

UNDERSTANDING CHANGES ON THE COUNTRY-OF-ORIGIN EFFECT OF PORTUGAL

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Abstract. The purpose of this study is to understand the international perception of Portugal, as well as the strategies used by Portuguese companies to overcome any possible negative country-of-origin (COO) effect. The paper focuses on companies belonging to different Portuguese businesses: wine, footwear and electromechanical. Cases were chosen because of the dynamic process that was correctly put forward at different levels. The results show that Portuguese companies are interested in getting to know how to accommodate or be part of that dynamic process, as this seems to be crucial if they want to succeed in international markets. The perception of Portugal is improving, and there seems to be signs of a positive COO effect being created in some instances. Most of the achievements are due to the previous success of Portuguese businesses and businesspeople in international markets that have been able to create a positive reputation. The key to success seems to be rooted in how companies combine their unique resources with technological innovations and strategic tools, backed by public policy. This study contributes to enhance the knowledge of managers on the COO effect and its effects on companies, by presenting different levels of analysis: company, industry and country level.

JEL classification: L6, M3, O52

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1. Introduction

Companies market their value propositions, which are nowadays becoming increasingly difficult to differentiate and communicate. Therefore, factors like technological innovation, purchasing experiences, design or product extras, etc. are now essential to the buyer in his or her decision-making process. It is in this

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context that the COO effect of a single product gains additional relevance. For the purpose of our study, we will adopt Meng, Nasco and Clark (2007)'s definition of Country of origin as an extrinsic product attribute indicating the country where a product was made, was assembled, or both. According to Schooler (1965), the author of one of the first articles in this subject, Country-of-origin can have an effect in consumers' opinion about a product. In 1977, Nagashima added that the country image could be dynamic over time, which grounded the idea that this effect on consumer's opinion is not static and may be influenced and effectively change Papadopoulos et al. (1987). More recently, in 2011, Diamantopoulos et al. (2011) found out that products characteristics are usually associated with general sensations towards a country. Consumers match certain countries with particular product categories, assuming that consumers only will buy these brands because of their superior reputation. A good example of this would be the consideration of Turkey for carpets, whilst Greece would pop up in consumer's minds for yogurt. Following these examples, we could also have the Port wine in the Portuguese.

Many companies in Portugal, a small European economy displaying high levels of openness, make a large percentage of their sales on international markets. In their internationalization process, there are relevant decisions to make, such as decisions on where to export to and what products to export, how those goods and services are going to be marketed, with what levels of adaptation and standardization. Even though Portuguese firms are in most cases experienced in international markets, some suffer from a neutral or even negative international perception (The Economist, 2015; The Financial Times, 2012).

This paper intends to understand the COO effect for Portugal, uncovering the perception that the international community has about Portugal. It also aims to identify the strategies that Portuguese companies may use to generate a positive COO effect. The research focuses on Portugal, as a good example of a country that is understood to face a neutral or negative COO effect, which is, however, changing. On this basis, we would like to uncover the changes that might be taking place in those companies/businesses sectors, so that countries with the same characteristics can also implement changes to improve their COO, as well as other Portuguese firms from other business sectors. In order to analyse the Portuguese situation, we have chosen three case studies that we believe demonstrate good strategies to be followed by companies belonging to different economic sectors. Therefore, the research question that will guide this research is: How can the COO for Portugal be improved?

How to deal with the COO effect

The COO effect can produce a positive, negative or null effect on a country. The COO constitutes a differentiation factor for buyers, and a possible competitive advantage for businesses. The importance of the COO effect on product evaluation has led to a considerable increase in the number of research studies on the concept (Schooler, 1965). The phenomenon of globalization also adds complexity to the concept. Globalization led to the converging of markets, thus making products more alike, sometimes even indistinguishable, if not for their origin.

Johansson (1985)'s research establishes that not all countries have the capacity to develop a positive COO effect through quality products or competitive prices. The literature on the topic seems to suggest that countries where this capacity is not well developed, as is the case of Portugal, have to rely on the application of different strategies in order to generate a positive COO effect. These countries can take advantage of factors such as unique country resources (exclusive raw materials, technological developments) (Han, 1989), unified brand/identity of one activity sector (Pereira, 2005) or strategic planning (production know-how) (Papadopoulos, 1993). These factors can enhance the development of a system, which it believes can generate a positive impact of the COO.

Unique country resources

Companies that have come to be associated with their COO have, from the perspective of consumers and markets, the same characteristics as the COO (Han, 1989). A country that is perceived as unknown, or with a poor reputation, will tend to be marginalized and rejected by the market (Silva, 2014). Countries that already have a recognizable image and a good reputation can use their country image as a lever to sell their products, because the markets perceive them positively (Agis et al., 2010). This is what happens with alcoholic beverages (i.e. in France with champagne; in Ireland with beer; in Scotland with whisky). In these cases, the COO is essential to the markets (Mandlaze, 2013), because the countries that produce the beverages take advantage of unique farming and production conditions, and specific technical and production know-how to produce unique and distinctive products. These conditions are hard for competitors to replicate. That is why the COO will be positive for typical or regional products, as the COO is the differentiator factor for the market (Gineikiene & Urbanavicius, 2009). This follows the country-specific advantages concept already developed by Dunning (1979).

Sector identity/brand name

The capacity of one activity sector to develop a positive COO effect will depend on its ability to develop a brand or identity for the companies of that sector, which can transmit to the markets an image of confidence and quality in the products of that sector as a whole. The success of one brand is thus connected to the way the representatives of that sector bring, communicate and present the brand differentiator factors to the markets (Interbrand, 2003¹). A brand needs to be easily recognizable, and possess a multitude of differentiator characteristics that distance it from its competitors. These characteristics are achieved through adaptability and good value for money (Lencastre, 2007). The success of a brand gains more relevance to sectors connected with the textiles/fashion world, for instance, considering that this sector works as a reference to the markets (Agis et al., 2010). Hence, in this sector, one brand can become better known than the country of its origin, and incorporate the products, the company and the sector within itself (Pereira, 2005).

¹ www.brandchannel.com accessed 6/3/2016 at 6pm

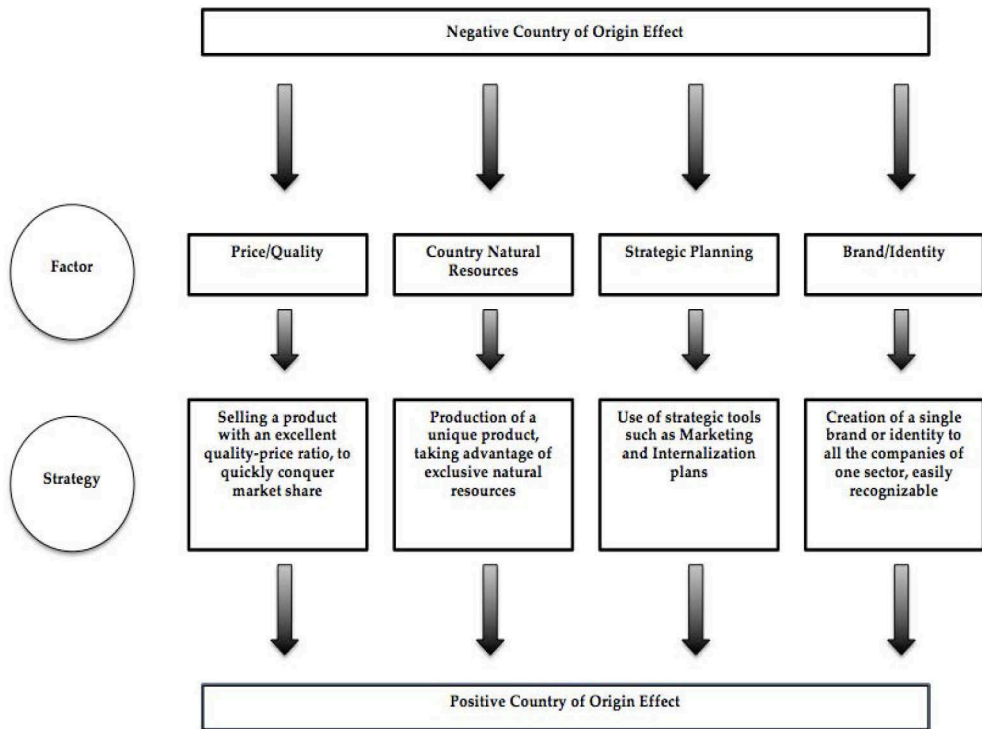
Firm's strategic planning

According to Johansson (1985) the factors essential to product evaluation, include price, quality, guarantee, extras and COO. All of these factors can be applied and developed through efforts made by firms. The strategy is a determinant element to the COO effect, because it has implications on the image and reputation of a country (Silva, 2014). Companies that are funded in a country with a negative COO effect will tend to have an increasingly harder path to success in international markets, even though it are increasingly witnessing situations in which that trend is reversed. As stated previously, the markets will apply the negative image of the COO to the company itself (Han, 1989). As markets become more international, the more prominent the origin of the product will tend to be (Papadopoulos, 1993). Nonetheless, the globalization phenomenon, technological innovations and changes in consumer behaviour have contributed to increase the dynamics of international markets and to the creation of a larger number of business opportunities (Ansoff, 1957). Companies that are investing more on research and development, and manifest a greater predisposition to innovate, may revolutionize markets, but they need to develop first a solid strategic planning to support it (Hamel, 1996). In the definition of strategy, companies may take marketing, production, sales and internationalization decisions devoted to positioning themselves internationally. Companies that can succeed in the global market will be able to engender a positive COO effect, because markets will consider the producing company as more important in comparison with the origin of the product (Chung Koo Kim, 1995). This is a reversal of the fatalistic position that some companies seemed to hold before due to their COO.

Proposed model

Strategies to deal with the COO effect form the basis for companies, sectors, industries or countries that want to achieve a positive COO effect. The variety of strategies developed at all levels demonstrates that quality, price and guarantees are not the only factors that can greatly influence the COO effect. Hence, changes in that perception can occur through the use of other instruments. By doing so, countries, as a whole, business sectors or companies on their own can change negative implications of COO normally associated with some countries. The literature review allowed us to identify and understand the multiple strategies to consider in order to change a negative COO effect into a positive one. It defined four factors, which can serve as a basis to develop a positive COO effect (See figure 1).

Figure 1. Factors and strategies essential to change a COO effect



Source: authors.

One of the most relevant factors is the **quality and the price** of the product (Johansson, 1985). A product with an excellent quality-price ratio will be able to win quickly market share, gathering immediate interest from the markets. The country or company that is associated with that product will have a positive COO effect. However, not all companies and countries can base their strategy for coping with a negative COO effect on quality and price. In many cases, as it have been witnessing in the advent of emerging MNE markets (Chattopadhyay et al. 2012), they are forced to rely on other options to develop a positive COO effect. Those options will be based on factors such as the **unique conditions**, resources and raw materials of the country, **brand or identity efforts made by the representatives of one particular sector**, and **strategic planning** on the firms' side.

In relation to the **unique conditions**, resources and raw materials, companies can develop unique products, from a single region, for example, which competitors cannot replicate, taking advantage of excellent natural conditions. The COO effect will be positive because of the exclusivity of the product. However, obviously this should be backed by a marketing effort related to that unique value proposition.

One **brand or identity**, which identifies the products and activities of the companies of one sector, enhances the probability of creating a unified well-known and global brand. Cooperation between companies and the sharing of ideas makes it possible to produce products with quality and develop the correct promotion techniques. A brand needs to be easily recognizable, and transmit a sense of quality and reliability to the markets. A famous brand, known by a large number of markets, will contribute to a positive COO effect. This work needs to be done by the trade associations or industrial associations that act on behalf of the firms they represent and to combine their efforts, normally by trying to negotiate in better conditions, to place larger orders, to promote the products of the associated members, etc. Therefore, they represent the interests of smaller firms acting as if they were one larger company.

Strategic planning from one specific company can also help to overcome a negative COO effect. Strategic tools such as marketing activities, efficient production processes and good internationalization plans can support this. The capacity of one company to build a global and respected reputation, with a strategic planning, will determine the possibility of coping with a not so good COO effect. Each company, sector, country and manager needs to understand what is the strategy that suits their purpose the best (to overcome a negative COO or implement a positive impact of the COO), because each case involves different dynamics, which will influence the application of the strategies previously identified.

After identifying the techniques that can be used to implement a positive COO over a negative one, it is necessary to demonstrate how they can be applied. Using the three case studies, we want to demonstrate how managers, companies and countries can overcome the effects of a negative COO.

2. Methodology

For Yin (1994), the case study method is suitable when researching a contemporary phenomenon in a real life context; the borders between the phenomenon and the context are not clearly defined and a multitude of sources can be used as evidence, which seems to be the case. We will rely on a qualitative approach, based on the case study method, to understand the impact of the COO effect on Portugal and the strategies that were used to generate a positive COO effect in some respects. The three case studies used are from different areas/sectors. The first case study is on the Portuguese port wine sector and describes the successful internationalization process of port wine companies. The second one focuses on the Portuguese footwear sector. It clarifies the perception of the markets on Portuguese footwear and describes the strategy of the association of the Portuguese shoe sector to develop a new brand and identity for the industry. The third one is about the electromechanical sector, and explains the strategy behind the internationalization plan of EFACEC, allowing us to understand how the company became global, easily recognizable and well known. In all cases, secondary data was used.

The COO of Portugal

Constant changes in the behaviour of the markets and societies worldwide have determined the importance of constantly controlling the impact of such changes on each country's businesses. In the case of Portugal, its performance has recently been brought to the news due to the difficulties that the country has gone through with the impact of the great financial crisis and its consequences that led to the implementation of an economic adjustment programme in May 2011. This means that, recently, the international society has not been given a good idea of the country. In some stances, we can even say that internationally Portugal has no contributing for the formation of a positive COO, which is definitively not good for Portuguese companies or Portuguese businesspeople. We understand this to be even more acute in countries from outside Europe that do not normally "hear" about Portugal on the news, until within the European Union context, they began to "hear", but not for positive reasons. The perception of Portugal directly influences the impact of the COO and in this way limits firms' opportunities to position their products abroad.

Hancock (2015) mentioned on his book on Portuguese people that "desenrascanço" is a Portuguese word referring to their ability to find an incredible last-minute solution to a problem, mostly one caused by their own inaction. He believes that this is the best word to represent the Portuguese population and industries. The International Study on Management Practices, produced by the International Monetary Fund, and the World Bank, in 2015, conveys that Portugal has poor managers and urges the country to invest in training its managers. According to the same sources, the traditional mentalities of Portuguese entrepreneurs lead foreigners to believe that Portugal is still stuck in the past. Furthermore, the www.executiveplanet.com refers to Portuguese business leaders as having a very conservative attitude. This attitude determines the behaviour, strategies, negotiations and image of Portuguese businesses. Bosses are considered to be authoritarian, averse to change and concentrating all authority in themselves. The centralization of power diminishes the chances of developing innovative ideas and changing company strategies. This perception fits the Hofstede Cultural Dimension study (Hofstede, 2004), which ranks Portugal in the 2nd place on the Uncertainty Avoidance cultural dimension. Countries with high scores in this dimension need as many rules as possible to know how to perform their activities. They are known to live with a high level of stress and to constantly worry that something will force a significant change in their normal routines. This means that the average Portuguese citizen resists change and feels comfortable maintaining the status quo (Hofstede, 1997). The Portuguese are, then, considered to prefer to take few risks in a negotiation and to prefer it face-to-face. This retraction against international business activity shapes an image of the unwillingness of companies to work with international markets, which, is currently being changed.

Table 1. Portugal COO effect – negative factors

<i>Stereotypes</i>	<i>Verity</i>	<i>Improvements</i>	<i>Impact on the country image</i>
Disrespect for instituted rules	Partly true	Few	Negative
Unwillingness to internationalize	Not true	Several	Negative
Poor and few managers	Not that true	Significant	Negative
Conservative businesspeople	Partly true	Few	Negative

Source: authors.

Fortunately, Portugal is already making important steps in this field. Two Portuguese universities and their respective Masters in Management are ranked among the top 100 Masters in Management, according to the Financial Times in 2015. In the ranking, we find that graduates from the Masters in Management from Univesidade Católica Portuguesa (with a 98% employability rate and an average annual salary of 40,000 USD) and graduates from the Masters in Management from Universidade Nova of Lisbon (with a 87% employability and an annual salary of 47,000 USD). The growing reputation of these universities along with the entrance of their graduates into the market, even if slowly over time, has been crucial for the development of management, finance and strategy processes going on in Portugal. Additionally, Portuguese MBA programmes, and Portuguese universities overall are gradually enrolling in international accreditation programmes, and are successfully obtaining accreditations such as EQUIS and AMBA.

In fact, the perception of Portugal has been constantly changing over the years, as executiveplanet.com (2015) reports: “Only 30 years ago Portugal still had a poor, backward agrarian economy propped up by wealth stripped from its colonies. While the changes since have been dramatic, Portugal has yet to fully take on board the requirements for competitiveness in a modern market economy.” For this, changes on the political and economic panorama have been contributing significantly (Financial Times, 2012). The general opinion and perception is that, although Portugal has been registering some major improvements, there is still a long way to go. Nevertheless, businesses are now registering an inescapable internationalization mentality. This mentality was largely enhanced by the work of AICEP (Agência para o Investimento e Comércio Externo de Portugal), a government business entity, created in 2007, focusing on encouraging foreign companies to invest in Portugal and contribute to the success of Portuguese companies abroad in their internationalization processes or export activities. The positive impact of AICEP’s measures, the success of several Portuguese start-ups abroad and the necessity to export further due to the decline in buying power of the internal and EU market, moved Portugal forward to

an active presence and improved competitiveness. As Paddy Cosgrove (2016), founder of Web Summit, said to the Portuguese newspaper Público, “the most important and fundamental thing is that the basis was built a long time ago”. At this moment, in Portugal, we can find an important basis for entrepreneurs, incubators and business development programmes. The goal is to give Portuguese businesses an international dimension while removing the barriers of negative perceptions and stereotypes.

Negative perceptions reflect poorly on the image of Portugal and restrain the ability of the country's companies and business leaders to expand their business activities. However, we understand this scenario to have been changing significantly and evidence of this is now available in the news. Needless to say that changes in Portugal's COO, which are responsible for the country not having to cope with the burden of its brand name anymore, were not implemented from one day to the next. In fact, as one source mentioned, they took years to emerge, and even though one can no longer say there is a liability behind the country's name, much is still to be implemented.

3. Case studies

Port wine sector

Regional products are associated with the traditional habits of older societies, specific geographical characteristics, raw materials and unique production processes. In the case of the production of port wine, the Região Demarcada do Douro (DOC), one of the oldest denominated wine regions of the world, dating back to the 18th century, is characterized by the climate of the region and the soils. The gravel soils help with the provision of water, guaranteeing the quality of the vineyards. Also the hills of the Douro region, in the North of Portugal, protect the vineyards from the moist winds of the Atlantic Ocean, providing the ideal climate for port wine raw materials: the grapes. In the Douro region, precipitation is low and it reduces towards the summer, accompanied by a slow, but steady, increase in the average temperature. These unique conditions make the terraced hills of the Douro the best place to produce port wine, standing out from other production locations, for its uniqueness and quality of production.

The port wine sector is one of the oldest and most traditional Portuguese sectors. However, since the beginning of its activity, firms have been oriented to the international markets. Today all port wines companies acting in Portugal are international. This type of sector prefers to enter foreign markets through direct exportation or specialized contacts in these markets (i.e. intermediaries, agents, distributors and sales subsidiaries, in some cases). Of the five main players at the moment, only one has 100% Portuguese capital.

It was based on the premises above that port wine brand groups, like Sogevinus Fine Wines, S.A. (as a matter of fact, a 100% Spanish company owning brands such as Burmester or Cálem) built their way to success. Port wine companies are oriented to the exportation of their products, recognizing the decreasing trend of internal consumption and an increasing external one, and the interest in port wine by international markets. Depending on the market, companies use: foreign distributors, direct investment and foreign agents. The target markets are those that present the best opportunities to increase the value of the brand and volume sales. Basically, companies

sell all over the world, with 720,772 hectolitres exported in 2014, representing 25% of Portuguese wine exports, the majority exported to markets like France, Angola and the UK (Instituto do Vinho e da Vinha, 2014). In order to promote their product, companies establish an expansion strategy based on participation in international fairs and industry related events, to expand the familiarity of the brand and advertise their products.

Portuguese footwear sector

The traditional Portuguese footwear sector was historically associated with the production and commercialization of low quality products, normally related to low labour costs. This means that the country's name, when associated with this industry, exerted a negative impact. To fight this negative perception, the sector, seen as one of the most traditional, was forced, in the late 20th century, early 21st century, to develop a series of differentiating factors (innovative production, modernization and improvement in the quality of the product through high tech processes) in order to compete with foreign industries in international markets. The changes (quality improvements, new marketing strategies, revolutionizing design) resulted in the production and commercialization of products to highly demanding and sophisticated markets with a more risky fashion sense, yet, suited to the new fashion trends. It was a strong response from a sector mostly made up of small, family companies to the growth of opportunities in international markets, mostly provided by the globalization phenomenon and the converging of societies and markets.

The strategy defined by APICCAPS (Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos), changed the paradigm of the Portuguese footwear sector. Nowadays the perception is that their products are high quality, with an appealing and modern design, making the Portuguese shoe one of the best in the world. The transformation of the sector was based on design changes and marketing to promote the new outlook on the Portuguese footwear sector. The sector became one of the most important sectors to the Portuguese trade balance. Of total exports by this sector, 92% are destined for European markets. The improvement in the perception of Portuguese footwear has been supported by ground breaking promotional campaigns aimed at international buyers. The promotion of the product is being conducted by APICCAPS, the association responsible for the promotion of the Portuguese footwear sector, and for the support of the internationalization of the sector's brands. The promotion campaigns aim to consolidate the Portuguese footwear brands in the mind of international buyers and companies, while increasing the number of countries that receive Portuguese exports.

The Portuguese shoe is, at the moment, considered one of the best in the world. As a blind test ran during MICAM, the biggest footwear fair in the world, by the Universidade Católica Portuguesa attested, the Portuguese shoe was considered to be the most valuable shoe, even ahead of the Italian shoe. These results are an example of the huge leap in quality, competitiveness and design made by this Portuguese industry, which became the number one driver of Portuguese exports in 2015².

² In Jornal Económico, in 12/2/2016.

Electromechanical sector

EFACEC group is a Portuguese company, with a large presence in international markets, integrated in a sophisticated sector, the electromechanical sector. It operates in the energy, engineering and mobility sectors. It is the largest Portuguese electromechanical group and it was founded in 1948. It is present in almost 65 countries and the volume of business to international markets represents almost 65% of group revenue. This group is embedded in an extremely competitive market, where companies constantly present technological developments, forcing competitors to adapt continuously. Bearing this reality in mind, in 1990, EFACEC developed an internationalization strategy based on market studies and the development of new products on the basis of forefront technology (such as renewable energies and new transportation interfaces). The multitude of sectors in which the group works forced them to adapt different strategies to different markets. They developed entry strategies such as joint ventures, subsidiaries and foreign direct investments. Nowadays EFACEC operates on the global market competing against other important companies. Although it operates on a smaller scale than more important and financially wealthy companies, EFACEC has successfully competed against several businesses due to the fact that that the group is good at what they do (their products and services are present all over the world in 34 countries operating in several areas, such as communications, transport, industrial equipment, etc.). The company has invested in high-tech processes, restructured its facilities and equipment, which has provided the group with the capacity to produce the same or even better solutions than their competitors (more energy efficient, durable and resistant). Supported by its innovative practices and the input of resources from the new owners of the group (José Mello Group and Têxtil Manuel Gonçalves) the group outlined a strategic plan in order to leverage its position on international markets and to respond to the challenges that the same markets present. The new organizational model consisted of ten business units, and three specialization areas (energy, engineering (environmental and services) and mobility (transports and logistics)), applied to specific markets. When the model proved to be successful in one country, the group replicated it in another.

The model applied to the cases

The effects of the great financial crisis that affected Portugal in 2011 and the reduction in Portuguese purchasing power have contributed to the expansion of Portuguese products and businesses to international markets, namely to those outside Europe, not so aware of Portugal as a producer of some goods. The three case studies demonstrated three different strategies to work with the absence and possibly negative COO effect that Portugal may suffer from. In all three cases, the companies seemed to have known how to overcome any disadvantages associated with any negative image that Portugal might have and even create a more positive perception about Portuguese goods.

In the case of the port wine case study, the certified regional or national Portuguese product acquires its competitiveness and reputation through its singularity and differentiation in the eyes of the market. Therefore, we can say that the reasons for this lie in a national level approach. Indeed, Portugal sets the

standard for port wine. The crucial part of the success of companies with this type of product is in the way in which the country draws on its natural competitive advantages for this production. The port wine sector is therefore a good example proving that the soil and climate conditions (natural) of a country are essential to develop specific products and that the COO of a product influences the choice of a buyer, so that, in this case, the COO adds value to the product. The unique characteristics and qualities of the product, impossible to replicate in full by competitors, ensures the preference and the reference of this product in the markets.

Although it is true that in the case of the Portuguese footwear sector, the perception has changed and now the COO can apply a positive effect, it also means that the industry will have to continue to work hard to maintain the positive impetus acquired in the past years. The work of APICCAPS and the companies of the sector not only annulled the negative effects of the COO on this sector, but it even allowed them to become positive, as recent studies that place Portuguese shoes as the second best in the world, right after Italian ones, demonstrates. It has achieved a change in the perception of the products, brands and companies associated with the Portuguese footwear sector. The innovation in design, the promotional work, the acquisition of technologically advanced raw materials, the creation of one identity for the companies of the sector and the definition of a production and selling strategy of high quality products have changed the panorama of the Portuguese footwear sector. Today Portuguese shoes are spontaneously associated with words such as “good quality”, “competitive”, “modern”, “young fashion”, “design” and “innovation”, as the specialists of the sector state³.

With the case of the electromechanical industry (EFACEC), it can also demonstrate how any negative COO was overcome, but this time due to the actions of a single firm. EFACEC potentiated the growth of sales and the reputation of the company. Through a well-organized strategy implemented during years in which the firm always maintained an image of quality, EFACEC grew in the international markets, proving that the influence of the COO can be diluted. In this case the impact of the COO effect is, currently positive because EFACEC built a strategy based on product innovation and adaptability to markets, which made the company achieve global status and have a specific plan for each market. By overcoming the COO factor, EFACEC can now even extend a positive COO to other Portuguese companies and on Portugal. The positive perception of the company and the status that the company achieved, are applied to the COO, like a halo effect. So this effect can be achieved not only when the natural conditions and history play a positive role on the creation of a positive COO, or when sectorial organizations work as a whole, but individual firms may also change the COO of a country for the better, which also accords with the eclectic paradigm proposed by Dunning in 1979 (firm-specific advantages).

The three case studies demonstrate that the perception of an old-fashioned Portugal seems to belong to the past. Each sector applied a different strategy, the traditional sector – wine – had the ability to adapt to new realities and learn how to derive benefit from its natural competitive advantages to succeed. The Port wine

³ In Jornal Económico, in 12/2/2016.

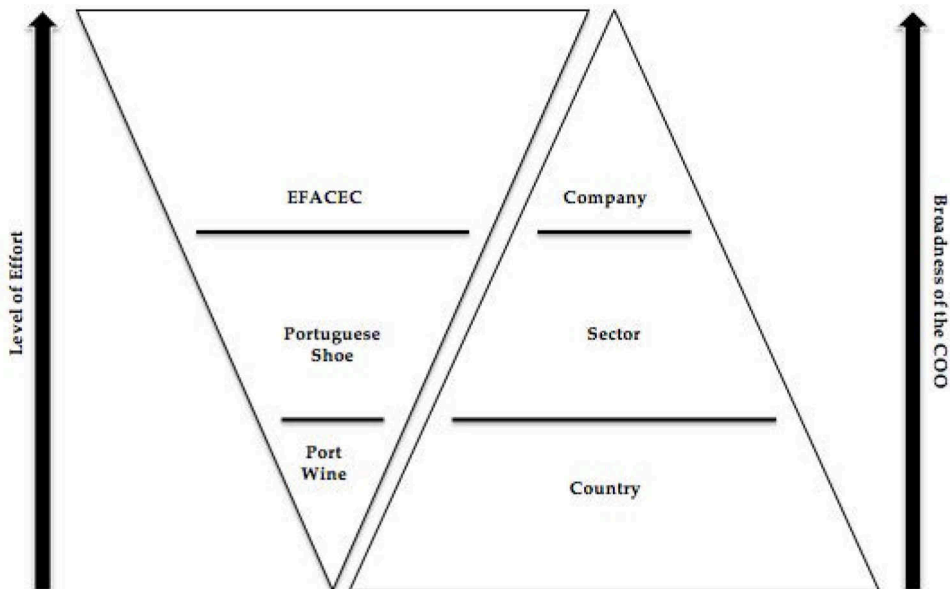
sector used the exclusivity and uniqueness factor of its products to triumph in a very active market. The first one proves that the positive reputation of Portugal, as a producer of port wine, due to the unique conditions of the North of Portugal, associated with centuries of history, reflects positively and helps port wine companies to triumph in international markets. This provides a natural incentive to operate in international markets.

The Portuguese footwear producers had the foresight to align their efforts and through an association created to represent their interests, the sector used creativity, strategic planning and innovation to retune their image and productive capacity, basing their selling proposition on other factors rather than low cost labour. The example confirms the importance of cooperation between the representatives of a sector in order to develop a single identity and brand, which will be the flag of the sector on international markets. It provides an example of a turnaround from a sector that had a negative COO effect to a sector that has, currently, a very positive one.

Through the combination of critical internationalization strategies with an excellent use of productive-technical expertise of the Portuguese labour force, one electromechanical company has managed to gain a cornerstone in the international markets. The EFACEC case study helps to understand how a company was able to develop a global reputation, therefore contributing, nowadays, to a positive COO effect.

Hence, it is proposed the model of figure 2 to summarize our reasoning of what happened in these Portuguese situations.

Figure 2. Level of analysis of the intervention and sophistication and efforts necessary



Source: Authors.

Above it see that the more sophisticated the industry is, the greater the willingness of firms to work on countering any negative effect should be. The sophistication of the industry refers thus to the efforts that are necessary to implement a positive COO. The more sophisticated the sector, the more difficult it is to build a positive COO effect and the greater the effort necessary to produce a positive COO effect would be, especially by a brand name.

The figure shows that in the more traditional sectors, positively associated with natural characteristics and resources in Portugal, it is less demanding to work on a positive COO effect. This is contrary to what happens in a more sophisticated sector, where more difficulties occur in developing a positive COO effect.

Portugal is a country that specialized in traditional sectors such as textiles, wine, cork and shoes (Porter, 1993)⁴. In the Porter Report (1993), these were identified as the sectors that the government should develop as Portugal was considered not to have the necessary competences to be a leader in sophisticated and technological sectors. However, we understand now that this was not necessarily true. In fact, the government should invest in the sophisticated sectors, assist the cooperative movements and collaborative initiatives of producers in several fields, and stimulate firms to take the lead in building a positive COO effect.

4. Findings

Resuming the research question – How can the COO in Portugal be improved? – we can conclude that the COO impact in Portugal can be changed by applying the strategies previously identified in the literature review and proved by the conclusions of the case studies. Companies belonging to the traditional sectors (i.e. port wine and Portuguese footwear) need to use their unique resources, recognizable products and unity of the sector to propel them to be better perceived by the markets. As Gineikiené and Urbanavicius (2009) state, regional products, when famous for being produced in one region, have a better reputation for the markets. Products that have a negative perception, due to their COO, and that cannot take advantage of natural conditions or a positive reputation, need their sector to cooperate, in order to grow as one, associating all the positives from the sector within the product that they develop and commercialize. Just like the Portuguese footwear industry, it is necessary to take advantage of the unique qualities of the sector and association of all companies, working as one for the collective goal of improving quality, marketing and the general competitiveness of the product.

Companies from a sophisticated sector (i.e. EFACEC – electromechanical sector) need strategic planning and technological innovation, in order to produce a positive COO effect. At a time when the business world is increasingly competitive, a capable and assertive business strategy is, from the start, a source of competitive advantage to businesses. Businesses that are able to perceive the trends in consumption and the preferences of their clients and buyers will be in a better position to hit the markets and be successful in international markets.

In the COO literature, most studies focus on ways to reduce the negative impact and not so concerned with the conditions to project a positive impact,

⁴ Porter Report – Portugal, 1993

studying the dynamic and natural conditions of the countries. This paper enhances the knowledge on the field. The triangular framework helps to understand that there are various strategies for working with the COO effect, and that companies, depending on their sector and activities, might have to work hard to generate a positive COO effect, namely those belonging to more sophisticated industries. Sophisticated sectors have a harder path to a positive COO effect because they depend on factors like technological innovation and strategic planning, which are not easy to take for granted for clients and take years to build. These are company-related factors mainly. Traditional sectors will tend to have an easier path to a positive COO effect, because they can take advantage of natural resources and conditions, which are not possible to replicate by competitors. Logically their product is exclusive and markets tend to associate the production country with quality products. The positive effect of the COO in this case is more natural and the advantages country-related. A country constituted by a large number of traditional sectors has a better chance of having a positive COO effect, than a country mostly constituted by sophisticated sectors. However that does not mean that they can be complacent, as new world competitors are every day challenging this, as we can see with champagne and port wine drinks, being produced in other worldwide locations. In the case of traditional sectors that cannot take advantage of natural resources, or even from a positive reputation associated with their product, they can follow a similar path to the one advise more sophisticated sectors. One that guarantees a shot at successfully implementing a positive COO is associativity. A sector that is able to work together as a whole can largely improve their product and strengthen, through collectivism, the solidity of the companies that constitute the sector. This way, companies will be able to have more resources (human, physical, intellectual) to innovate in design, production processes and marketing tools. The sector will be able to build a positive reputation for itself.

We understand that Portuguese managers should invest in technological innovation, as well as in the incorporation of qualified labour, and studies on the identification of the advantages of being Portuguese in the international markets. They should also try to work with national associations and implement a strategic thinking in their corporations. In order to potentiate the growth of the Portuguese industry and economy, the government needs to reduce bureaucracy, and simplify the process associated with the attribution of European funds and invest in the promotion of the Portuguese brand in the international markets, to sell the Portuguese brand as one. In the same way, situations such as the one that led to the creation and development of APICCAPS should be regarded as benchmarks for other equally traditional sectors that have high potential such as pottery, glass and textiles, to name just a few.

99.9% of Portuguese businesses are SMEs, whose priority has not been marketing. In many cases, they have struggled to find financial resources to access equipment that can guarantee short-term financial gains. This uncertainty shines through the internationalization strategies of several companies that prefer to take low risks. However, this approach is changing, and many companies are realizing that their competitiveness can be extended to countries outside the EU. The future should bring technological advances, start-ups support, improvements in the contents taught at universities (management, entrepreneurship, etc.), in addition to participation in international fairs. Actions like these should promote Portugal in international markets and associate it with more positive images.

As for limitations and hints for further research, we may say that the results of the research are based on case studies of companies located solely in Portugal, which is a limitation. Furthermore, the replication power of the findings are limited due to the study of just three cases of anecdotal evidence in specific sectors within specific country. This research could therefore be extended to other sectors and applied to other countries whose COO is still consider a liability (i.e. other European Mediterranean countries, such as Greece or Spain and other rather small economies located in other geographic areas like, for instance, Latin America, North Africa or the Middle East). Future works could also focus on investigating examples of successful Portuguese products on international markets, describe the changes in the perception of Portugal as a name and evaluate the impact of the Portuguese current economic scenario on the image of Portuguese made products. As for this purpose, longitudinal studies would be necessary to infer on some of these findings.

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