher or lower exportation levels. This will also be compared to the Italian market for shoe industry as well, the current leader of this type of market.

There will be a study on the same variables for the two countries (Portugal and Italy) and comparison between them, this way there will be an understanding on how similar or different the variables are in each country and also how different or not the export levels are. This way we can differentiate the ratings of exportation in each country and by the size of companies as well.

Last but not least, there will be a full understanding of which components of a company are of major importance when it comes to exportation levels, and as such there will be the ability to support companies when it comes to achieve better results in exporting.

Considering the problems faced during this investigation it becomes fundamental and much needed to define a list of key points to be studied:

- Classify a framework that allows to place companies at different levels of exportation
- See if there is any patterns or clusters of companies with similar characteristics that may or may not have the same level of exports
- Finally create a framework able to distribute companies based both on their level of exports and their size

1.4 Methodology Used

Initially, the research method will be based of secondary source and sustained of articles and researches, in order to explain basic concepts such as definition of SME's, Internationalization and features of Internationalization process. It will be also part of the literature review both the major drives and benefits of Internationalization, and the biggest barriers that SME's have. Finally, internationalization process and methods will be search as well as the transition from just export to FDI (foreign direct investment) exposed companies, which are very rare.

Followed by that, a database with numerous SME's and large companies of different sectors will be used. With this database there will be a collection of data of different variables from companies only from the shoe manufacturing sector, as this will be the focus of this dissertation.

Finally, there will be a comparison between the two biggest industries of shoe manufacturing of Europe right now, Portugal and Italy. Furthermore, there will be a deeper understanding of the differences that still exist between the two countries, with the help of software such as Excel, SPSS or even Smart PLS, there will be conclusions drawn which will then be analysed in order to understand what Portugal can do catch up on Italy to become as big as in this business as possible.

1.5 Structure of the dissertation

The present dissertation will made up by five chapters. In *Chapter 1*, there will be a brief presentation of the subject, the main objectives of the investigation alongside the methodology used and the principal expected results. In *Chapter 2,* it will be presented the main theoretical framework about the topic of Internationalization of SMEs. Initially, there is an analysis of the economic situation context of SMEs globally, followed up by the main advantages and challenges SMEs face when approaching the international markets, as well as different approaches and theories to internationalization. The chapter ends with the main differences and a comparison between exportation and FDI type of investments. In *Chapter 3*, there is the overall structure of the methodology used, the concepts and methods used in data analysis and software used are explained, as well as the whole process of data collection. In *Chapter 4,* it is shown the empirical part of the study, it is explained how the data analysis was done throughout the use of different software that are helpful in this department. The results obtained are also explained and discussed. In *Chapter 5,* there will be a resume of the all dissertation, there are presented the main results, conclusions and contributions to this investigation, but also the biggest limitations and the recommendations are done for future investigations.

1.6 Expected Results

In this study the main objective will be to understand and analyze the main factors that affect the levels of exportation of the Portuguese shoe industry SME's. In order to do this, on one hand, we need to be able to fully understand the factors that drive the exports, and, on the other hand, we need to understand the limitations of the SME's and what are the obstacles the SMEs face when going abroad. Then with the database analyzes there will be the ability to find common and successful practices regarding the decision of internationalization. Also, by making the comparison of this industry with Italy, there is the ability to benchmark the current leading country on this sector and by this understand the differences that still exist.

In the end there shall be a support to SME in their internationalization by two means. First to be able to identify their negative factors, so they are able to either eliminate them or

tone them down, allowing to efficiently place their product abroad and exploit their resources. Secondly with the positive factors and aspects be able to escalate and maximize as much as possible. This way the rate of success of internationalization and exportation of the shoe industry SME's will be higher, and the knowledge might be replicable, which means it can be applied to different types of SME's present in different businesses outside of the manufacturing of shoes.

2 CHAPTER

Literature Review

2.1 SME's and European context

The definition of small and medium enterprises has been updated throughout the years, accordingly, we shall assume the European's commission definition, "*The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euros, and/or an annual balance sheet total not exceeding 43 million Euro."* (Extract of Article 2 of the Annex of Recommendation 2003/361/EC).

According to EUROSTAT data, in the European Union, in 2017 there were around 23,8 millions of SME's. They were held accountable for 99.8% of the total number of enterprises, and in addition to this they were responsible for 70% employment of the EU population. SME's are not only the core of business and economy of each country individually, but also of the European union due to the free commerce and trade agreements that are in place. Also, they drive a significant percentage of GDP in most countries, which can dictate the economic growth of those same countries. Even though their size and scale are most of the times very limited when compared to bigger companies, they are still the leaders when it comes to employment, creation and innovation *"SMEs, despite their small-scale output and relatively lower scale economies, are known to be significant contributors to employment growth and innovation"* (Pavitt, Robson, & Townsend, 1987).

However not everything is bright and good for the SME's, with the globalization era they suffer from more competition than ever before, not only from other SME's locally but also by large firms and multinationals that invest in the markets they are present on. This was "*a result of the rapid prevalence of Information Technologies, disappearance of the borders between countries as a sequel of globalization and the fast increase in the number of Small and Medium Sized Enterprises (SME)s"* (Özlem Kunday, 2015).

Also, it is worth mentioning the fact that we are now living in a post crisis economic scenario, especially harsh on SME's. Banks played a crucial role in this crisis, as stated by Kenc and Dibooglu (2010) *"the financial crisis that hit Europe in 2007/2008, resulted from*

the undercapitalization of the banking sector due to the poor risk management practices and untidy financial regulations and supervisions by banks".

While, on one hand, before the crisis, banks were freely giving credit to companies and families without too much concern about paybacks, after 2008 when the crisis started, not only the banks cut on providing credit, but also there was a liquidity shortage, banks had to froze the transactions between themselves, *"the liquidity shortage and trust erosion among banks blocked interbank transactions, which aggravated the companies' difficulty to pay its liabilities being hard for them to access debt from outside financers due to the high transactions' costs of financing externally."* Atici and Gursoy (2011). Consequently, this not only meant that SMEs would have limited access to credit, and the ones that did have access would be with very high interest rates. Without funds to finance the normal activities of the company, they would eventually lose clients, taking a serious hit on their sales which were already dropping. Following this chain of thoughts, without receiving as much invoices from sales as they used to, SMEs were slowly losing their capacity to pay their suppliers. This created the short-term debt, which for SME's is a very big constraint that affects the usual functioning of the firm. On the other hand, when considering larger firms, these can usually delay their payments to their suppliers which favours them financially. Alongside with this, the SMEs and "*their relative shortcomings in terms of technological, managerial and human capabilities may reduce their capacity to overcome the economic crisis."* (Konstantinos Bourletidi, 2014).

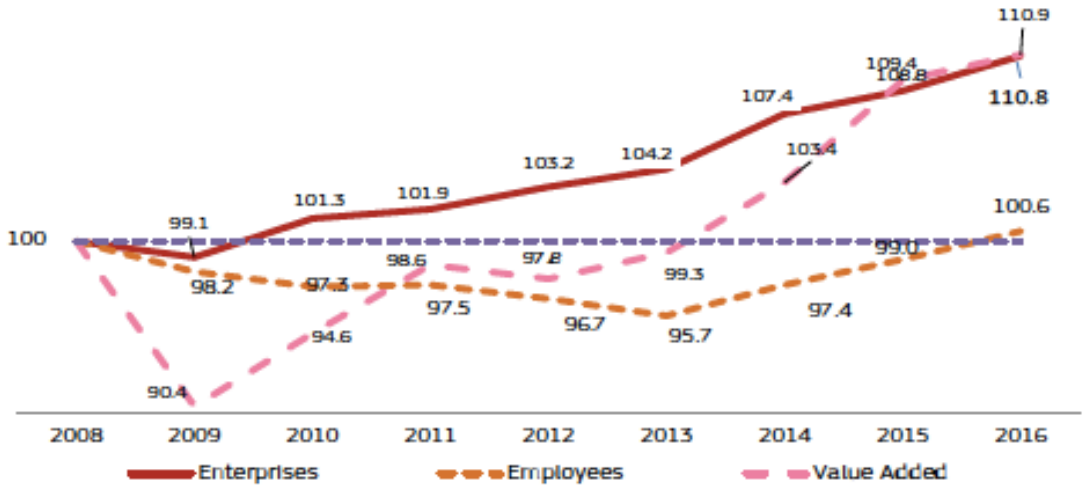

Figure 1 – Recuperation of European SMEs after 2008 crisis

Source: European Commission (2016)

Although SMEs did face a lot of difficulties, and there was in fact a drop in both demand and credit access, not everything went against their favour. As we can see from the graphic shown above, there was a big rupture on value added post crisis (2008/2009). As number of employees is concerned, it was going down until around year 2013. Although this down trend, it is undeniable that by the year 2013 the recuperation was done in terms of employees, and by the year 2016 the same had happened to value added. Not only that but they actually surpass the initial values maintaining the growing trend. Finally, the growing number of SMEs firms was slightly slowed down in the post crisis scenario, but by 2010 was already growing back up again.

Reasons behind this may be explained by the factor that smaller companies usually have more flexibility in adaptation to downturn slopes of the economy, *"they are less resistant to inertia, rigidity, and sunk costs [46], more able to exploit market niches [41, 24, 47], concentrated on activities characterized by economies of agglomeration, rather than economies of scale [48, 49], and less reliant on formal credits compared with their larger counterparts, which are more burdened by debts [45, 50]."* (Bourletidis, Konstantinos, 2013). The technological disadvantages and knowledge disadvantages can easily be overcome by the process of imitation of other firms' best practices, saving costs some costs SMEs might have inquired otherwise.

Furthermore, SMEs are of particular importance when it comes to the recuperation of the economy, not only they detain a big percentage of value added and employee rate within the economy but also as Harvie and Lee (2002) mentioned *"they can act as a source of competition for larger companies, can promote regional trade, contribute to technology transfer, and also regional development."*

The combination of all these factors together enhances the necessity to find alternatives for the SMEs to remain competitive. This is where internationalization comes in hand, it can act as a way out for these companies to survive and thrive. There is a lot of empirical evidence and studies supporting this, showing that exporting SMEs, or SMEs that internationalize their business are able to adapt to adjust to crises more easily than other SMEs.

There are a couple of definitions of Internationalization, while Johanson and Vahlne (1977) explained *"'internationalization as the process in which a firm steps up in incremental stages, its involvement in international operations".* Calof and Beamish (1995) came up with a more recent definition internationalization being "*the process of adapting a firm's operations*

(strategy, structure, resource, etc.) to international environments". We can then see that both of them, agree on an international exposure from the companies.

Internationalization is one of the growth strategies companies adopt in order to expand their business, either because they merely want to expand, as said before, or because they are forced to due to their country's limited market. With this strategy they are able to explore new economies of scale and scope, reduce costs or even increase their market power. Finally, also *"allows firms to exploit their firm-specific assets, especially intangible ones, in international markets (Caves, 1996; Delios & Beamish, 1999).".* In order to compete in a worldwide environment, firms must be able to find and extract synergies of their ranges of products and services while developing the sense of community within their series of companies and subsidiaries.

2.2 Internationalization and its characteristics

Internationalization by itself is meaningless, and that is why many companies do fail at it. However, the real value is in the information it provides, and if the firm is actually capable of circulating that information along the company. "*Internationalization process theory also acknowledges firms' ability to transfer general knowledge from country to country, a process of diffusion that facilitates lateral growth"* (M. Fletcher, 2013). Picking up the concept previously learned of RBV (resource-based view), we now know that the resource must have a series of characteristics. First off, must be rare (few firms have it); must be inimitable and non-substitutable. Accordingly, all these factors apply to information. However, there is another aspect to have in consideration, only if a firm is able to get a continual knowledge flow is then able to transform into a sustainable competitive advantage, otherwise it shall not last long. In turn this will allow the firm to access more resources and competencies, this can make the company leverage better their international financing activities, "*Internationalization should therefore be evaluated also in financial terms, not just real, measuring the extent to which a company internationalizes its financing or ownership structure by approaching international investors. Hassel et al. (2003)."*

Geographical scope is also an important factor when internationalizing. Many previous researches focused on the differences between countries, following this line of thought we shall introduce the concept of foreignness liability. This liability is the barriers and threats that a company will face during the Internationalization process, while going with its business

abroad. But it's not that straight forward, these liabilities might be similar from country to country, because nowadays we have economic regions. This areas have the same characteristics in culture, customer demand and need, economic and social development, and this regions have been the center of the studies now instead of specific countries, "*The region, rather than country, is therefore increasingly recognized as relevant unit of analysis in international business research (Chetty & Campbell-Hunt, 2003; Delios & Beamish, 2005; Rugman & Verbeke, 2004).*"

The managers who have a domestic managerial mindset, often times are not used to this cultural diversity, this means that they will feel more the pressure from the firm fragmentation, when the firm splits between two or more countries, going through the internationalization process. *"Therefore, moving into a highly institutional, distant country may negatively affect a firm's performance. Another source of complexity for internationalizing firms is that of competitive pressure"* (Hsu, Wen Tsung, 2013). Among other things, the age difference between old managers and young managers has some effects on the way of perceiving internationalization. Few examples are: as Herrmann and Datta (2005) found *"that younger managers have an open mind and a greater willingness to adapt to new environments than do their older counterparts, which can enhance an SME's information-gathering capability.";* as Sambharya (1996*)* argued *"that international experience may prove advantageous as top executives integrate the learned culture and face the uncertainties associated with international operations.".* As proven here, the manager and his mindset have immense impact on the strategies and how the company acts, as such we shall look further on the global mindset behind the process of internationalization.

As demonstrated above, the global mindset is also an important characteristic within firms that have the intention to internationalize. There are two ramifications of this mindset process present in every company that internationalizes, the individual mindset and the corporative mindset. First off, the "*IGM (individual global mindset) is a complex cognitive structure that consists in the predisposition, understanding, and articulation of multiple cultural and strategic realities at the global and local levels"* (Levy et al., 2007.) This means that IGM is more directed towards the manager, his ability to understand different cultures, contexts and markets, enabling his ability to find opportunities where they are presented.

Secondly, we have the corporative global mindset (CGM) that is directed towards the company, their actions, thought process and the way of operation should be in accordance with their company's structure and organization. In order words, *"This process builds on routines,*

operating practices, processes, and behaviors that result from the experience, relationships, and social conventions" (Beechler, Levy, Taylor, & Boyacigiller, 2004; Begley & Boyd, 2003; Jeannet, 2000)."

Applying correctly both these mindsets will allow the companies to have more proximity to the markets and their respective costumers. They will then make them experience a rapid internationalization and exponential profitability and growth. As a side effect, the product development will be positively affected as well. It will be sharpened due to the information received from internationalization, "*Product development benefits from the internationalization of companies and from a better knowledge of the international market to meet customer needs, avoid competition, and improve performance"* (Cumming, Sapienza, Siegel, & Wright, 2009; Keupp & Gassmann, 2009; Ott, 2016; Weerawardena, Mort, Liesch, & Knight, 2007).

In the end, when it comes to methods of Internationalization, there are three main models: the Uppsala model; the network model; the Born Global model. While the first two were slower and older models of internationalization, influenced by the conventional belief that a firm should first settle down on the domestic market before advancing to the processes of Internationalization, the last one is faster paced and averse to risk. Also, worth mentioning is the Vernon's theory which relates the product life cycle with the internationalization stages, that will be explored deeper in the next chapters.

Accordingly, we see the definition of Uppsala model as being "*is based on the idea of gradual internationalization, which means that a firm, in the beginning, starts selling in its own country until it increases its profit and market share, and, then, proceeds to the next stage – indirect export"* (Kunday, Özlem, 2015). This model is very gradual, and considers differences such as language, culture or politics.

A transition model appeared after the Uppsala, the Network model, "*Network Theory and focuses on the networks of the entrepreneur in the market. As Network Theorists, Johansson and Mattson (1988) see firms' internationalization as a natural product of network relationships with foreign individuals and firms."* (Kunday, Özlem, 2015). As its name says, it values a lot the relationships and network that a company is able to establish, firm rely on it to acquire knowledge and to be able to survive in the foreign country.

After these two models there was a shift in how internationalization methods were treated. Now, internationalization relied on the firm's ability to "*find and serve the global niche markets with unique products by adapting a global vision and risk-taking ability, and by creating new*

innovative products/services to be founded by internationally experienced entrepreneurs." (Kunday, Özlem, 2015). The entrepreneur has now more than ever, a very important role within the company, with the right, innovation and information about markets, locations, and strategies he is able to spot opportunities that others cannot.

Now that is known all the previously described features that entrepreneurs need to have in order to become successful with a fast internalization strategy, comes the most recent method born global, *"This theory focuses on the direct internationalization of firms in inception and not step-by-step. In order to become a BG firm, according to researchers, founders need to possess certain entrepreneurial features".* (Kunday, Özlem, 2015).

Summing up, with these methods firms rely a lot, on previous experiences of their work force and managers. If they are capable, they can adapt easily and fast to different situations. They also rely in previous network relations they had abroad as well as innovative products or services that focus on a niche market. For this there needs to be a certain level of international entrepreneurial orientation given by the leaders of the firm. Once again, they achieve sustainable comparative advantages *"that are based on superior knowledge assets and the technological know-how that they possess"* (akin to Teece, 1998). With the combination of these factor *"the experience of managers and/or entrepreneurs in the international market will easily steer the firm abroad"* (Love, Roper, & Zhou, 2016).

2.3.1 Major drives and motivations about internationalization of SME's

As the context of both internationalization and SME's was already shown previously, there is the need to understand why the companies decide to internationalize. Understand what the major drivers and the biggest advantages for the SME's are. Either influenced by the top management, time or alliances there shall be presented a couple of motives. Some argue that firms depend mostly on the firm's capabilities, *"The entry in foreign markets is a function of the internal capabilities of the firm"* (Autio, Sapienza, & Almeida, 2000; McDougall et al., 1994; Zahra, Ireland, & Hitt, 2000). However, as Zucchella, Antonella (2007) mentions *"Knowledge accumulation, organizational capabilities, financial resources, equipment, and other physical resources are the main drivers that enable large and established firms to perform in foreign markets, but small firms lack them."* As seen before, clearly, smaller firms cannot compete in terms of capabilities or resources, so they need to rely on other sources of advantages or edges they can get over bigger firms.

Starting with time, "*Time has been traditionally marginal in International Business studies* (Ancona, Goodman, Lawrence, & Tushman, 2001), *but now new research fields are emerging, which place time at their core"* (Zucchella, Antonella, 2007). Time was not always taken seriously; however, it is key in case of first move advantages. When having in consideration other global competitors, it is important to reach learning curves and new lessons sooner than others. This will lead to better performance which in turn allows the possibility to access more profit sooner than others as well. Nonetheless there is also a possibility for non-first movers, specially noticed in, small open economies or local clusters, places where there is a lot of reliability on shared services and sharing of information there is the possibility to use imitation of other success cases in order to internationalize, *"The latter factor is deemed relevant on one side for small open economies, and on the other side for local clusters, where agglomeration economies, shared services to access foreign markets, and imitation phenomena favor an earlier international orientation of the firm"* (Enright, 1998).

Entrepreneurs also have a big impact on the internationalization process of the company. "*Dependent of the Entrepreneur – They make reference to the personal life experiences like foreign education or work experience, travel, foreign birth, knowledge of foreign languages*" (Zucchella, Antonella, 2007). The social, the past context and many other characteristics of the entrepreneurs and top management team have a big impact in the process of the internationalization of their correspondent company, as explained the previous chapter. Now there will be two main focus, age of the entrepreneurs and their past experiences and context.

Opening off with the age of the entrepreneur, Hambrick and Mason (1984) suggested *"suggest that younger managers are more likely to seek growth through novel and innovative strategies in an effort to seize perceived opportunities than are older managers"*. What this means is that while older managers have the experience and knowledge of their whole life, they are usually less ambitious and less receptive to change, especially if they are in a comfortable position, they become accommodated. Also, they usually find harder to integrate and organize information when making decisions which makes the innovation process more complex. On the other hand, younger entrepreneurs are usually more risk averse and are constantly looking for new opportunities to grow and enlarge their companies.

Secondly comes the mental and physical stamina factor associated with the age, *"Older managers, having less physical and mental stamina, may not be able to change their mental maps easily, thus resulting in a lesser degree of information processing capability than younger*

executives" (Herrmann & Datta, 2002; Taylor, 1975). Naturally older managers are less enthusiastic than younger ones to internationalization, which can limit their knowledge regarding foreign cultures or consumer behaviour which limits the potential that can be achieved abroad.

About the past experiences and context of the entrepreneurs, primarly we have the studies and academic career. *"Some studies find that more highly educated executives have a greater cognitive complexity* (Herrmann & Datta, 2002, 2005; Hitt & Tyler, 1991) *noting that education provides a greater ability to absorb new ideas and an increased capacity to process information".* Therefore, we can assume that people with high levels of education are able to both processes more information and do a better selection of which is relevant and what is not, allowing them to respond only to the right stimuli around them. Secondly, we have the previous experiences, mainly their international experiences. Experiences such as living or working abroad, dealing with different cultures, habits and customs gives a different impact in the orientation of the manager's cognitive orientation. "*These experiences may assist the manager in integrating culture and in dealing with the uncertainties associated with international operations"* (Sambharya, 1996). The bigger the amount of time a person was abroad the more time they were exposed to those different cultures and customs, in turn, it will translate in greater experience and increased awareness of different managerial environments, such knowledge that eventually is important to overcome potential barriers and challenges when doing business abroad as will be analyzed later on.

From here on, with both a diversity in the backgrounds and also on the age of board members, arises a new theory, that bigger and more diversified boards do help companies in their internationalization and exportation projects, for example the fact that a certain firm can appoint a director with a nationality that actually corresponds to the new market that a firm is entering is a big surplus and advantage against the competition. As said by Mohapatra, Pranati 2017, "*When the size of the board is large it can offer benefits like better monitoring, a broader pool of knowledge and expertise, better network, more flexibility in scheduling committee meetings*", in term this will allow for a more effective board and also a better firm performance overall.

Also, another big advantage is that when boards grow in size there are more directors and managers which grants a greater knowledge background, which in turn results in a better capacity for sharing the workload or monitorization of tasks, it is an overall advantage in the perspective of organizational behaviour, "*First, also from the perspective of organizational*

behavior, diversity in terms of occupational background can be viewed to provide the board with more information (similar to functional background, experience, or range of external social ties)" (Arnegger, Martin, 2014), it allows for better decisions to be made, result of a wider variety of information source. Additional advantages might be an increase in innovation and creativity and more problem-solving skills and efficiency. As in everything, there is a limitation, the fact that sometimes the occupational backgrounds are closely related to a certain type of jargon or specialized language, which in a case of a very diversified board might slow down the communication process.

Carter and Lorsch (2004) recommended, "*a higher board size for bigger and more complex as companies with smaller boards the scheduling of committee meetings may be a problem.".* Equally important is the way how companies react and take advantage of exposure to external environment in order to access more resources, so finally they can positively impact the firm performance.

Second off, another very crucial role within the board is the advisory role, many times, they have as much responsibility as the board itself serving as guidance for the firm. Coles (2008) found that "*complex firms have greater advisory requirements than simple firms and thus have larger boards with more outside directors.".* The more complex the firm is, usually it means it will have a bigger board as demonstrated before, this in most cases includes the advisors. On the other hand on firms where the research and development department are of major importance, the knowledge is very much specific to the firm, so, board is made up mostly by inside members of the firms, this way they avoid leaks of information and do not lose anything in training outside board members that would lack knowledge in the area for example.

H1: Size of the Board influences in the export levels of a company.

From a resource-based view a network relationship of a SME can be seen as a strategic decision. Each network can, on one hand, improve the performance of the company which will lead to an access of better and superior resources of external companies. And on the other hand, compensate for the lack of resources or assets, because the partner firm brings in what the original firms doesn't have in the first place and vice versa.

Regarding the employment of an international SME, "*Exporters are sometimes able to offer employees a more interesting work environment than non-exporters which may also help to attract skilled labor."* (Hessels and Parker 2013). Considering that, usually, exporting firms

do better financially, their workers usually have higher wages, and which means that the company has less shortage or strikes from their workforce. Besides the clear monetary benefits that workers from exporting SMEs have, there are some other perks worth mentioning, such as status or even the travelling that they have to do which allows them to get to know the foreign markets better. Furthermore, these types of incentives will have results that makes the employee performance have a direct impact on the exports of a company.

In turn, this will also be influenced by the company size, Wagner Joachim in 2001 stated, "*Although exporters can be found among smaller firms, and some of these sell a large fraction of their production in foreign markets, the probability that a firm is an exporter, and the export/sales ratio, tends to increase with firm size*", and this was altogether backed up with econometrical information. As it was mentioned in the beginning there are two main measurements for a size of a company, both employees and operating revenue. Demonstrated in the picture below there can be seen the different division and categories of the companies. On one hand, offering better conditions to the work force will mean that more people want to work for the company raising the number of the employees, and on the other hand will motivate them to achieve better results for the company, which means, in case of exporting companies, more exports. Additionally, the level of operating revenue is also directly connected with the exportation as usually when operating revenue rises it makes the export levels rise as well (in case of an exporting firm), this can be connected with costs as most of small firms do not have the operating revenue or financial structure to support these kind of strategies, "*at least some of the costs related to starting direct export activities (e.g., setting up an export department, retooling and redesigning products for foreign customers, doing market studies) are fixed costs. Hence, a positive relationship between direct exports and firm size is expected*." (Wagner Joachim, 2001). From here on arises both two hypotheses to be studied:

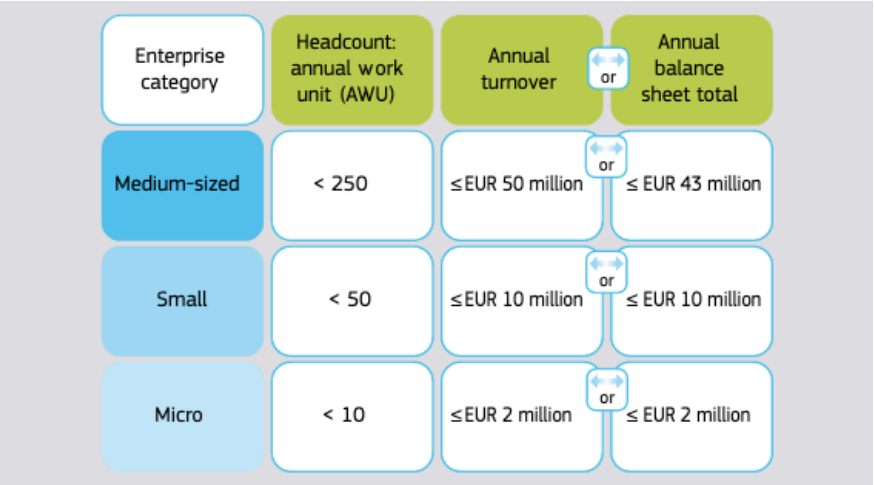

Figure 2 - Table of Companies by Size

Source: European Commission

H2.1: *Size of the company will influence the levels of exports*

H2.2: *Employees performance will have a direct impact on exportation of the company*

This financial growth that export firms experience is justified by several reasons. Usually they have more opportunities or external resources, and they tend to learn how to effectively use them, throughout time. The knowledge and technology developed in-house is then after transferred to international markets to increase their economic value there. Pairing this with the right connections and network relationships will *"help to improve the level of trust among financial institutions and investors that facilitate the acquisition of capital and other financial resources"* (Partanen et al., 2008).

Finally, in the long run, SME's that have a bigger financial growth tend to export more and become more effective on capitalizing the lucrative opportunities better than non-export SME's simply because they are exposed to more situations, and eventually access to more diversified knowledge. They unlock a series of capabilities and abilities, are able to react to unexpected events better. While all this happens, throughout time, the liability of the foreignness effect of internationalization is also gradually declining.

2.3.2 Major Challenges about internationalization of SME's

After displaying the drivers for the internationalization, there is the need to look into the other side, the challenges and the obstacles that SME's face when internationalizing. It is

known that when compared to big firms and multinationals SME's lack the resources and the capabilities, but not only there they are at disadvantage.

As mentioned by Katsikeas and Morgan (1994) *"provide a comprehensive review of the export literature and put export problems into four groups: internal, external, operational and informational",* or by Justin Paul (2017) "*It makes sense to classify the export-related barriers and challenges of small firms as – macro and micro problems. Macro problems are due to the factors that are beyond the firm's control".* In both of the models there is agreement that there should be a division between inside problems and outside problems. Good examples of some macro problems are: *"unfavorable exchange rates, absence of a stimulating national export policy, and international agreements to be some of the existing macro-level problems"* (Brooks & Frances, 1991; Cardoza et al., 2015; Figueiredo & Almeida, 1988; Ghauri & Holstius, 1996; Kaleka & Katsikeas, 1995; Ogram, 1982). There are also other problems to consider such as property rights or entry barriers.

Also relevant is the fact that most of the times the entrepreneurs are too narrow minded and end up focusing too much on the domestic market. This is a result usually either of the misconception that the demand in the outside market is too high for the SME to be able to handle, or even their own perception of the export barriers. Most of the times the lack of experience, both of the top management and workers, will portrait the export barriers as being harder to beat as that actually are.

All the limitations previously mentioned will in some way always be connected to the financial position of the company. This position has a huge impact on the firm's way of operating, it dictates the way it does business and what is achievable or not. When it comes to SMEs, *"while the literature recognizes financial constraints as an important barrier to both the innovation and internationalization of SMEs"* (Bodlaj, Mateja, 2018), there is also another contradictory opinion, "*Limited resources may encourage creativity and the propensity to innovate*" (e.g., Hewitt-Dundas, 2006; Scopelliti, Cillo, Busacca, & Mazursky, 2014). Although on one hand there might be a straightforward relationship between the fact that when a company has more financial resources at their disposal it becomes easier to internationalize and export, on the other hand the adverse conditions and constraints can also work as stimulant for creativity and innovation.

In the current study it is assumed that companies with more resources tend to deal better with failures, can stand the costs of innovation or even support the costs of experimentation that other firms cannot, "*Researchers often posit that slack resources provide firms with a*

capacity to innovate, absorb failure, bear the cost of innovation, and experiment (Walker, 2008), whereas the lack of financial resources has been argued to be one of the most significant barriers to innovation (Madrid-Guijarro, Garc.a, & Van Auken, 2009), particularly in the case of SMEs." (Bodlaj, Mateja, 2018). Still adding to the previous affirmation, "*financial constraints affect SMEs' ability to innovate (OECD/Eurostat, 2005) and adversely affect their international involvement and performance outcomes (Brouthers, Nakos, Hadjimarcou, & Brouthers, 2009).* Another great point mentioned in the previous quotes before is the fact that this same financial restriction, is aggravated in the case of SMEs, as in contrast with bigger companies they do not have the same flexibility and on top of that they have harsher budget restrictions that need to be carefully managed. Here arises another hypothesis in the study regarding the financial position of the company.

H3: Financial position positively influences the export levels of a company

Another aspect that both SMEs and big companies need to have into consideration, is their debt and its control. Naturally, SMEs do not have the same facility of access to credit as large firms, both in the short and long run, "*since SMEs cannot substitute short-term and long-term debt financing as easily as large companies - due to difficulties in obtaining long-term debt financing from financial institutions" (Ortiz-Molina & Penas, 2008),* the consequence of this is being at a disadvantage right from the start when it comes to support to internationalization and implementing an exporting process. As the WTO (World Trade Organization) states "*access to financial resources to support export activities is a key concern for SMEs since, besides the one-time upfront sunk costs",* this sunk costs can be related to the compliance and tax payment towards the foreign market regulations or even new market entry research and preparations costs, it continues *"exporting requires substantial ongoing investment in working capital, as export activities considerably lengthen the cash conversion cycle of the firm",* for example due to longer shipment periods when compared to the ones expected before, or even for the administrative costs and burden that is connected with the international trade itself.

Firms that export usually have a higher financial leverage when compared to non-exporting firms as we have seen before, as many firms use short term financial debts to finance themselves on export operations, "*in addition to having a higher need for working capital financing, it also seems that exporters are better able to access short term debt financing than*

their non-exporting peers" (Maes, Elisabeth, 2019). Also, in order for this to happen, these exporting firms usually possess more short terms assets, such as the working capital mentioned before, that can be used as securitization for their short term financial debt, while non exporters don't always have this same facilities. Even within exporting companies' characteristics such as serving more geographic regions is perceived as a risk reducing factor and may also increase the collateral value of the borrower's assets. "*On the other hand, since geographic sales diversification may reduce the exporters' operating risk, creditors may request fewer assets from the exporter/borrower to secure working capital loans*" (Maes, Elisabeth, 2019), similarly if the exportation functions itself as a signal of extra quality from the borrower, there may be a smaller need for collateral security to exporter's loans.

However there is a downside as well, the exporting companies are much more reliant on the financing of the working capital when compared to non-export firms, most of this finance is even made before the orders or sales are executed as a preventive method, this is caused due to *"longer shipment periods and the administrative burden associated with cross-border transactions (Hummels & Schaur, 2013), the time lapse between landing the sales contract and collecting payment from the buyer is considerably longer in international sales transactions*" (Maes, Elisabeth, 2019).

To sum up, the differences of capital structure between big multinational corporations (MNCs) and domestic corporations (Dcs), "*the empirical evidence shows that MNCs have lower long-term debt ratios than those of comparable DCs"* (Burgman, 1996; Chen, Cheng, He, & Kim, 1997; Fatemi, 1988*).* In addition*,* Fatemi (1988*)* and Doukas and Pantzalis (2003) *"find that MNCs exhibit higher short-term debt ratios than those of DCs."* This means that while MNCs have better financial debt ratios also tend to have more financial means to both internationalize and assure the functioning of their export operations. Finally there is also the fact that there is a trade-off mechanism between long term and short term debt that is applied to financing of MNCs, where loan maturities can be shortened in order to mitigate most of the problems that are associated with the fact that MNC's most of the time have a riskier borrower profile. Here arises another hypothesis for the study:

H4.1: Debt Control and financing capacity allows for more exportations

H4.2: Ability to obtain market capitalization positively influences the level of exportations

Lastly, about the workforce bring on another relevant topic, the HRM (Human Resource Management) of a SME. *"The managers and/or owners of the SMEs have on their side often ignored HR-issues such as human resource planning, training and development, compensation management, performance management, employee counseling etc."* (J. Paul, 2017). Most of the times managers not only lack knowledge and formation about HRM to actually teach their employees, but also, they are very skeptical and doubtful that the HRM practices actually do have any benefits for the workforce. This gets particularly concerning when we consider that the knowledge of most SME's is within their employees, if there are no incentives to make them stay, eventually, they will leave transferring their knowledge to the competition, and with it the competitive advantage from one company to another.

Last but not least there might be a problem of demand. *"Regardless of whether demand constraints emanate from domestic or foreign markets, a firm facing these constraints has customers who are unable or unwilling to buy its products or services, e.g. because the price is considered to be too high, and/or the quality is considered to be too low."* (Hessels and Parker, 2013). Usually it's really costly to change this, because there is the need of restructuring in different sectors within the company, marketing or product development for example. This is why usually firms rely on informal collaborations that are strategic, cheap and flexible, in contrary with formal collaborations that tend to be costly and proven useless when the economic conditions change.

Still worth the mention, some SME's are founded in a large and diverse home country, this tends to provide ample productive opportunities and abundant financial resources for SMEs so that internationalization may not be optimal or even necessary.

2.4 Internationalization approaches of SMEs

This fourth chapter will be about several different types of internationalization approaches companies do make. It is important to understand that different companies in different markets adopt different strategies as some are more suitable to certain situations than others. While they differ among themselves, all of them have their own purpose and reasoning, it is important to understand deeply each of them in order to acknowledge their weaknesses and strengths. Ultimately, we should be able to fit a perfect strategy or combination of strategies to a certain scenario a firm is inserted in. For each strategy to stand out from each other they will be analyzed individually.

2.4.1 Cluster approach

Most of the SMEs have both options of being proactive or reactive during the internationalization process, however most of them still play a passive role and become reactive to the value chain of bigger companies, *"A majority of SMEs are reactive participants of the value chains of large firms as cluster leaders"* (Gancarczyk, Marta, 2018). On the other hand, we have the minority playing the reactive role. By taking advantage of the technological changes in the market, as well as adapting their strategy accordingly to the market speed and to become flexible, they start to make small international operations effective and possible to happen.

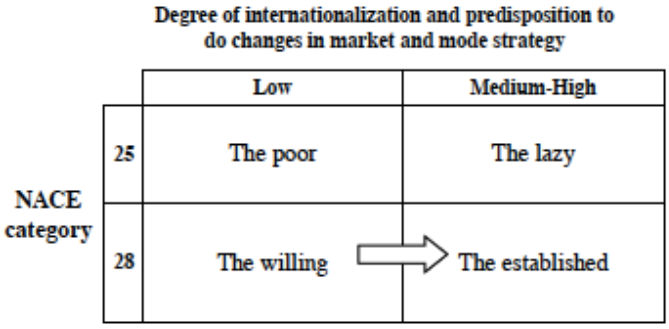

Figure 3 - Classification of Different Types of Companies

These firms usually group themselves in hubs or clusters, this way they are able to support each other, which implies that there is convergence in their paths of internationalization, as it was mentioned before already in the previous chapters. Not only they are able to achieve similar economies of scope and scale as large firms do, but they also develop their core competencies and their external relationships, *"they need to protect and develop the core competencies embedded in cluster networks, and to build international networks in order to avoid the lock-in that prevents access to external tangible and intangible resources."* (Gancarczyk, Marta, 2018). Naturally in this type of agglomeration there will be positive externalities, such as information and knowledge spill-overs or transfers and sharing of network relationships.

As we can see from Figure 3 above there are four types of companies, The poor, the lazy, the willing and the established. The ideal situation is to be in the established as the firm

has both huge degree of internationalization and predisposition to changes in market and also the appropriate measures in place to make the company successful. On the opposite spectrum of the figure we have a company that also has a good degree of internationalization and predisposition to changes however does not have the appropriate set of measures in place to make it successful turning into a lazy company. In the end, usually the SMEs that are on "the established" square are the ones that take advantage of the hubs and clusters mentioned before, and are able to outgrow other SMEs that do not have the same possibilities of knowledge share.

The development of technologies allowed for an easier communication and circulation of information, which in term meant that coordination of international logistics and manufacturing became possible. Focal firms can now adapt their strategies to according to the country of action, "*Focal firms match their competitive strategies with governance modes and relocation types that enable decreasing costs of pro duction factors (cost leadership) or strengthening the technological capacity and product or service superiority (differentiation)"* (Brouthers Nakos, 2004; Francioni et al., 2013).

In regard of the high value adding activities, they often have a lot of international competition as there is a lot of complexity involved and also some extent of tacitness involved, "*therefore, maintaining them in the cluster protects from knowledge leakage. However, the capacity of offshore outsourcing to avoid lock-in depends on the type of outsourcing*" (Gereffi et al., 2005). In case of the offshore outsourcing of materials or components that are complex and with correspondent high supplier capabilities, firms become closer to their outside partners which will facilitate the trade of knowledge between them.

2.4.2 Non-equity entry mode

SMEs and MNEs differ quite a lot when it come to their different advantages, while MNEs relies on asset control and ownership, the SMEs advantage comes in their flexibility and ability to respond to market shifts.

Although SMEs can entry markets with high commitment entries, it's still very uncommon. The non-equity entry mode of exporting is still the most preferred internationalization strategy among SMEs due to its low risk, low level of required investment and higher flexibility available, "*This choice is also justified by resource constraints in the face of high investment, small scale of operations relative to the investment required and the need*

to stay flexible in risky or uncertain foreign markets" (Verwaal et al., 2010; Díez-Vial 2010; Liao et al., 2003; Exposito- Langa et al., 2011; Agostino et al., 2015; Massini et al., 2010).

In addition to this cross-border equity alliances often face other challenges such as too much reliance from each foreign partner, this will lead to a disproportion outweigh of the costs versus the benefits that would come from these types of partnerships, in turn this effect would only intensify in cases of over internationalization were more resources are spent and no benefits are generated.

2.4.3 Internationally oriented SMEs

SMEs that are originally born with an international goal, they usually specialize in one core area of the business and develop it until they can reach a competitive advantage when facing other firms in the market. They are able to sustain their business as long as they are one of the best in the area. There are three main orientation usually SMEs turn to, either product oriented, sales oriented, or differentiated oriented.

Product orientation – based on production and operation efficiency, produce a wide variety of products that are inexpensive. This is the main characteristic that will attract customers. Firms will try to minimize costs and do a mass distribution to achieve a competitive advantage

Selling orientation – Strongly focused on aggressive sales and marketing to both increase the market share and achieve fast returns. Firms pursue the short-term goals mainly such as selling as much as possible while investing heavily in distribution and promotion.

Differentiation strategy – Requires in first place great knowledge about the consumer needs and the competitors positioning in the market, only then they will be able to get differentiate advantages. Innovation will be a key aspect to development of the firm. In case of pursuing a focus strategy they need to deeply understand their target needs which will be connect with the customer orientation study done previously, in this case, since niche markets are protected from competition, competition orientation may be of less importance.

2.4.4 Market Orientation

Market Orientation is one way of approaching the internationalization, according to a more cultural perspective from Narver and Slater (1990) it is defined as "*the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business*". Following the thought process of these same authors, they propose a division of market orientation in three sections: Customer orientation, Competitor orientation and Inter-functional Coordination. Even when considering different divisions of market orientation, from Kohli and Jaworski (1990) that define it as, "*a process based on information, and also identify three stages or dimensions: Market Intelligence, based on present and future needs of customers; the process of Dissemination of Information generated within the organization; and Response to the Market".* In both approaches it is made very clear that it is mandatory to consider that the wishes and needs of the customers and the strategies of the competition in the definition of the marketing strategies and policies.

These previous evidence supports that while knowing your customers' needs and wishes will lead to higher sales and profits in the long term, analyzing the competition and anticipating their moves will allow a firm to maintain and protect their own competitive advantages. Applying this to International markets and responding to the needs and competition abroad will allow firms to develop better levels of performance both in home country and on the countries where they are present abroad. More recently, Chung (2012) and Escandón-Barbosa et al. (2016) mentioned, "*highlight that International Market Orientation favorably contributes to the strategic performance of exporting companies*", or likewise, Boso et al. (2013) confirms "*that the companies' International Market Orientation positively influence the performance of their products in export markets"*

2.4.5 Uppsala Theory

The original Uppsala model is built on two different theories, the growth theory of the firm by Penrose in 1959 and the behavioral theory of the firm by Cyert and March in 1963. As Johanson and Vahlne in 1977 argue "*internationalization [of the firm] is the product of a series of incremental decisions''.* And this process is seen as a dynamic learning model, where there is "State" which is market commitment and market knowledge and "Change" constituted by commitment decisions and current activities.

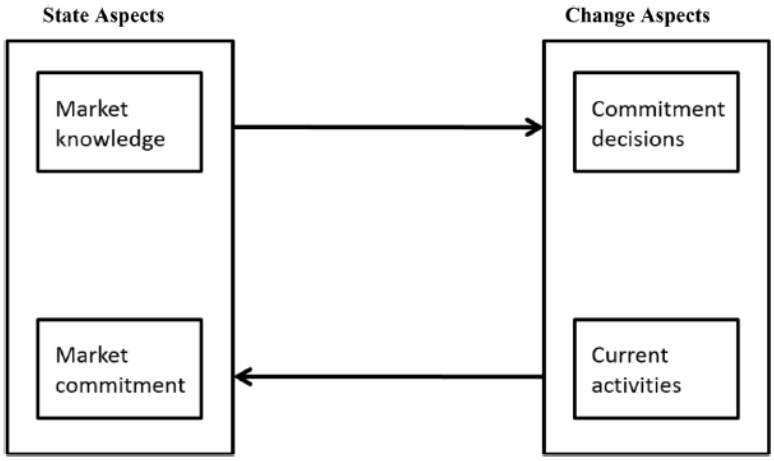

Figure 4 - Process of Decision Making

The first assumption of this dynamic model is that there is imperfect knowledge about the foreign markets, this can arise either from any obstacle to expand international operations or from psychic distance. In cases where the psychic distance is large and the firm feels a big difference in cultures, this will lead to more uncertainty about a certain market than in turn will be intensified by any wrongful informational flow. In addition to this as mentioned by Dow Douglas in 2018 *"with large and difficult to reverse commitments, a firm may perceive investment in that market as excessively risky"*, following this line of thought it will create a *"barrier to making commitment decisions"* (Johanson and Vahlne 1977) as we can see in the figure above. To reduce exposure to risk a firm may then opt for either choices: choosing closer psychically markets, meaning that market has a cross history path or similar culture with the home country of the firm. Or using low commitment entry modes such as exporting or licensing instead of high investment such as investing in establishment of a foreign subsidiary, *"This later behavior is termed the 'establishment chain postulate*" by (Petersen and Pedersen 1997)

As mentioned in the beginning and following Penrose line of thought, Johanson and Vahlne *"stress that experiential learning about foreign markets is the key releasing mechanism that ultimately allows firms to enter more distant markets and/or undertake increased levels of commitment"*. Once a firm enters a foreign market and develops their business there eventually will gather knowledge about that specific market. In turn, this gathered knowledge will reduce some of the previous uncertainties the firm was facing regarding the market, and some of its previous operation activities that were rejected for being too risky now begin to become acceptable risk wise, which will allow the firm to implement a change of state by developing to a higher level of commitment when compared to before. There can be four steps considered, *"four incremental stepwise extensions called establishment chain is proposed: (1) no regular export activities (2) export via independent representativeness (agent) (3) sales subsidiary (4) production – manufacturing."* (Oliveira, Renan Henrique, 2018)

However, the world has been changing a lot since the first released model in 1977. Both the globalization and the development of new technologies made the companies more competitive and more fit to internationalize. Several of studies from different authors claimed for new models to explain new business environments, "*Studies focusing on international new ventures and born globals* (Oviatt & McDougall, 1994; Madsen & Servais, 1997), *high technology-based firms* (Autio, Sapienza, & Almeida, 2000) *services* (Coviello & Munro, 1997; Majkgård & Sharma, 1998) *small business firms* (Chetty & Blankenburg, 2000) *and on the emerging market multinational enterprise* (Mathews, 2006)"

Vahlne and Johanson then concluded that the Uppsala model had to change, become more general in its nature to be able to reach and welcome all the previous theories mentioned, to adapt to strategic changes and mode of operations of each theory previously presented. As such in 2017 these two authors presented an updated version of their old model, *"a general model of the evolution of the multinational business enterprise (MBE) from early steps abroad to being a global firm"* (Vahlne and Johanson, 2017)

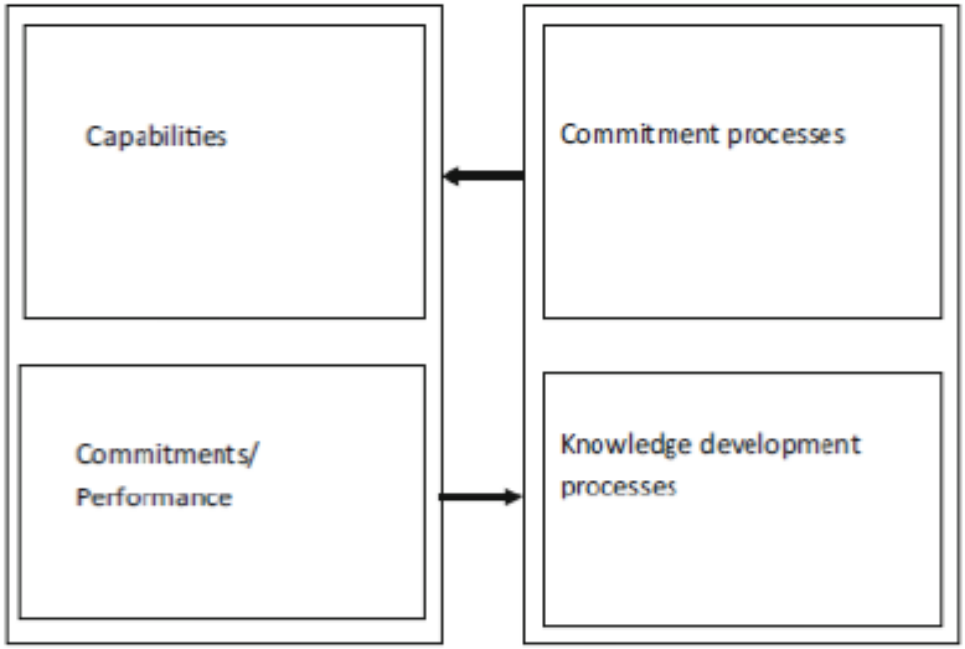

Figure 5 - Uppsala Model

Capability creation was now included in the model as it is one of the reasons for internationalization, efficiency in governance, use of economies of scale and building trustworthy relationships are a constant in the business world which in turn change the state variables continuously, *"An example is that learning assumes that an existing capability can be improved upon, at least if the learning affects the resource commitment process, which means in turn that the state of the firm´s reservoir of capability is being altered"* Vahlne and Johanson (2017). This decision to the reconfigurations of resources will affect both the capabilities of the resource in the firm and its networking partners which will in turn affect its subsequent performance. On the other hand, a new resource may imply a reflection of reduced commitment, such as leaving a market, diversifying or even breaking up a previous partnership or relationship. A changed resource or capability will affect the future of the company in terms of its further knowledge development, resource allocation or even decision making.

As seen in the figure above both commitment processes and knowledge development processes are considered and variable that change throughout time. The previous implies coordination to face uncertainties and the correspondent risks. To explain the flows shown in the figure, *"When Capabilities and relationships change, and the performance level are gained new knowledge is developed through learning, creating and trust building. This new knowledge is converted into commitment process to reconfigure resources and to coordinate action."*

(Oliveira, Renan Henrique, 2018). There are arguments that the knowledge development process of learning, trust building or creating is done by two ways, either interorganizational between two or more different organizations or interorganizational across different company sectors or departments, because each firm is seen as a network itself in this model.

2.4.6 Network capability

International Network capability has been considered a dynamic capability as it allows the firm to identify both the threats and opportunities while being able to respond to them as quickly as possible. Gulati (1998) defines it as "*the ability of a company to obtain resources from the environment through the creation of alliances and social bonds for use in their activities in international markets".*

According to Ritter and Gemünden (2003) and Walter et al. (2006), there are four dimensions proposed for the network capability model: Coordination, Relational Skills, Partner Knowledge, and Internal Communication. Coordination being the group that has been brought together to actually work on the common end goal or result. Relational skills include certain social skills such as "*the ability to communicate, extroversion, capacities for handling conflict, empathy, emotional stability, self-reflection, sense of justice and cooperativity*" (Marshall, Goebel, & Moncrief, 2003). Partner knowledge works in both ways, first of organization of information from suppliers, customers and competitors on one side, and proactive management in the solving of problems or solutions, this will in term allow to have cost reduction for the company. Finally, Internal Communication includes the understanding and assimilation of the information about the firms' partners and the different departments involved.

Firm size can have a very important role in explaining the profitability due to many different reasons, few of them are: "*positive effect of economies of scale* (Sellers and Alampi-Sottini, 2018), *a higher degree of corporate diversification* (Benito-Osorio et al., 2018) *and a leveraged capability to survive in dynamic environments* (Wilden et al., 2013)." Although, larger companies do benefit a lot from economies of scale due to the lower costs of productions and the ability to be more efficient in production, there is still a debate whether they are able to adapt more easily in dynamic environments, it is known that they have more companies, employees and shareholders within their network, but there are study results that still prove that the size is not related, or in worse cases is actually contradictory to the performance of a company, as proven by Hamann in 2013 and Thapa in 2015, or even by Becker-Blease in 2010

that "*identified a negative and significant relationship between size and performance in a sample of US manufacturing sectors*".

According to what was shown before and knowing now that Network capabilities do help in the internationalization process, in terms of access to information, financial and human capital such as number of employees, number of shareholders, or even the number of subsidiaries or companies within a certain group, influences the way business is done and change the way international market is perceived. This influences also the assets a company is able to reach and obtain, and affects important numbers such as the sales achieved. Several researchers (Chetty & Holm, 2000; Coviello & Munro, 1995) have noticed that "*networks contribute to the success of small and medium export enterprises by helping to identify new market opportunities and contributing to the building of knowledge*". On the other hand, from the dynamic capabilities' perspective, network is a way to accelerate the internationalization process of SMEs.

H5: Size of the network is a key element that influences the exportation levels

2.4.7 Product Life Cycle applied to Internationalization

A really well-known theory is the Product Life Cycle theory from Vernon or PLC. The normal PLC theory is based on the fact of the different stages of a product or service as we can see from the graphic below.

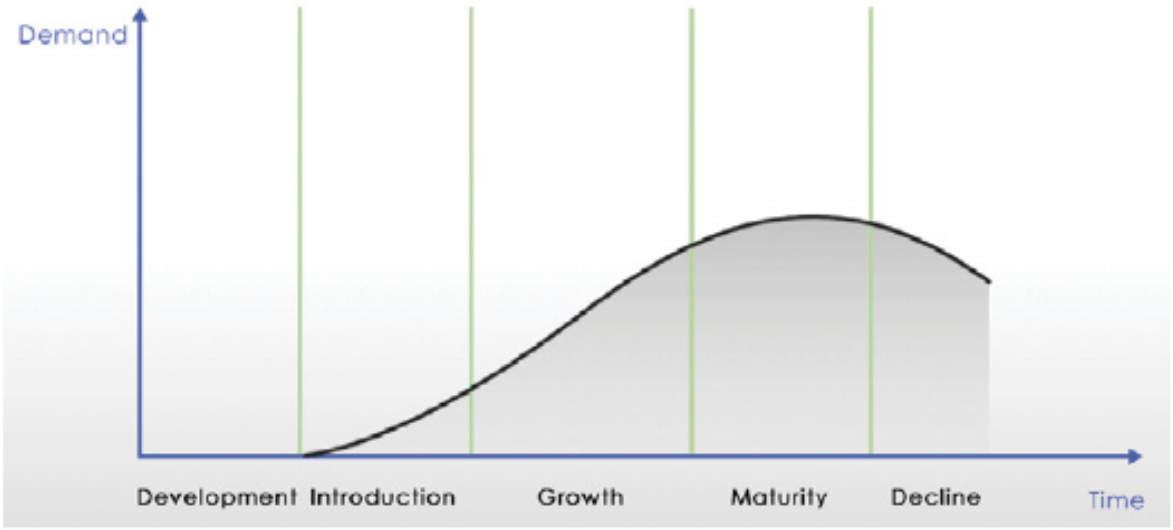

Figure 6 - Product Life Cycle

Following the picture from left to right we first have the development of the product which is usually responsibility of the RD department. After that we have the introduction which is when the product is first presented to the costumers and after a while the growth phase mainly described by the demand for that product and its acceptance. On growth the uptrend is not necessarily linear it will depend from product to product however we shall split it into two main options, "*If the growth curve is below expectations, the product life is ceased. If the product draws enough attention of the customers and the growth curve is around or above expectations, then the maturity stage can be reached after a while*" (Thorelli & Burnett, 1981). At the maturity stage the product should be at the widest range of customers possible and as a result of the big competition there should be added different tweaks or features to it in order to be differentiated from the competitors' product. Finally, when in the decline phase, eventually the product becomes obsolete, "*extra features are useless, and the product saturates, which means there is no possibility to go further. After saturation, the decline stage is probable and for some products it is unavoidable." (*Altunel, Haluk 2017)

Applying this knowledge to internationalization we need to bear in mind the emerging markets, these types of markets were originally the best destinations when it comes to production or global sourcing as the labour costs were much inferior while the work skills were roughly the same. However, the trend is now shifting as these markets are beginning to be treated differently, *"as these emerging markets become more developed, owing largely to a more prosperous middle class and favorable governmental policies, attention is shifting from them as producers to consumers" (*Lyles, Marjorie, 2013) This plus the fact that economic and trade liberalization are still growing and allowing production and marketing initiatives to play a vital role transforming and integrating emerging economies in the global economy.

Although the previous information is true, we still have a counter part due to the fact that the economic analyses that is done on emerging markets is most of the times biased or exaggerated mostly on their prospect and expectations to grow, these markets suffer from greater volatility when compared to the normal life cycle of world economy, *"The slowdown of BRIC countries during the recent economic downturn raised a series of cautionary notes on the future of emerging markets as if their economic prominence were short-term hype."* (Lyles, Marjorie, 2013)

There is still the need to also shift the view and prospect of how the emerging markets are analysed and how they impact the world economy, "*To judge the future of emerging markets looking only through the macroeconomic lens could easily be wrong. The role of*

emerging markets in relation to Western countries goes beyond being simple commodity exporters or providers of cheap input materials" (Lyles, Marjorie, 2013). Even if the hypergrowth was for a short period of time, what is the most important thing now is the internal changes of the emerging markets to become more developed and sustainable and on the other hand starting to think about a new wave of prominent emerging markets in the next few years. Take the example of Korea and Japan, while once before the economic policies and macroeconomic adjustments were really important nowadays their sustained economic growth relies a lot on big multi nationals such as Toyota and Sony for Japan and Samsung and Hyundai for Korea.

Another narrative that is a bit different than usual is the fact that local firms are starting to overcome the obstacles and become competitive against the big and heavily financed multinationals as Lyles Marjorie (2013) mentions "*While the literature is replete with experiences of multinational firms from developed countries, there is a growing narrative of how local firms are successful by both overcoming formidable obstacles in their countries and weathering the competitive onslaught of more heavily-financed foreign firms."* In addition to this, many big firms and multinationals encounter many crises that are very difficult to address when compared to local and smaller firms. These big firms often fail to recognize and adapt to the social changes and fail to meet the local expectations as their continuous operations make no stops to avoid as many costs as possible, "*Multinational firms follow the strategic goals and traditional practices of their headquarters, thus limiting their flexible local adaption*" (Lyles, Marjorie, 2013) On the other hand local firms remain entrepreneurial and competitive since they do not have such long and established organizational structures, this is highlights the endogenous and dynamic ability of the decision that can be made by smaller firms.

Here we can see the difference even when it comes to a process such as Internationalization as it has many different phases that can correspond to the stages of a product life cycle. We have the rising of the multi nationals and big companies having bigger presence in the in the emerging markets, and their correspondent maturity and decline as the local firms of these countries start to become more and more competitive allowing for their growth as well.

2.5 From importance of FDI to SMEs

Although, previously, there were mentions of different types of approaches to internationalization, there still an important one lacking, Foreign direct investment (FDI). While most of the previous were strategies and ways of operating a company, FDI is mainly a way of investing and approaching an export process.

First of all, FDI, according to Sevil Nadide 2014, Is a "*direct investment into production or business in an economy by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country.",* besides this, in terms of ownership to be considered FDI according to the OECD, 2014 *"Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used*". This method of investment is not so commonly used among SMEs due to the fact that it requires a lot of financial capital. SMEs either don't have it or don't have the ability to get that amount of money from bank loans for example.

Considering a neoclassical model of the economic growth of a country it is agreeable that both labour force and capital stock increases will make up and contribute for an economic growth. Therefore, we can directly associate the FDI with an increase in the capital stock and consequently increasing the economic growth which can be through increased productivity, R&D activity, human capital accumulation, and different types of spill overs. This type of investment is particularly important in developing countries due to the gap of marginal product between capital and labour, as in these types of countries there is a lack of capital. Finally, the MNCs (Multinational Coporations) also play a part, "*the impact of MNCs on economic growth can be greater if the types of FDI that the country receives stimulate, in other words crowd-in, domestic investment activity*". (Sevil, Nadide, 2014)

There are two types of FDI, horizontal and vertical. While horizontal FDI "*arises when a firm duplicates its home country-based activities*" (Sevil, Nadide, 2014). It can act as a substitute to exporting due to the desire of the company to establish closeness to the foreign markets to avoid paying both transportation costs and possible trade barriers for example. It is very often referred to as market seeking FDI because of the intention to control part of the market and industry abroad. On the other hand, vertical FDI refers to *"multinationals that fragment production process geographically"* (Sevil, Nadide, 2014). It is called vertical because the production chain is broken down vertically as well and the production stages and separated to different places abroad. This is very common in technology firms such as Apple or Samsung, their phones are not produced in one single factory but rather across the world.

While one location produces the batteries, other produces the camera and other produces the processor. "*If input prices vary across different countries, it becomes profitable for the firm to split the production chain"* (Protsenko,2003). Although they will have transportation costs, they are very small when compared to the money that would be spent if the production was all clustered in one place. Lastly there is a divergence of vertical FDI which is forward vertical FDI that according to Doan, 2009 happens when "*the parent companies export their products to foreign affiliates for further production, where intermediate or final products are send back to the home country or even exported to a third country".*

As a result of both of this type of FDI there is usually knowledge spreading, and until some extent knowledge is a public good, what this means is that it will increase the level of technology of not only the firm but also of the firms around it. In the long run these advancements will result in economic development and growth. This is a result of the so-called spillover effect. It can happen from either best practice application, creation of linkages between firms (Foreign and domestic) by becoming either clients or suppliers, or by circulation of employees between firms. Last but not least with the entry of MNC also makes the local market more competitive and inevitably forces the domestic firms to imitate and innovate. As for reasons or motives to FDI there is the following table that divides it into four main categories with each of its key determinants explained.

Table 1. *UNCTAD- Different types of FDI*

Motive Of FDI	Key Determinants
Natural resource-seeking FDI	Abundance and cost of natural resources Physical infrastructure (ports,roads,railways,etc.) Price movements
Market-seeking FDI	Market size and purchasing power (per capita income) Market growth Access to regional and global markets Tradability of product/service Structure of markets
Efficiency seeking, export oriented FDI	Quality and cost of human resources Physical infrastructure (ports, roads, telecom,etc. Trade costs Quality of suppliers, clusters, etc. Regional integration agreements
Strategic asset-seeking FDI	Presence of firm-spesific assets Ease of cross-borderM&As Efficiency and transparency of financial markets

Figure 7 - Table of Different Types of FDI

Regarding the spill overs there are two types, productivity and market access. While "*Productivity spillovers take place when the entry of MNCs in the host country leads to*

productivity or efficiency benefits in the local firms", on the other hand the "*Market access spillovers take place when the entry of multinational firms improves the access to export markets for local firms*" (Sevil, Nadide, 2014). It is clear that both of the spill overs have positive effect on the firms while one is towards the production, the other is towards market expansion and correct ways of approaching those markets.

All in all, there is enough evidence gathered to assure that in fact labour mobility provides in FDI spill overs, however in addition to this younger and more skilled labours tend to achieve higher productivities when paired with the FDI in their current firm, this is in fact consistent with the fact that as consequence of the FDI employees do have more interactions and learning between each other. As mentioned by Blomstrom, Globerman, and kokko (1999) "*that the technical capacity of domestic firms increases the likelihood of positive spillovers and hence a smaller technology gap between foreign and local firms results in larger spill overs*", however there are still older contrasting ideas, for example of Wang and Blomstrom (1992) "*predicts that a larger technology gap between foreign and domestic firms leads to larger spillovers*.

Now that all the impacts of FDI were explained, there shall be a deeper understanding to when firms should switch from simple exporting to an FDI. For low to intermediate levels of profitability most SMEs are likely to keep on exporting only, however if they want to reach higher levels of profitability, they usually engage in FDI and establish foreign affiliates offices in target countries.

Taking the example of horizontal FDI a firm must choose to either serve a certain market via export only or via foreign affiliate mentioned before each decision has its own trade-off, as mentioned by. Markusen, 1984; Brainard, 1997; Helpman et al., 2004 "*a firm serving a market with exports bears trade costs but saves the cost of establishing a foreign subsidiary; on the other hand, a firm serving a market with FDI bears the cost of setting up the subsidiary but saves on trade costs*". What this means is that the costs and operations of the company need to be carefully thought and analyzed in order to understand if the benefits of establishing a subsidiary outweighs the costs or not. Picking up another case of FDI, distribution wise, exporting firms can either use a local agent or set up their own distribution center abroad. While with the first option they will have lower fixed costs and higher variable costs with the second option it will be the opposite. In either of the cases a certain level is always present which usually makes the firms opt for the exporting before doing directly FDI, even though initially the costs will be higher. Bernanke, 1983 and Rodrik, 1991 justify it, "*If foreign investments are*

partially irreversible, uncertainty will increase the option value of waiting until more information about the profitability of the projects is revealed", as most foreign investments are irreversible, risk aversion is very present among SMEs they rather wait out and have a certain level of assurance that the project will be profitable in the long run.

Uncertainty as mentioned before plays an important role in decision making, usually in destinations in which firms do face more uncertainty they tend to delay and slow down as much as possible their FDI entry in the market. They build up their commerce abroad with simply exporting and experimenting for longer periods of time. As most countries do know these facts when they are looking for more FDI investments they tend to make some trade liberalization measures, for example lowering the costs of export experimentation, doing this they are able to foster and attract more FDI in the long run. Supported by Conconi, Paola, 2016 ideas, "*These studies show that new exporters begin by exporting small amounts and are likely to drop out of foreign markets shortly after entry; conditional on surviving, their exports grow rapidly and account for a substantial proportion of export growth*", confirming what we mentioned before that firms are deeply dependent on their success rate of the first export trial attempts. Also, in addition theories suggest that "*if investments are irreversible and market conditions are uncertain, firm may prefer to "wait and see",* emphasizing that SMEs are usually too passive regarding international markets and only invest when assured, never being first time movers. Here arises the last hypothesis being studied, regarded FDI and SMEs:

To sum up, the most ambitious and firms that want to grow at faster rates often choose FDI sooner than others, not only that but also being more productive than average makes the FDI work better than an average firm, while less productive ones stick to export only or in the worst-case scenario don't even export at all and just stay in their home market.

3 CHAPTER

Methodology

The current investigation assumes as the main objective the understanding of the level or degree of export of several companies within the shoe manufacture industry, based on financial data. It is pretended to compare Portugal and Italy in this business sector, try to understand the main differences and similarities, and, if possible, make some recommendations for Portugal to grow and become more competitive in this market.

Continuing the literature review, where there was a brief explanation and research about the internationalization, more focused towards the SMEs, the previous literature review will reveal to be essential for the further understanding of the model and framework created as they serve as crucial guidelines for following empiric studies. The following chapter will be divided in: Type of methodology and data bases used; Working and filtering the data base; Data analysis.

PLS-SEM (Partial Least Square Structural Equation Modeling) method was chosen. This method is one of the most common used when analyzing complex interrelationships of latent and observable variables. In the recent years there were an increasing number of publications using SEM, especially in different areas of both management and economics. *"The PLS-SEM method is very appealing to many researchers as it enables them to estimate complex models with many constructs, indicator variables and structural paths without imposing distributional assumptions on the data"* (Hair, 2018). This reason led to the fact of this method being chosen for this study, because:

- There are too many variables that needed to be tested, both observable and latent
- There are many different constructs to be formed that could influence a single latent variable
- Need for clearance of visualizing the model in order to have an easier understanding of the paths created and assumptions being made

Following the previous reasoning, *"PLS-SEM is a causal-predictive approach to SEM that emphasizes prediction in estimating statistical models, whose structures are designed to provide causal explanations"* (Wold, 1982; Sarstedt et al., 2017), and *"the technique thereby overcomes the apparent dichotomy between explanation as typically emphasized in academic research and prediction, which is the basis for developing managerial implications"* (Hair et

al., 2019). Additionally, there are some user-friendly software that work with these methods and require only some technical knowledge, which were used in this study such as SmartPLS. This software is a tool that helps in the analysis of important information that the PLS models provide, sample sizes, goodness of fitting testing, the distributional assumptions or even the possibility of assessing the predictive power of the model are some of the examples.

In order to sum up, there are a few bullet points which made the PLS-SEM the best method to use in this study, because these are few examples of when this type of model should be chosen and used:

- when the analysis is concerned with testing a theoretical framework from a prediction perspective;
- when the structural model is complex and includes many constructs, indicators and/ or model relationships;
- when the research consists of financial ratios or similar types of data artifacts.

(Hair, Joseph F, 2018)

3.1 Shoes Companies Information

Data of the shoes companies were obtained by a merge of two databases. One database, Amadeus, was used with different information about companies operating in the shoe manufacturing sector. The other database was offered by APICAPPS (Portuguese association that deals with shoe manufacturing and all shoe manufacturing components) composed by export data of Portuguese shoes' manufacturing companies. Amadeus is a data base with more than twenty million listed companies from all over Europe; most of the companies are from the private sector as it is its main focus. Although the database is not purely focused on the shoes manufacturing industry it was convenient and relevant for the current investigation as it allowed not only have information about Portuguese companies of this industry but also about companies from other European countries. At the time, this was of major importance because of our objective of comparing to Italy the biggest competitor of Portugal when it comes to the shoe manufacturing industry. In fact, it was relevant for the study to make a comparison between organizations of these two countries in order to find any differences or similarities. In addition to the fact of the database was so extensive and complete in terms of sectors and industries available, it also gives the possibility to obtain a lot of information about each company. For example, it has the basic information about the company, namely who is the

owner, where and when it was created; and also detailed information such as the size of the network (e.g. the number of employees, number of companies or subsidiaries owned); and financial data and other specific data.

Before arriving at the final merged database used, there was an extensive research and numerous attempts to contact different types of organization that were able to provide with databases that would fit this dissertation. Ranging from Portuguese associations such as IAPMEI (Portuguese agency for innovation and competition) that partners with both small and medium-sized companies in order to promote entrepreneurship and innovation that allows for growth of the organizations. Until AICEP (Portuguese agency for investment and international commerce), an organization that works with different companies, with certain structuration politics and economic frameworks, promotes the internationalization and empowers both the organizations and the Portuguese economy internationally, opening it up for both new investments abroad while also attracting foreign investment.

For the scope of our investigation there are only a few variables that we need to work with, consider that each variable described below will be characterized by a series of another variables:

- Size of the network: Being the amount of connections both physical and intellectual that the company owns, either in people or even other companies.
- Size of the Board it is constituted by the major stakeholders of the company, the people that actually take decisions and in fact rule the company
- Impact of the employees in the performance and profitability of the company: it will be measured by different financial variables which will inform if the employees of a certain company are having a positive, negative or neutral impact for the company financial development
- Financial position of the company: these variables are focused on the finance department as they will be able to make a brief analysis on the company's accounts

3.2 Determinants of Portuguese Exports

The main objective of this study is to test a model that, within the financial, area was able to explain the level of exports of the companies. As a second objective, comparing the two biggest footwear manufacturers of Europe (Italy in first place and Portugal in second), in order try to understand what makes Italy still be leader on this market when compared to Portugal, and if possible make recommendations that would allow Portugal to catch up to its competition and be closer to being market leader than it was before.

The model uses seven constructs, considered the independent variables, that are going to influence the correspondent dependent variable which is the level of exports. The constructs and variables were chosen accordingly to what information there was available, the databases were much focused on numerical data, that is why the constructs chosen were mainly of financial data. The seven constructs are:

- Size of the company (control variable) - measured by the number of employees and operating revenue;
- Size of the Board – measured by the number of directors and managers, number of advisors and number of shareholders
- Size of the Network and Representation – Number of employees, Sales, Total Assets
- Capitalization of the Company – Capital, Shareholders Funds, Stock
- Debt Control – Current liabilities, Debtors, Loans
- Financial Position – Current Assets, Operating Revenue, Profit and Loss
- Employees Performance – Cost of Employees, Cost of Employees Operating Revenue, Operating Profit and Loss EBIT, Taxation.

The model is estimated using SmartPLS. Figure 8 presents the path diagram of the measurement and structural models.

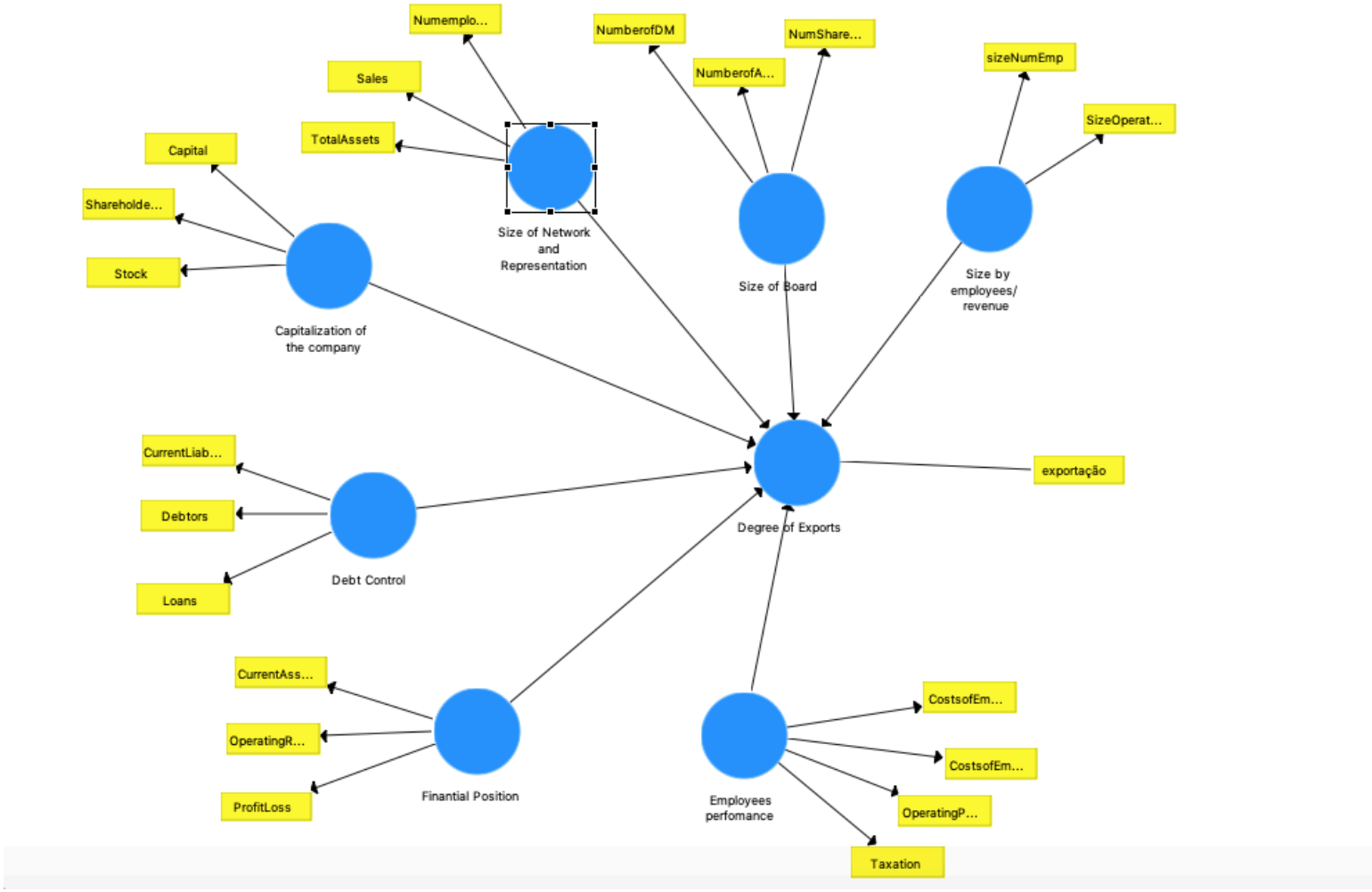

Figure 8 - Measurement and Structural Models

3.3 Hypothesis Testing

It was used T Student test for two independent samples, one for the companies of Portugal and another for companies of Italy. The objective was to understand the main differences that existed between companies of the two countries, within the shoe manufacturing industry, considering the variables of the study. The main results obtained will be shown in the next chapter.

4 CHAPTER

Data Analysis

4.1 Information of the Shoes Companies

The current database used for this study resulted as a merge of two separated databases. First database, Amadeus was supplied by ISCTE Business School. This database is commonly used in dissertations and in scientific articles, as it has a vast amount of information regarding different sectors and industries. However, during the collection of data and selection of variables, the author immediately found limitations that would have implications for the future of the study. This study relied heavily on having information about the amount of exports of the list of the companies being studied, and this information was missing in this first database. So, after doing some additional contacts the author was able to get the cooperation of the association APICCAPS (Portuguese association for the shoe Industry and its respective components), that provided the second database, SABI. While the first database has all sorts of variables about the size of the network, board of the company; employees; and its current financial state, the second database has information about the amount of sales both inside percentage of exports of each company.

The analysis first step was to merge the two databases. Since both databases had the respective VAT Number for the companies (Value added tax number), the merging was conducted by this number. The final database results in around 1400 companies (Amadeus database had around 2800 companies and SABI around 2200 companies). The decrease in sample size is due firstly in both databases, some companies had missing values in almost all the selected variables. Secondly, in some cases the VAT number had no correspondent company associated to that number which probably meant that the company was already dissolved. Finally, while some companies had data regarding the variables of the first database, the values correspondent to the variables of the second database were missing and vice-versa; These companies did not make part of the final sample as well, as we needed full information about each company to make a proper analysis.

4.2 Database Description

The database used, and the consequent study model for the study was focused on financial data. This is the one of the first critical limitation found in this study. There were not enough qualitative variables in order to make an analysis in some variables that were complementary to the financial data used, such as education level or background of the CEOs or for example whether or not the CEOs had previous international experience. Also, variables that were in first place considered in the first extract of the data base to the Excel such as, primary business line and main products and services, they did not have standardized answers which made it impossible to made it impossible to analyze, as it would be too much time consuming.

Secondly, much of important information about company strategy or policies; their strategic alliances or network; and even information about the educational background of managers and directors of the companies was missing. These variables had to be eliminated as they were not going to contribute anything to the final model. In addition, there were some variables that had a high percentage of missing values ranging from 40% or 50% up to 80% or 90%, in some cases. On top of that some of the variables where this happened were already variables that were somewhat important for the final model as they were in the finance field. If all these variables were to be taken into account, it would mean that the sample to be taken into account for the study would be much smaller. In turn, this would have implications in the study as there would be cuts of nearly 1000 companies an estimate 50% of the initial sample. Furthermore, the number of large companies is already very small as shown before. Having the possibility of reducing the sample even more was not an option to be considered.

The final decision was to cut out all the qualitative information as most of it as explained before was either missing or was not in a shape so that it was possible to be analyzed or converted to quantitative data to be processed in SPSS. From here on, arises the final decision to merely focus the study on the financial aspects of the companies, as there was plenty of informational at disposal and at the same time did not cause any necessity of cutting down the initial sample.

4.3 Characteristics of Portuguese Companies

This section aims to briefly describe the Portuguese shoe companies.

From all the companies of database, some of them have information from past years. Using only the latest year available, 2017, there was a total of 1278 companies with data, which are the base of the current study.

			Number of Employees				Operating Revenue (th €)			
Size of the Company	Frequency	Percent	Mean	SD	Max	Min	Mean	SD	Max	Min
Micro	556	44.4%	4.7	2.8	10	1	377.6	435.5	1982.9	0
Small	501	40.0%	24.5	10.8	50	11	4574.4	2084.6	9682.3	2017.9
Medium	186	14.9%	91.1	36.4	238	51	18452.4	8459.6	44193.8	10202.9
Large	9	0.7%	629.2	429.6	1495	268	104235.2	4688.7	107550.6	100919.9

Figure 9 – Table of Frequencies of Operating Revenue and Number of Employees of Companies in Portugal

There is a straight division of the companies into four groups, micro, small, medium and large sized companies. This division is based both by number of employees and operating revenue. As expected, the vast majority of the enterprise sector in Portugal is made by SME, small and medium sized companies; nonetheless it is important to remind that this acronym also includes micro sized companies. As shown in the figure 9, only 0.7% are considered to be large companies. Both the micro and small have a clear dominance with over 80% of the whole database. Also, it is worth mentioning is that even after being treated and worked on the database some variables still had some missing values (around 26) on some companies meaning that either they did not have data on number of employees or operating revenue.

Moving on into more detail, looking at the number of employees we can see that within micro and small companies, most of the companies will not have more than 50 employees. The average is 4.7 (Standard Deviation or SD=2.8) for micro enterprises and 24.5 (SD=10.8) for small enterprises. Only a very small amount of companies possesses more than 250 employees working for them. These actually correspond to the large sized companies, and, despite the fact that the maximum value of employees' number is 1495, the mean is still quite low when compared to this number, being only 629.2 (SD=429.6). Regarding the operating revenue, as the vast majority of the companies are small and micro sized it is highly expectable that the operating revenue will be according to their size. Although two maximum values, operating revenue in micro and small sized companies are quite different from each other (1982 thousands of € and 9682 thousands of €, respectively) both their means are values considerably lower when compared to their respective maximum (377 thousands of € and 4574 thousands

of €, respectively). This means that although the dispersion might be quite significant, we can assume the vast majority of the companies do not have an operating revenue of over 10 million euros, which is a relatively low amount when compared to the operating revenue of the larger companies. These have a mean of 104 million € (SD=4688), which is at least ten times more. Nonetheless their operating revenue varies between 100 million € and slightly higher than 107 million €.

		% of Export			
Size of the Company	**Number**	Mean	SD	Max	Min
Micro	553	6.2%	19.9%	100%	0%
Small	501	21.8%	34.3%	100%	0%
Medium	186	68.1%	37%	100%	0%
Large	9	86.3%	18.3%	99.9%	48.3%

Figure 10 - Table Percentage of Exports of Portuguese Companies

Following up, one of the most relevant variables of the database is the percentage of exportations of each company. It is important to mention that the number of micro companies differ as the data for figure 10 was from SABI database and not Amadeus. The variable was already calculated on the database, it is the sum of sales in intra community market (this being considered the European market) with sales of extra community market (all the markets outside European zone) divided by the operating revenue. Summing up it will represent all the sales made outside the home country of production of the goods. As expected, there are companies that opt to sell only for the domestic market (with 0% of export) and on the other hand companies that only export (with 100% of export). The only exception is within large companies that the least level of export, is at 48,3%. In addition, there is a certain pattern, as the companies get bigger in size their average of export also grows. Although these two facts apply to all four types of companies, it is worth mentioning that the standard deviation (SD) also grows until reaching medium sized companies. This means that there is a growing in dispersion as well, as some companies might export much more than others. Finally, regarding large companies there is a stop in this tendency, as standard deviation value is actually the lowest of all four; this represents the fact that exportation values among large companies tend to be similar and homogenous.

		Number of Advisors			
Size of the Company	**Number**	Mean	SD	Max	Min
Micro	556	0.2	0.6	6	0
Small	501	0.7	1.1	8	0
Medium	186	3.1	2.1	9	0
Large	9	5.6	3.5	13	0

Figure 11- Table of Statistics of Number of Advisors in Portuguese Companies

To sum up the brief description of the database, figure 11 presents descriptives regarding the number of advisors of each type of company. Results are very straightforward, as the companies grow bigger so does their respective maximum number of advisors. Throughout all four types there is still companies who do not want or do not have advisors as the minimum result is always zero. Also, there is clear a rise in the average number of advisors from micro and small companies until large (micro 0,22 and small 0,67 while medium is 3,08). Finally, the large companies have a mean of 5,56 advisors (SD=3,47), this might be because, as the companies grow bigger, they have both more employees and more financial capacity, thus, naturally, it represents more possibilities to hire more advisors,

4.4 Determinants of Degree of Portuguese Exports

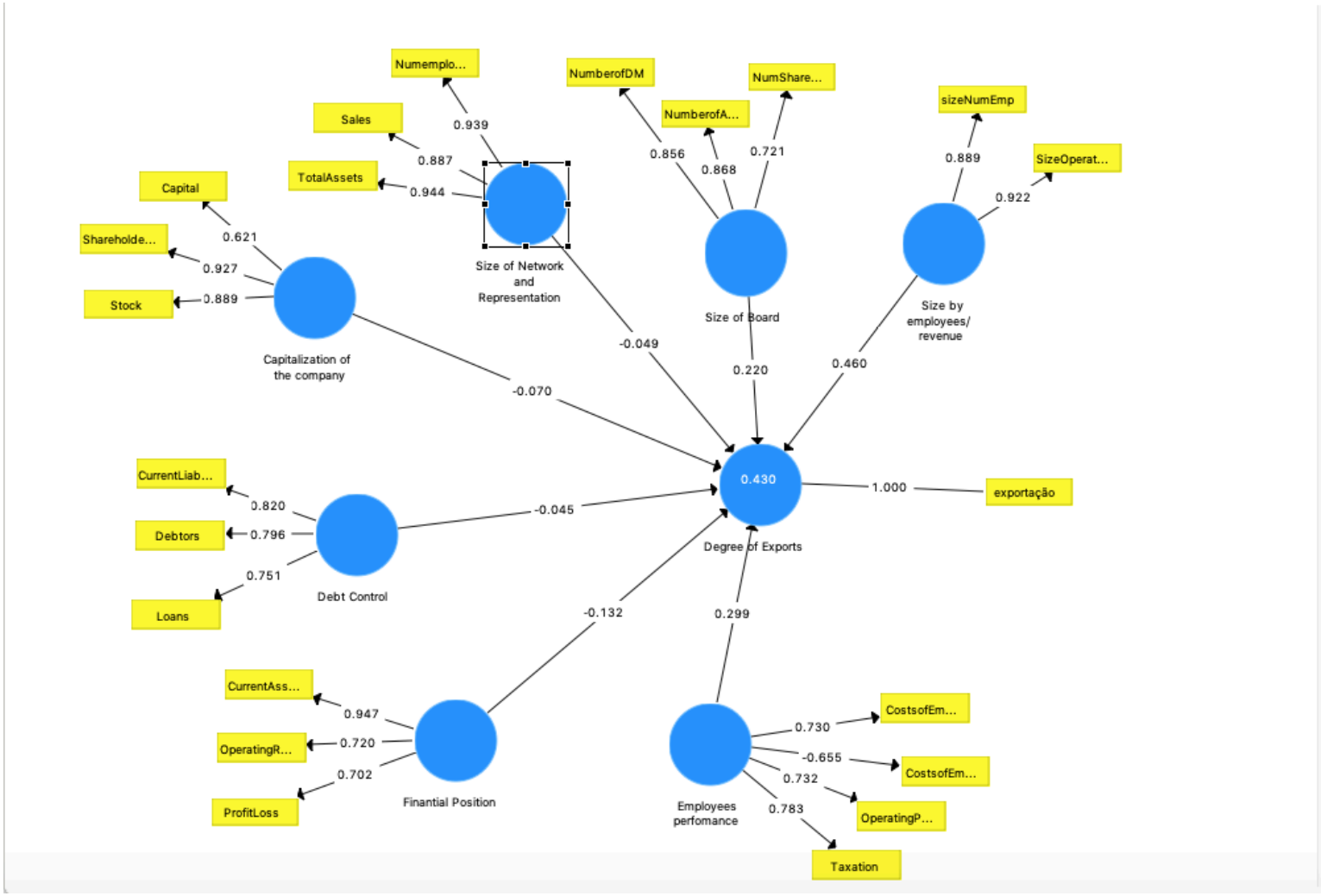

Figure 12 - Model Results: Standardized Regression Coefficients for Measurement and Structural Modell

R square of this model is 0.43, which means that the independent variables justify the level of exports by 43%. Although this value might seem quite low, this model focuses purely on numerical data and mainly of financial nature, which means that most likely the other 57% are accounted by other variables, that did not have information available. Figure 13 presents the regression coefficients estimates and its P values. Results also show that the degree of exports of Portuguese shoes companies is influenced by the size of the board, the employees performance and the company size.

Constructs	Coefficients	P values (Level of Significance)
Capitalization of the market	-0,07	0,426 (NS)
Debt Control	-0,045	0,372 (NS)
Employees Performance	0,299	0
Financial Position	-0,132	0,211 (NS)
Size by Employees / Operate Revenue	0,46	0
Size of the Board	0,22	0
Size of Network and Representation	-0,049	0,658 (NS)

Figure 13 - Regression Coefficients Estimates and P Values

Figure 14 shows measure to assess the convergent and discriminant validity of the PLS-SEM model. It is found that, with the slight exception of employees' performance, all the other constructs, meet the required relevant assessment criteria. Employees' performance presents reliability very low which could be justified by fact that cost of employees operating revenue variable was considered and was negative. It was decided to keep it on the model due to its importance. In addition, all the outer loadings have value above 0.70, meaning a decent level of reliability. Furthermore, AVE values are all above 0.5, which provides support for the construct's convergent validity.

Latent Varibales	Indicators	Convergent Validity		Internal Consistency Reliability		
		Loadings	AVE	Composite Reliability	Realibility	Cronbach's Alpha
Size of the Board	Number of Advisors	0.868				
	Number of Directors and Managers	0.856				
	Number of Shareholders	0.721	0.669	0.857	0.805	0.757
Size of the Network and Representation	Total Assets	0.944				
	Sale	0.887				
	Number of Employees	0.939	0.853	0.946	0.942	0.914
Capitalization of the Company	Capital	0.621				
	Shareholder Funds	0.927				
	Stock	0.889	0.678	0.860	0.866	0.767
Debt Control	Current Liabilities	0.820				
	Debtors	0.798				
	Loans	0.751	0.624	0.832	0.715	0.703
Finantial Position	Current Assets	0.947				
	Operating Revenue	0.720				
	Profit Loss	0.702	0.636	0.837	1.000	0.724
Employees Performance	Cost of Employees	0.730				
	Cost of Employees Operating Revenue	-0,655				
	Operating PL EBIT	0.732				
	Taxation	0.783	0.820	0.572	0.700	0.519

Figure 14 - Table of Consistency and Validity

Figure 15 presents the correlation matrix. Diagonal values are the squared root of AVE values. Most of the results are below 0.85, while none of them is above 1. The square root of AVE values is above the correlation values for the majority of constructs, allowing to conclude that the discriminant validity is also assessed

	Capitalization o	Debt Control_	Degree of Exports	Employees perfom	Finantial Position	Size by employees	Size of Board	Size of Network ai
Capitalization of the company	0.824							
Debt Control_	0.588	0.790						
Degree of Exports	0.320	0.363	1.000					
Employees perfomance	0.761	0.563	0.466	0.726				
Finantial Position	0.905	0.607	0.371	0.816	0.797			
Size by employees/revenue	0.561	0.618	0.609	0.618	0.633	0.906		
Size of Board	0.432	0.501	0.535	0.484	0.468	0.675	0.818	
Size of Network and Representation	0.911	0.687	0.396	0.758	0.893	0.691	0.515	0.924

Figure 15 - Correlation Matrix

Although we have all the seven constructs as it would be expected, not all constructs influence the percentage of exports. Capitalization of the Market, Debit Control, Financial Position and Size of the Network and Representation, contrary to what was hypothesized do not influence exports. On contrary, the Employees Performance, the Size of the Board influence the degree of exports. It is also important to note that the Company Size determines the exportation as well.

4.5 Characteristics of Italian Companies

The amount of data available of Italian companies was more limited when compared to Portugal. There was only one database used, AMADEUS, that was provided by ISCTE Business School. As expected, the amount of cases presented in the Italian market wat much larger than the number of cases presented in the Portuguese market. There were around 3300 companies in this business area in 2018, but only Amadeus database had information for the Italian market, this meant that there was missing information from some companies. The information presented below is always from latest year available (2018).

			Number of Employees				Operating Revenue (th €)			
Size of the Company	Frequency	Percent	Mean	SD	Max	Min	Mean	SD	Max	Min
Micro	1686	51.4%	4.6	2.6	9	1	559.6	540.2	1989.1	0
Small	1329	30.5%	21.0	10.0	49	11	4444.0	2031.2	9969.1	2002.2
Medium	215	6.7%	89.9	45.3	245	50	19159.4	8491.0	49880.3	10049.6
Large	34	1.0%	755.7	1035.1	5180	252	160058.9	197949.6	833104.0	52673.6

Figure 16 - Table of Frequencies of Operating Revenue and Number of Employees of Companies in Italy

Results are aligned with the Portuguese sector, being represented with a vast majority of micro and small companies (totalizing almost 92%), and with only a small representation of large companies (near 1%). Also, in this database, even after being treated and worked on, there were some missing values; there was an account of 15 missing values which would be 0,46% of the total sample. This means that these cases did not have any data either on number of employees or on the operating revenue.

Getting into more detail about the number of employees, both on the micro and small companies have low means. In the micro companies there is on average 4,56 employees (SD=2,6) and in the small companies 21,00 employees (SD=10), when compared to the large companies that have a mean of 755,73 employees (SD=1035,08). Such high standard deviation is justified due to the fact that the minimum value is 252 while the maximum value is 5180, having such a wide range on the number of employees, makes up for the high standard deviation as well.

Regarding the operating revenue, as the vast majority of the companies is micro or small, this means that their operating revenue will be according to their size and respectively small. Although their maximum values are very high, when compared to the mean of their correspondent company size group, the overall scenario is of a much lower operating revenue mean of (559 thousands of € for micro companies, and 4444 thousand of € for small companies). On the opposite end, with the larger companies, there is much more spread of companies, while

the minimum value is 52,673 thousands of €, the maximum value is 833,104 thousands of €, and the standard deviation is also very high (SD=197949 thousands of €).

4.6 Comparing Portuguese and Italian Companies

With the objective to compare the data between Portugal and Italy, the two samples independent t test were conducted. for each construct all variable were compared; for example, in the construct size of the board, the variables number of directors and managers, number of advisors and number of shareholders are compared in terms of their means between companies of Portugal and Italy. In case of differences this could be a potential factor for Portugal to improve in order to catch up with the Italian industry.

For each construct, Portuguese and Italian companies are compared by company size. This was done in order to avoid skewed results. In some cases, the groups were divided according to their operating revenue and on other cases they were divided according to their number of employees, according to where these two control variables were more adequate and fit for the division. Figure 17 presents the t-test results for micro companies in what concerns size of the board. The remaining t-tests are present in appendix. Figure 18 presents a summary of all t-tests results.

The final table where the results of the tests were presented is as follows below:

Size according to Numbber of Employees = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Number of advisors	Portugal	564	.22	.625	.026
	Italia	1181	.02	.253	.007
Number of directors & managers	Portugal	564	1.71	1.062	.045
	Italia	1181	1.73	1.205	.035
No of recorded shareholders	Portugal	564	1.43	.789	.033
	Italia	1181	1.69	1.160	.034

a. Size according to Numbber of Employees = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of advisors	Equal variances assumed	324.144	.000	9.148	1743	.000	.193	.021	.151	.234
	Equal variances not assumed			7.053	652.550	.000	.193	.027	.139	.246
Number of directors & managers	Equal variances assumed	2.915	.088	-.302	1743	.762	-.018	.059	-.135	.099
	Equal variances not assumed			-.316	1243.679	.752	-.018	.057	-.129	.094
No of recorded shareholders	Equal variances assumed	89.464	.000	-4.785	1743	.000	-.258	.054	-.364	-.152
	Equal variances not assumed			-5.452	1541.261	.000	-.258	.047	-.351	-.165

a. Size according to Numbber of Employees = Micro

Figure 17 - Table of Independent Samples Test for the Board Size Variables, Company Size According to Number of Employees

Means	Micro	Small	Medium	Large
Size of the Board	(grouped by number of employees)			
Number of Advisors	Different (<PT)	Different (<PT)	Different (<PT)	Equal
Number of Directors and Managers	Equal	Different (<IT)	Different (<IT)	Different (<IT)
Number of Shareholders	Different(<IT)	Different (<IT)	Equal	Different (<IT)
Size of the Network and Representation	(grouped by number of employees)			
Total Assets	Different (<IT)	Different (<IT)	Different (<IT)	Equal
Sales	Different (<IT)	Different (<IT)	Different (<IT)	Different (<IT)
Number of Employees	Equal	Different (<PT)	Equal	Equal
Capitalization of the Company	(grouped by operating revenue)			
Capital	Different (<IT)	Different (<PT)	Equal	Equal
Shareholder Funds	Equal	Different (<PT)	Equal	Equal
Stock	Different (<IT)	Equal	Equal	Equal
Debt Control	(grouped by operating revenue)			
Current Liabilites	Different (<IT)	Different (<IT)	Different (<IT)	Equal
Debtors	Different (<IT)	Equal	Equal	Equal
Loans	Different (<IT)	Equal	Equal	Equal
Finantial Position	(grouped by operating revenue)			
Current Assets	Different (<IT)	Equal	Different (<IT)	Equal
Operating Revenue	Different (<IT)	Equal	Equal	Equal
Profit Loss	Different (<PT)	Equal	Equal	Equal
Employees Performance	(grouped by number of employees)			
Cost of Employees	Different (<IT)	Different (<IT)	Different (<IT)	Equal
Cost of Employees Operating Revenue	Different (<PT)	Different (<PT)	Different (<PT)	Equal
Operating PL EBIT	Equal	Different (<IT)	Different (<IT)	Different (<IT)
Taxation	Different (<IT)	Different (<IT)	Different (<IT)	Different (<IT)

Figure 18 - Table of Results of All the Independent Sample Tests

For the size of the board construct, the control variable used to divide the companies was the number of employees as it is mainly focused on people. This construct, as demonstrated

before, is composed by the number of directors and managers, number of advisors and number of shareholders. Initially, with a general overview it is noticeable that the values differ between Portugal and Italy, however there are some exceptions in each of the categories. Companies from Italy have generally a higher number in both directors and managers and shareholders throughout the whole four categories, and on large companies the difference becomes a lot more significant.

Size of Network and Representation is composed by the total assets, the sales and the number of employees. With the exception of the number of employees, that naturally had to be similar between each other as the companies were also divided by the number of employees, there are still many differences between the companies of Portugal and Italy. Companies of Portugal still fall behind to those of Italy when it comes to both total assets available and sales **(**for total assets, the mean for Portugal is 179.3 / 647 / 4155.9 / 27345 thousands of euros, for micro, small, medium and large companies respectively, while for Italy it is 652.1 / 2558.1 / 15506.5 / 178823.3 thousands of euros)**,** and, Some Italy data is four or five times higher in these variables. This result is due to the big difference in business volume that still exists. Despite this aspect, these measures are high for large companies of Portugal as they were already able to catch up on the total assets available.

The Capitalization of the Company was grouped up by the operating revenue of the companies as it is a construct very focused on the financial side. The variable taken into account the variables capital, the shareholders' funds and the stock. In the groups of smaller companies there are still differences between the companies of the two countries, but, on the other hand, contrary to what was seen before, there is a convergence for these variables in the medium and large groups of companies, as the means for the companies in consideration are all equal.

Continuing to make the division of the groups of companies by the operating revenue control variable, the next construct is Debt Control, composed by the variables, current liabilities, debtors and loans. When it comes to micro companies, there are still differences in all variables. On top of that, the variable current liabilities seems to differ as well in small and medium companies. This is justified by the fact that, when compared to Portuguese companies, the business volume of Italian companies is generally higher, which in term will mean that they will have more liabilities in order to maintain the normal procedures of their business. Portuguese companies could probably benefit from this as it will be discussed further on.

The last construct that was divided by the operating revenue of the companies is the Financial Position, constituted by the variable's current assets, operating revenue and profit

and loss. On the small, medium and large companies, there is a lot of similarities in the means, meaning that both Portugal and Italian companies have identical characteristics in these three variables. However, in the category of micro companies, there are some differences between the companies of the two countries

Finally, Employees' Performance, was grouped up naturally by the number of employees in each company and it is composed by four variables, cost of employees, cost of employees considering the operating revenue, operating profit and loss EBIT (earnings before interest and tax) and taxation. As expected, there are several differences among the companies of the two countries. In all variables, the mean is different with the exception of the cost of employees and cost of employees operating revenue in large companies. This was predictable due to the fact that both countries, having different legislations, laws and economic context, the wage that the companies pay to their employees and also the taxes they need to pay to the state are very different in the two countries.

CHAPTER 5

Conclusion

5.1 Resume

This study aims to understand the SMEs and their behaviour regarding internationalization. In an economic context where the SMEs play a vital role for the economies of their respective countries and at same time being the vast majority in terms of numbers in most of the business sectors. Creating a model that is able to analyze what are the most important characteristics for a successful internationalization process and which of them have the most impact was one of the objectives. All large and successful companies that exist today were sometime in the past a micro or small business, while some managed to thrive and succeed the vast majority still has many difficulties to detach themselves from the fierce competition specially when it comes from larger companies. Internationalization posed most recently as a very powerful strategy for companies that want to grow and stand out in the marketplace more rapidly and efficiently; it serves as a way out for companies that want to grow but feel that their home market is stagnated or is not growing enough to meet their expectations and results. Also, internationalization has become cheaper throughout the years. In the past there was the need of physical presence abroad, having their own facilities or headquarters and employees. Nowadays the process has been simplified and there is not only one option of FDI (foreign direct investment) as stated before but also the mere process of exporting, which means to sell both products and services from the home country to the foreign country. This process was facilitated through the development of technologies and means of communication, as today are much more developed than they were five or ten years ago. This together with the globalization mindset opened many doors for both large and small companies to revolutionize the way they were doing business.

Likewise, it is equally important to study the major motives and drivers for internationalization and their barriers, as it will allow for a better understanding of the Internationalization process of itself. In turn it is able to support the companies to use their main motivation and advantages as well as to eliminate and overcome their disadvantages. Complementary to what was said before, in the literature review, there are different strategies that the companies can use when internationalizing. Understanding what which strategy consists of and knowing what strategy is better for each situation and each company itself,

according to their resources, is very important and can be very helpful in the decision process of the companies and understanding what variables have the biggest impact on the exportations was the main objective of the study. The business sector chosen was the shoe manufacturing industry and the countries compared in this study were Portugal and Italy. The main country studied was Portugal, however as Italy right now, is the current market leader on this industry, it was thought to be of interest to compare the two countries, and, understand what could be done in order for Portugal to catch up with Italy in the business sector.

5.2 Main Results and Discussion

Regarding the analysis results for companies of both countries, when it comes to companies' size distribution, they both have similarities. Both countries have a high relative percentage of small and micro companies in the chosen sector and a low percentage when it comes to large companies. Those similarities were to be expected as the economy of Europe is mainly constituted by SMEs organizations.

The results obtained from the estimated model allowed to find out what variables were most significant for the degree of exportation. The size of the company, the size of board and the employee's performance are the predictive variables. Size of the board, which has the major impact, highlights the principles of Wagner Joachim (2001). Who argues that although there may be a small number of small firms that export, the general rule is that the level of exportation is directly related to the size of the company. This means that, as the firms tend to increase in size so does their export/sales ratio. This line of thought also aligns perfectly with the fact that size of the board also influences positively the degree of exportations of an organization. As Mohapatra Pranati (2017) mentioned, bigger boards means a broader pool of qualities and characteristics such as, more expertise and knowledge, more network or more monitoring; Inevitably this reflects into better decision making and more efficiency and confidence when exporting, thus increasing the degree of exports itself as well.

The comparison between companies from Portugal and Italy, there is still big gap and differences between the two countries in what concerns the companies of smaller size (micro and small companies). However, in respect to large companies, there is a clear catch up from Portugal as there are many variables from the model that have equal means, meaning that there are similarities between companies of large size, they have similar number of advisors for example, or similar amount of sales. Coming back to the smaller sized companies as there are

gaps in almost every component, and their variables, there needs to be established priorities on which characteristics Portuguese firms should focus on. Proper advice would be to focus on, the size of the board and the employee's performance, as mentioned above, as they are the ones that influence the most the levels of exports. While on the construct, size of the board, Portugal still needs to increase the numbers of directors and managers to have the broader pool of qualities mentioned earlier. Raising the number of shareholders will allow the companies to have more financial capital available to make investments. Secondly, the construct, employee's performance, although the results on most of the variables throughout the four different company sizes are different, this is very advantageous for Portugal. Both on cost of employees and taxation, Portugal has much lower values compared to Italy which allows it to be a more competitive country. This way, in case of the employees being as skilled and having the same expertise, Portuguese companies can achieve much better results, and also have a lot more margin to give financial and other incentives to their workers, and, even then, they would still not pay as much as Italian companies do. On the other hand they still have much more benefits, when it comes to taxation, this should save money that should be invested towards improving employees motivation and performance, achieved by improving their working conditions and work environment as it is most common in exporting firms as Hessel and Parker (2013) mention.

5.3 Researches' Main Contributions

The present study arises from the objective of creating a model and a framework that can aid SMEs in solving a problem that is very frequently complex and real, which is the process of internationalization. In an attempt to complement and fill in certain limitations that were found in previous studies and papers, it is proposed the creation of this conceptual model that can help the SMEs and other companies to understand what characteristics influence more or less their level of exports.

The main contributions of this investigation were: (1) Discussion of the current literature about internationalization and exportation of SMEs, as well as some of the most common strategies of internationalization. In addition, the main motivations, advantages and disadvantages or barriers that companies do face during the process of internationalization were discussed; (2) presentation of a model that aims to explains the determinants the levels of

exportation; (3) application of the model for the shoe manufacturing business sector in Portugal; (4) comparison of the main export determinants between the companies Portugal and Italy, which is the current leader of the sector. In order, to understand what characteristics make the most difference in the internationalization process. Doing this, Portugal is able to close the gap with the current leading industry, Italy; (5) the supportive character of the study enables for an organization to increase their knowledge with transparency about internationalization, facilitating the decision making and allowing for an understanding of what characteristics within the organization are most relevant for the internationalization and exporting process. This way there is the possibility of increasing the rates of success and efficiency in this area.

5.4 Limitations

The study presents some limitations. Firstly, the main variables were focused on financial data. This feature limited the model and the study. Within a company financial data plays a very important role, however there are other important variables, such as the HRM (Human Resource Management); Intrinsic characteristics from the directors and managers such as their past experiences, education or age; networking and connections of a company; etc. On future research, in order for a more complete analysis it will be used a bigger database with more information available.

Secondly, when making the comparison between the shoe companies of the two countries, Portugal and Italy, there was a lack of data regarding Italy exportations. While in Portugal there was the support of APICAPPS to help and support this study, with data from the Portuguese sector. However, they were not able to provide the same data for Italy. The initial intention was to compare the two conceptual models, one for Portugal and one for Italy, both with the same variables. This would be more clarifying comparison of which variables impact more the levels of exportations in each of the countries.

Lastly, there was a time restraint in this investigation, which only it did not allow to gather as much data as initially expected, and even did not allow for the realization of questionnaires or interviews. If these were done there would be the possibility to cross over data, both from the databases and analysis. Bringing this same data to interviews with directors and managers, could create a better understanding to what extent this would be applicable in SMEs companies and in real life businesses. In addition, they could give their opinion on the results obtained.

5.5 Perspectives for Future Research

The results obtained in this study emphasize the potential and importance of some of the variables analyzed in the model and how they can influence the levels of exportation. This applies to this business sector in particular but can be extended.

Regarding the model and analysis of the financial variables, there is the possibility to both improve and reinforce the efficiency of the model adding more variables, as said before, and making the model more complete. It would allow comparisons of more countries than just Portugal and Italy. In addition to this, there is the possibility to share this model or convert to software so that companies may be able to use it, modify it accordingly to their needs, and apply it. By doing it, companies will be able to understand which variables and which factors may have an impact on exportation. It will serve as a tool when it comes to resource allocation, used to have higher exportation levels and achieve better results in this area. Alternatively, it is suggested, an elaboration of a similar model that can be applied in different business sectors and to measure different variables that seem fit for the situation. Naturally, it will lead to different paths of the Internationalization process. In the sense of this, any study that can contribute to the development of capacity and measurement of internationalization of SMEs will always be welcomed.

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Annexes

ANNEX 1 – Size of the Board Comparison Between Portugal and Italy

Size according to Numbber of Employees = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Number of advisors	Portugal	564	.22	.625	.026
	Italia	1181	.02	.253	.007
Number of directors & managers	Portugal	564	1.71	1.062	.045
	Italia	1181	1.73	1.205	.035
No of recorded shareholders	Portugal	564	1.43	.789	.033
	Italia	1181	1.69	1.160	.034

a. Size according to Numbber of Employees = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of advisors	Equal variances assumed	324.144	.000	9.148	1743	.000	.193	.021	.151	.234
	Equal variances not assumed			7.053	652.550	.000	.193	.027	.139	.246
Number of directors & managers	Equal variances assumed	2.915	.088	-.302	1743	.762	-.018	.059	-.135	.099
	Equal variances not assumed			-.316	1243.679	.752	-.018	.057	-.129	.094
No of recorded shareholders	Equal variances assumed	89.464	.000	-4.785	1743	.000	-.258	.054	-.364	-.152
	Equal variances not assumed			-5.452	1541.261	.000	-.258	.047	-.351	-.165

a. Size according to Numbber of Employees = Micro

Figure A1: Hypothesis testing within micro companies

Size according to Numbber of Employees = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Number of advisors	Portugal	501	.67	1.128	.050
	Italia	1329	.16	.705	.019
Number of directors & managers	Portugal	501	2.21	1.388	.062
	Italia	1329	2.47	2.196	.060
No of recorded shareholders	Portugal	501	1.74	.969	.043
	Italia	1329	2.05	1.477	.041

a. Size according to Numbber of Employees = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of advisors	Equal variances assumed	233.260	.000	11.520	1828	.000	.509	.044	.422	.595
	Equal variances not assumed			9.422	652.784	.000	.509	.054	.403	.615
Number of directors & managers	Equal variances assumed	37.741	.000	-2.543	1828	.011	-.268	.105	-.474	-.061
	Equal variances not assumed			-3.096	1414.330	.002	-.268	.086	-.437	-.098
No of recorded shareholders	Equal variances assumed	30.351	.000	-4.278	1828	.000	-.304	.071	-.444	-.165
	Equal variances not assumed			-5.134	1365.552	.000	-.304	.059	-.421	-.188

a. Size according to Numbber of Employees = Small

Figure A2: Hypothesis testing within small companies

Size according to Numbber of Employees = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Number of advisors	Portugal	186	3.08	2.107	.154
	Italia	197	2.04	1.973	.141
Number of directors & managers	Portugal	186	4.45	2.992	.219
	Italia	197	7.59	5.221	.372
No of recorded shareholders	Portugal	186	2.42	1.498	.110
	Italia	197	2.92	2.436	.174

a. Size according to Numbber of Employees = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of advisors	Equal variances assumed	.654	.419	4.988	381	.000	1.040	.208	.630	1.450
	Equal variances not assumed			4.979	375.320	.000	1.040	.209	.629	1.450
Number of directors & managers	Equal variances assumed	48.813	.000	-7.183	381	.000	-3.148	.438	-4.009	-2.286
	Equal variances not assumed			-7.288	315.586	.000	-3.148	.432	-3.997	-2.298
No of recorded shareholders	Equal variances assumed	12.320	.001	-2.400	381	.017	-.499	.208	-.909	-.090
	Equal variances not assumed			-2.432	328.662	.016	-.499	.205	-.903	-.095

a. Size according to Numbber of Employees = Medium

Figure A3: Hypothesis testing within medium companies

Size according to Numbber of Employees = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Number of advisors	Portugal	9	5.56	3.468	1.156
	Italia	26	4.38	2.099	.412
Number of directors & managers	Portugal	9	8.44	3.395	1.132
	Italia	26	18.15	11.291	2.214
No of recorded shareholders	Portugal	9	2.11	1.269	.423
	Italia	26	5.42	7.695	1.509

a. Size according to Numbber of Employees = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Number of advisors	Equal variances assumed	2.546	.120	1.211	33	.235	1.171	.967	-.797	3.139
	Equal variances not assumed			.954	10.106	.362	1.171	1.227	-1.559	3.901
Number of directors & managers	Equal variances assumed	4.955	.033	-2.518	33	.017	-9.709	3.855	-17.553	-1.865
	Equal variances not assumed			-3.904	32.777	.000	-9.709	2.487	-14.770	-4.649
No of recorded shareholders	Equal variances assumed	4.264	.047	-1.273	33	.212	-3.312	2.602	-8.605	1.981
	Equal variances not assumed			-2.113	28.534	.043	-3.312	1.567	-6.520	-.104

a. Size according to Numbber of Employees = Large

Figure A4: Hypothesis testing within large companies

ANNEX 2 – Size of Network and Representation Comparison Between Portugal and Italy

Size according to Numbber of Employees = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Total assets th EUR Last avail. yr	Portugal	564	179.308337	763.765420	32.1603258
	Italia	1181	652.133581	1398.58910	40.6972617
Sales th EUR Last avail. yr	Portugal	553	213.135345	611.601054	26.0079224
	Italia	1181	695.046058	1366.02690	39.7497410
Number of employees Last avail. yr	Portugal	564	4.60	2.776	.117
	Italia	1181	4.56	2.576	.075

a. Size according to Numbber of Employees = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Total assets th EUR Last avail. yr	Equal variances assumed	36.973	.000	-7.511	1743	.000	-472.82524	62.9511016	-596.29287	-349.35761
	Equal variances not assumed			-9.115	1713.452	.000	-472.82524	51.8705472	-574.56151	-371.08897
Sales th EUR Last avail. yr	Equal variances assumed	43.711	.000	-7.931	1732	.000	-481.91071	60.7612673	-601.08389	-362.73754
	Equal variances not assumed			-10.145	1729.144	.000	-481.91071	47.5021466	-575.07842	-388.74300
Number of employees Last avail. yr	Equal variances assumed	5.133	.024	.312	1743	.755	.042	.135	-.223	.307
	Equal variances not assumed			.304	1037.730	.761	.042	.139	-.230	.315

a. Size according to Numbber of Employees = Micro

Figure A5: Hypothesis testing within micro companies

Size according to Numbber of Employees = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Total assets th EUR Last avail. yr	Portugal	501	647.045488	889.131731	39.7234762
	Italia	1329	2558.13308	3764.77152	103.270465
Sales th EUR Last avail. yr	Portugal	501	891.100971	1085.97779	48.5179097
	Italia	1329	3249.18019	3983.46816	109.269476
Number of employees Last avail. yr	Portugal	501	24.51	10.759	.481
	Italia	1329	20.98	10.002	.274

a. Size according to Numbber of Employees = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Total assets th EUR Last avail. yr	Equal variances assumed	105.830	.000	-11.243	1828	.000	-1911.0876	169.983476	-2244.4698	-1577.7054
	Equal variances not assumed			-17.272	1653.887	.000	-1911.0876	110.646932	-2128.1104	-1694.0648
Sales th EUR Last avail. yr	Equal variances assumed	193.295	.000	-13.066	1828	.000	-2358.0792	180.471824	-2712.0319	-2004.1266
	Equal variances not assumed			-19.724	1725.159	.000	-2358.0792	119.556706	-2592.5706	-2123.5879
Number of employees Last avail. yr	Equal variances assumed	5.417	.020	6.586	1828	.000	3.527	.536	2.477	4.577
	Equal variances not assumed			6.372	845.113	.000	3.527	.553	2.440	4.613

a. Size according to Numbber of Employees = Small

Figure A6: Hypothesis testing within small companies

Size according to Numbber of Employees = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Total assets th EUR Last avail. yr	Portugal	186	4115.94450	3297.56477	241.789180
	Italia	197	15506.4548	15269.0436	1087.87432
Sales th EUR Last avail. yr	Portugal	186	6056.95975	4921.03276	360.827629
	Italia	197	20404.0646	22303.9021	1589.08723
Number of employees Last avail. yr	Portugal	186	91.13	36.418	2.670
	Italia	197	89.90	45.272	3.225

a. Size according to Numbber of Employees = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Total assets th EUR Last avail. yr	Equal variances assumed	102.668	.000	-9.956	381	.000	-11390.510	1144.04261	-13639.938	-9141.0824
	Equal variances not assumed			-10.221	215.286	.000	-11390.510	1114.42027	-13587.082	-9193.9386
Sales th EUR Last avail. yr	Equal variances assumed	55.355	.000	-8.577	381	.000	-14347.105	1672.67376	-17635.933	-11058.277
	Equal variances not assumed			-8.804	216.123	.000	-14347.105	1629.53822	-17558.927	-11135.283
Number of employees Last avail. yr	Equal variances assumed	6.268	.013	.291	381	.771	1.225	4.213	-7.059	9.510
	Equal variances not assumed			.293	371.736	.770	1.225	4.187	-7.009	9.459

a. Size according to Numbber of Employees = Medium

Figure A7: Hypothesis testing within medium companies

Size according to Numbber of Employees = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Total assets th EUR Last avail. yr	Portugal	9	27345.0371	14851.5923	4950.53077
	Italia	26	178823.317	319729.460	62704.1059
Sales th EUR Last avail. yr	Portugal	9	47369.5295	32952.9974	10984.3325
	Italia	26	163717.774	221284.848	43397.5292
Number of employees Last avail. yr	Portugal	9	629.22	429.551	143.184
	Italia	26	755.73	1035.076	202.995

a. Size according to Numbber of Employees = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Total assets th EUR Last avail. yr	Equal variances assumed	4.047	.052	-1.407	33	.169	-151478.28	107664.285	-370522.91	67566.3539
	Equal variances not assumed			-2.408	25.310	.024	-151478.28	62899.2262	-280941.37	-22015.191
Sales th EUR Last avail. yr	Equal variances assumed	4.576	.040	-1.556	33	.129	-116348.24	74752.6033	-268433.56	35737.0704
	Equal variances not assumed			-2.599	27.947	.015	-116348.24	44766.0708	-208055.16	-24641.327
Number of employees Last avail. yr	Equal variances assumed	1.083	.306	-.353	33	.726	-126.509	357.899	-854.659	601.642
	Equal variances not assumed			-.509	31.612	.614	-126.509	248.412	-632.751	379.734

a. Size according to Numbber of Employees = Large

Figure A8: Hypothesis testing within large companies

Size by Operating Revenue = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Capital th EUR Last avail. yr	Portugal	1035	19.6913264	81.3023293	2.52716043
	Italia	2341	57.3044673	554.079254	11.4517322
Shareholders funds th EUR Last avail. yr	Portugal	1035	90.5940054	349.802440	10.8730819
	Italia	2341	-4.3677582	2675.81319	55.3038140
Stock th EUR Last avail. yr	Portugal	1034	40.1860449	112.834823	3.50899607
	Italia	2341	97.9158684	182.758336	3.77725659

a. Size by Operating Revenue = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Capital th EUR Last avail. yr	Equal variances assumed	8.567	.003	-2.173	3374	.030	-37.613141	17.3058847	-71.544224	-3.6820580
	Equal variances not assumed			-3.207	2559.724	.001	-37.613141	11.7272635	-60.609029	-14.617253
Shareholders funds th EUR Last avail. yr	Equal variances assumed	8.465	.004	1.137	3374	.255	94.9617636	83.4939802	-68.742156	258.665683
	Equal variances not assumed			1.685	2515.890	.092	94.9617636	56.3625385	-15.559952	205.483479
Stock th EUR Last avail. yr	Equal variances assumed	159.419	.000	-9.397	3373	.000	-57.729824	6.14363172	-69.775443	-45.684204
	Equal variances not assumed			-11.197	3022.452	.000	-57.729824	5.15564940	-67.838759	-47.620888

a. Size by Operating Revenue = Micro

Figure A9: Hypothesis testing within micro companies

Size by Operating Revenue = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Capital th EUR Last avail. yr	Portugal	189	236.033911	338.989366	24.6578481
	Italia	674	147.694853	519.520337	20.0111757
Shareholders funds th EUR Last avail. yr	Portugal	189	1315.45974	1442.04014	104.892986
	Italia	674	919.888586	1463.62701	56.3768058
Stock th EUR Last avail. yr	Portugal	189	740.193377	699.520133	50.8826025
	Italia	674	702.733807	725.561015	27.9475661

a. Size by Operating Revenue = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Capital th EUR Last avail. yr	Equal variances assumed	1.655	.199	2.209	861	.027	88.3390576	39.9903766	9.84902374	166.829092
	Equal variances not assumed			2.782	461.294	.006	88.3390576	31.7562061	25.9343047	150.743811
Shareholders funds th EUR Last avail. yr	Equal variances assumed	.119	.730	3.294	861	.001	395.571153	120.083187	159.881116	631.261191
	Equal variances not assumed			3.322	305.190	.001	395.571153	119.083511	161.242494	629.899813
Stock th EUR Last avail. yr	Equal variances assumed	3.103	.078	.632	861	.527	37.4595701	59.2584261	-78.848309	153.767449
	Equal variances not assumed			.645	310.645	.519	37.4595701	58.0526114	-76.766485	151.685625

a. Size by Operating Revenue = Small

Figure A10: Hypothesis testing within small companies

Size by Operating Revenue = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Capital th EUR Last avail. yr	Portugal	38	831.620479	1387.79924	225.130764
	Italia	215	707.820898	1199.16043	81.7820624
Shareholders funds th EUR Last avail. yr	Portugal	38	5865.73280	6488.51308	1052.57581
	Italia	215	5393.74320	7878.42588	537.304185
Stock th EUR Last avail. yr	Portugal	38	2557.43292	1906.22827	309.231060
	Italia	215	3224.21374	2880.82820	196.470853

a. Size by Operating Revenue = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Capital th EUR Last avail. yr	Equal variances assumed	.385	.536	.573	251	.567	123.799581	216.235257	-302.06716	549.666321
	Equal variances not assumed			.517	47.267	.608	123.799581	239.524877	-357.99044	605.589605
Shareholders funds th EUR Last avail. yr	Equal variances assumed	.230	.632	.349	251	.728	471.989601	1353.12661	-2192.9394	3136.91865
	Equal variances not assumed			.399	58.113	.691	471.989601	1181.78324	-1893.5089	2837.48814
Stock th EUR Last avail. yr	Equal variances assumed	6.009	.015	-1.373	251	.171	-666.78083	485.492421	-1622.9388	289.377189
	Equal variances not assumed			-1.820	70.903	.073	-666.78083	366.366817	-1397.3128	63.7511019

a. Size by Operating Revenue = Medium

Figure A11: Hypothesis testing within medium companies

Size by Operating Revenue = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Capital th EUR Last avail. yr	Portugal	2	6254.94107	2849.72367	2015.05894
	Italia	34	7291.07753	12697.8146	2177.65725
Shareholders funds th EUR Last avail. yr	Portugal	2	30790.8466	2316.28735	1637.86249
	Italia	34	83691.4209	188223.874	32280.1281
Stock th EUR Last avail. yr	Portugal	2	18323.8704	8548.16803	6044.46758
	Italia	34	36931.6024	65816.4094	11287.4211

a. Size by Operating Revenue = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Capital th EUR Last avail. yr	Equal variances assumed	.795	.379	-.114	34	.910	-1036.1365	9109.07888	-19548.012	17475.7391
	Equal variances not assumed			-.349	4.513	.743	-1036.1365	2966.92662	-8917.0482	6844.77522
Shareholders funds th EUR Last avail. yr	Equal variances assumed	.682	.415	-.392	34	.697	-52900.574	134924.249	-327099.64	221298.491
	Equal variances not assumed			-1.637	33.163	.111	-52900.574	32321.6532	-118647.20	12846.0563
Stock th EUR Last avail. yr	Equal variances assumed	.673	.418	-.394	34	.696	-18607.732	47191.0306	-114511.44	77295.9808
	Equal variances not assumed			-1.453	14.713	.167	-18607.732	12803.9628	-45945.169	8729.70479

a. Size by Operating Revenue = Large

Figure A12: Hypothesis testing within large companies

ANNEX 4 – Debt Control Comparison Between Portugal and Italy

Size by Operating Revenue = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current liabilities th EUR Last avail. yr	Portugal	1035	142.807592	246.874255	7.67371434
	Italia	2341	493.731741	2372.63981	49.0378146
Debtors th EUR Last avail. yr	Portugal	1034	79.0320501	142.959046	4.44581485
	Italia	2341	139.540109	231.343914	4.78142526
Loans th EUR Last avail. yr	Portugal	1030	22.1241220	99.5338956	3.10136149
	Italia	2341	92.8783853	1082.70451	22.3773801

a. Size by Operating Revenue = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current liabilities th EUR Last avail. yr	Equal variances assumed	20.908	.000	-4.747	3374	.000	-350.92415	73.9322460	-495.88069	-205.96761
	Equal variances not assumed			-7.070	2452.678	.000	-350.92415	49.6345963	-448.25420	-253.59410
Debtors th EUR Last avail. yr	Equal variances assumed	145.976	.000	-7.779	3373	.000	-60.508058	7.77789240	-75.757920	-45.258197
	Equal variances not assumed			-9.268	3020.674	.000	-60.508058	6.52895836	-73.309711	-47.706406
Loans th EUR Last avail. yr	Equal variances assumed	11.202	.001	-2.093	3369	.036	-70.754263	33.8012635	-137.02733	-4.4811948
	Equal variances not assumed			-3.132	2428.720	.002	-70.754263	22.5912723	-115.05442	-26.454106

a. Size by Operating Revenue = Micro

Figure A13: Hypothesis testing within micro companies

Size by Operating Revenue = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current liabilities th EUR Last avail. yr	Portugal	189	1501.32715	936.392968	68.1125660
	Italia	674	1924.33876	1326.46920	51.0936845
Debtors th EUR Last avail. yr	Portugal	189	828.842207	644.633202	46.8901658
	Italia	674	923.236764	885.456590	34.1065135
Loans th EUR Last avail. yr	Portugal	189	407.503828	582.478110	42.3690481
	Italia	674	367.175218	682.882873	26.3036655

a. Size by Operating Revenue = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current liabilities th EUR Last avail. yr	Equal variances assumed	7.548	.006	-4.106	861	.000	-423.01161	103.026565	-625.22423	-220.79900
	Equal variances not assumed			-4.968	421.796	.000	-423.01161	85.1462638	-590.37546	-255.64777
Debtors th EUR Last avail. yr	Equal variances assumed	12.993	.000	-1.367	861	.172	-94.394557	69.0398442	-229.90065	41.1115362
	Equal variances not assumed			-1.628	407.676	.104	-94.394557	57.9822551	-208.37608	19.5869611
Loans th EUR Last avail. yr	Equal variances assumed	.081	.776	.740	861	.460	40.3286099	54.5095864	-66.658612	147.315831
	Equal variances not assumed			.809	346.468	.419	40.3286099	49.8700216	-57.757473	138.414692

a. Size by Operating Revenue = Small

Figure A14: Hypothesis testing within small companies

Size by Operating Revenue = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current liabilities th EUR Last avail. yr	Portugal	38	4673.72514	3407.53640	552.775397
	Italia	215	7391.47945	5727.46096	390.609596
Debtors th EUR Last avail. yr	Portugal	38	2930.05755	2196.40400	356.303777
	Italia	215	3879.86625	2967.26429	202.365745
Loans th EUR Last avail. yr	Portugal	38	1251.84558	2456.43969	398.487138
	Italia	215	2173.48477	3272.33118	223.171134

a. Size by Operating Revenue = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current liabilities th EUR Last avail. yr	Equal variances assumed	3.100	.080	-2.835	251	.005	-2717.7543	958.693587	-4605.8632	-829.64541
	Equal variances not assumed			-4.015	79.738	.000	-2717.7543	676.857810	-4064.8121	-1370.6965
Debtors th EUR Last avail. yr	Equal variances assumed	2.107	.148	-1.883	251	.061	-949.80870	504.463252	-1943.3290	43.7116058
	Equal variances not assumed			-2.318	63.577	.024	-949.80870	409.761243	-1768.5058	-131.11160
Loans th EUR Last avail. yr	Equal variances assumed	3.247	.073	-1.655	251	.099	-921.63919	557.012075	-2018.6523	175.373938
	Equal variances not assumed			-2.018	62.782	.048	-921.63919	456.724593	-1834.3924	-8.8859774

a. Size by Operating Revenue = Medium

Figure A15: Hypothesis testing within medium companies

Size by Operating Revenue = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current liabilities th EUR Last avail. yr	Portugal	2	13578.7376	10373.9904	7335.51898
	Italia	34	54910.2062	84704.4697	14526.6967
Debtors th EUR Last avail. yr	Portugal	2	11400.2557	7495.80641	5300.33555
	Italia	34	19715.5601	26392.4498	4526.26780
Loans th EUR Last avail. yr	Portugal	2	3766.58372	5178.43750	3661.70828
	Italia	34	14464.8707	30553.9642	5239.96164

a. Size by Operating Revenue = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current liabilities th EUR Last avail. yr	Equal variances assumed	.723	.401	-.681	34	.501	-41331.469	60732.2416	-164754.23	82091.2960
	Equal variances not assumed			-2.540	16.523	.021	-41331.469	16273.7444	-75741.794	-6921.1434
Debtors th EUR Last avail. yr	Equal variances assumed	.616	.438	-.439	34	.663	-8315.3045	18941.9265	-46809.931	30179.3216
	Equal variances not assumed			-1.193	2.943	.320	-8315.3045	6969.98258	-30742.527	14111.9183
Loans th EUR Last avail. yr	Equal variances assumed	.401	.531	-.488	34	.629	-10698.287	21911.4343	-55227.679	33831.1050
	Equal variances not assumed			-1.674	8.242	.132	-10698.287	6392.59771	-25364.706	3968.13220

a. Size by Operating Revenue = Large

Figure A16: Hypothesis testing within large companies

ANNEX 5 – Financial Position Comparison Between Portugal and Italy

Size by Operating Revenue = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current assets th EUR Last avail. yr	Portugal	1035	205.971894	318.534210	9.90115608
	Italia	2341	459.560161	832.557702	17.2073359
Op. Rev th EUR Last avail. yr	Portugal	1035	373.923769	434.626520	13.5097106
	Italia	2341	559.586052	540.156196	11.1639699
P/L for period th EUR Last avail. yr	Portugal	1035	1.66882511	70.8425871	2.20203510
	Italia	2341	-23.585326	345.507268	7.14095803

a. Size by Operating Revenue = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current assets th EUR Last avail. yr	Equal variances assumed	56.987	.000	-9.496	3374	.000	-253.58827	26.7048516	-305.94760	-201.22894
	Equal variances not assumed			-12.774	3321.919	.000	-253.58827	19.8525892	-292.51281	-214.66372
Op. Rev th EUR Last avail. yr	Equal variances assumed	120.829	.000	-9.750	3374	.000	-185.66228	19.0423391	-222.99797	-148.32659
	Equal variances not assumed			-10.594	2428.054	.000	-185.66228	17.5255957	-220.02895	-151.29561
P/L for period th EUR Last avail. yr	Equal variances assumed	34.379	.000	2.330	3374	.020	25.2541510	10.8397653	4.00097728	46.5073248
	Equal variances not assumed			3.379	2749.909	.001	25.2541510	7.47276657	10.6013484	39.9069537

a. Size by Operating Revenue = Micro

Figure A17: Hypothesis testing within micro companies

Size by Operating Revenue = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current assets th EUR Last avail. yr	Portugal	189	2472.08906	1648.03631	119.877002
	Italia	674	2632.72141	1610.18931	62.0221750
Op. Rev th EUR Last avail. yr	Portugal	189	4574.42517	2084.61345	151.633316
	Italia	674	4444.03921	2031.16715	78.2376352
P/L for period th EUR Last avail. yr	Portugal	189	93.5562223	278.503461	20.2581459
	Italia	674	29.0774466	630.410930	24.2825217

a. Size by Operating Revenue = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current assets th EUR Last avail. yr	Equal variances assumed	.051	.821	-1.206	861	.228	-160.63235	133.218632	-422.10363	100.838926
	Equal variances not assumed			-1.190	296.192	.235	-160.63235	134.971278	-426.25657	104.991866
Op. Rev th EUR Last avail. yr	Equal variances assumed	.215	.643	.775	861	.438	130.385959	168.152632	-199.65109	460.423005
	Equal variances not assumed			.764	295.571	.445	130.385959	170.627636	-205.41306	466.184976
P/L for period th EUR Last avail. yr	Equal variances assumed	2.282	.131	1.369	861	.171	64.4787757	47.1087593	-27.982672	156.940223
	Equal variances not assumed			2.039	708.028	.042	64.4787757	31.6233037	2.39210608	126.565445

a. Size by Operating Revenue = Small

Figure A18: Hypothesis testing within small companies

Size by Operating Revenue = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current assets th EUR Last avail. yr	Portugal	38	8431.68299	4736.34026	768.335847
	Italia	215	11103.7799	7198.00713	490.900012
Op. Rev th EUR Last avail. yr	Portugal	38	18452.3896	8459.60083	1372.32847
	Italia	215	19159.4093	8490.99854	579.081294
P/L for period th EUR Last avail. yr	Portugal	38	685.871974	1128.01863	182.988785
	Italia	215	453.621116	3665.68770	249.997826

a. Size by Operating Revenue = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current assets th EUR Last avail. yr	Equal variances assumed	3.007	.084	-2.204	251	.028	-2672.0969	1212.57179	-5060.2088	-283.98503
	Equal variances not assumed			-2.931	71.318	.005	-2672.0969	911.769048	-4489.9722	-854.22170
Op. Rev th EUR Last avail. yr	Equal variances assumed	.102	.749	-.473	251	.636	-707.01964	1493.38429	-3648.1806	2234.14132
	Equal variances not assumed			-.475	51.069	.637	-707.01964	1489.50346	-3697.2239	2283.18458
P/L for period th EUR Last avail. yr	Equal variances assumed	1.477	.225	.387	251	.699	232.250858	600.483572	-950.37765	1414.87937
	Equal variances not assumed			.750	189.735	.454	232.250858	309.812538	-378.86857	843.370289

a. Size by Operating Revenue = Medium

Figure A19: Hypothesis testing within medium companies

Size by Operating Revenue = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Current assets th EUR Last avail. yr	Portugal	2	32826.2283	2098.73891	1484.03251
	Italia	34	94967.0974	143369.947	24587.7431
Op. Rev th EUR Last avail. yr	Portugal	2	104235.162	4688.66336	3315.38566
	Italia	34	160058.888	197949.600	33948.0763
P/L for period th EUR Last avail. yr	Portugal	2	3281.23403	1473.40532	1041.85489
	Italia	34	9611.65126	18179.1843	3117.70439

a. Size by Operating Revenue = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Current assets th EUR Last avail. yr	Equal variances assumed	1.028	.318	-.605	34	.549	-62140.869	102771.771	-270998.24	146716.498
	Equal variances not assumed			-2.523	33.226	.017	-62140.869	24632.4879	-112243.08	-12038.660
Op. Rev th EUR Last avail. yr	Equal variances assumed	1.049	.313	-.393	34	.696	-55823.725	141896.808	-344192.73	232545.283
	Equal variances not assumed			-1.637	33.532	.111	-55823.725	34109.5832	-125178.41	13530.9549
P/L for period th EUR Last avail. yr	Equal variances assumed	.858	.361	-.486	34	.630	-6330.4172	13032.6256	-32815.899	20155.0646
	Equal variances not assumed			-1.926	28.892	.064	-6330.4172	3287.17847	-13054.544	393.709976

a. Size by Operating Revenue = Large

Figure A20: Hypothesis testing within large companies

ANNEX 6 – Employees Performance Comparison Between Portugal and Italy

Size according to Numbber of Employees = Micro

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Costs of employees th EUR Last avail. yr	Portugal	557	49.6677057	35.0554295	1.48534622
	Italia	1181	102.885460	89.6955829	2.61003366
Costs of employees / Operating revenue % Last avail. yr	Portugal	531	47.81251	25.322940	1.098922
	Italia	1149	23.85763	19.628457	.579063
Operating P/L [=EBIT] th EUR Last avail. yr	Portugal	562	9.28207626	56.3348222	2.37634105
	Italia	1181	4.90614141	321.279972	9.34886104
Taxation th EUR Last avail. yr	Portugal	448	2.85625294	14.8857943	.703287674
	Italia	1181	9.52962489	35.3626185	1.02900970

a. Size according to Numbber of Employees = Micro

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Costs of employees th EUR Last avail. yr	Equal variances assumed	236.094	.000	-13.522	1736	.000	-53.217754	3.93551147	-60.936596	-45.498912
	Equal variances not assumed			-17.721	1691.543	.000	-53.217754	3.00308659	-59.107910	-47.327598
Costs of employees / Operating revenue % Last avail. yr	Equal variances assumed	105.695	.000	21.144	1678	.000	23.954877	1.132920	21.732792	26.176963
	Equal variances not assumed			19.285	835.448	.000	23.954877	1.242153	21.516770	26.392985
Operating P/L [=EBIT] th EUR Last avail. yr	Equal variances assumed	18.304	.000	.321	1741	.749	4.37593486	13.6531226	-22.402310	31.1541799
	Equal variances not assumed			.454	1325.765	.650	4.37593486	9.64614946	-14.547447	23.2993163
Taxation th EUR Last avail. yr	Equal variances assumed	22.340	.000	-3.866	1627	.000	-6.6733720	1.72621849	-10.059217	-3.2875271
	Equal variances not assumed			-5.354	1611.588	.000	-6.6733720	1.24638457	-9.1180769	-4.2286670

a. Size according to Numbber of Employees = Micro

Figure A21: Hypothesis testing within micro companies

Size according to Numbber of Employees = Small

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Costs of employees th EUR Last avail. yr	Portugal	501	291.882633	163.085878	7.28613967
	Italia	1329	602.177080	432.045284	11.8513215
Costs of employees / Operating revenue % Last avail. yr	Portugal	492	50.50632	24.343554	1.097492
	Italia	1308	30.31950	20.271564	.560510
Operating P/L [=EBIT] th EUR Last avail. yr	Portugal	501	22.2440221	126.159447	5.63638840
	Italia	1329	108.480987	632.402459	17.3472668
Taxation th EUR Last avail. yr	Portugal	453	7.93485528	23.6241824	1.10996091
	Italia	1329	50.5562039	129.455758	3.55106712

a. Size according to Numbber of Employees = Small

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Costs of employees th EUR Last avail. yr	Equal variances assumed	262.755	.000	-15.658	1828	.000	-310.29445	19.8167297	-349.16026	-271.42864
	Equal variances not assumed			-22.304	1827.994	.000	-310.29445	13.9119248	-337.57938	-283.00951
Costs of employees / Operating revenue % Last avail. yr	Equal variances assumed	84.552	.000	17.786	1798	.000	20.186817	1.134977	17.960804	22.412830
	Equal variances not assumed			16.381	761.091	.000	20.186817	1.232339	17.767629	22.606005
Operating P/L [=EBIT] th EUR Last avail. yr	Equal variances assumed	64.429	.000	-3.029	1828	.002	-86.236965	28.4693962	-142.07293	-30.401004
	Equal variances not assumed			-4.728	1576.527	.000	-86.236965	18.2399710	-122.01412	-50.459812
Taxation th EUR Last avail. yr	Equal variances assumed	101.050	.000	-6.967	1780	.000	-42.621349	6.11786835	-54.620309	-30.622388
	Equal variances not assumed			-11.456	1556.517	.000	-42.621349	3.72049606	-49.919062	-35.323636

a. Size according to Numbber of Employees = Small

Figure A22: Hypothesis testing within small companies

Size according to Numbber of Employees = Medium

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Costs of employees th EUR Last avail. yr	Portugal	186	1284.28515	577.489546	42.3435880
	Italia	197	3388.71363	2190.39643	156.059284
Costs of employees / Operating revenue % Last avail. yr	Portugal	186	30.49290	19.402478	1.422659
	Italia	197	24.31216	16.311633	1.162156
Operating P/L [=EBIT] th EUR Last avail. yr	Portugal	186	251.989143	651.483165	47.7690633
	Italia	197	913.323883	4182.93303	298.021639
Taxation th EUR Last avail. yr	Portugal	184	63.6252767	113.694855	8.38169594
	Italia	197	436.792985	1005.42362	71.6334671

a. Size according to Numbber of Employees = Medium

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Costs of employees th EUR Last avail. yr	Equal variances assumed	98.971	.000	-12.692	381	.000	-2104.4285	165.804709	-2430.4353	-1778.4216
	Equal variances not assumed			-13.014	224.631	.000	-2104.4285	161.701823	-2423.0750	-1785.7820
Costs of employees / Operating revenue % Last avail. yr	Equal variances assumed	5.276	.022	3.381	381	.001	6.180746	1.827933	2.586646	9.774846
	Equal variances not assumed			3.365	362.094	.001	6.180746	1.836999	2.568220	9.793272
Operating P/L [=EBIT] th EUR Last avail. yr	Equal variances assumed	28.830	.000	-2.132	381	.034	-661.33474	310.221582	-1271.2955	-51.373991
	Equal variances not assumed			-2.191	206.057	.030	-661.33474	301.825746	-1256.3973	-66.272161
Taxation th EUR Last avail. yr	Equal variances assumed	48.704	.000	-5.004	379	.000	-373.16771	74.5684658	-519.78743	-226.54799
	Equal variances not assumed			-5.174	201.363	.000	-373.16771	72.1221633	-515.37927	-230.95615

a. Size according to Numbber of Employees = Medium

Figure A23: Hypothesis testing within medium companies

Size according to Numbber of Employees = Large

Group Statistics[a]

	Country	N	Mean	Std. Deviation	Std. Error Mean
Costs of employees th EUR Last avail. yr	Portugal	9	8660.48392	6791.29593	2263.76531
	Italia	26	25875.8574	31314.1094	6141.20212
Costs of employees / Operating revenue % Last avail. yr	Portugal	9	18.11278	3.274505	1.091502
	Italia	26	22.55192	15.356642	3.011685
Operating P/L [=EBIT] th EUR Last avail. yr	Portugal	9	1956.20805	1874.31178	624.770593
	Italia	26	12943.7773	24786.6332	4861.05871
Taxation th EUR Last avail. yr	Portugal	9	401.617837	398.383744	132.794581
	Italia	26	3363.05158	5552.33685	1088.90284

a. Size according to Numbber of Employees = Large

Independent Samples Test[a]

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Costs of employees th EUR Last avail. yr	Equal variances assumed	2.743	.107	-1.621	33	.115	-17215.373	10619.9677	-38821.860	4391.11336
	Equal variances not assumed			-2.630	30.496	.013	-17215.373	6545.15064	-30573.243	-3857.5038
Costs of employees / Operating revenue % Last avail. yr	Equal variances assumed	4.665	.038	-.853	33	.400	-4.439145	5.206814	-15.032487	6.154197
	Equal variances not assumed			-1.386	30.362	.176	-4.439145	3.203377	-10.978046	2.099756
Operating P/L [=EBIT] th EUR Last avail. yr	Equal variances assumed	4.615	.039	-1.316	33	.197	-10987.569	8351.29137	-27978.399	6003.26083
	Equal variances not assumed			-2.242	25.811	.034	-10987.569	4901.04377	-21065.405	-909.73326
Taxation th EUR Last avail. yr	Equal variances assumed	5.989	.020	-1.583	33	.123	-2961.4337	1870.56313	-6767.1230	844.255561
	Equal variances not assumed			-2.700	25.731	.012	-2961.4337	1096.97028	-5217.4347	-705.43276

a. Size according to Numbber of Employees = Large

Figure A24: Hypothesis testing within large companies