Complexity and interdependency in firm’s internationalisation: when the state becomes the partner

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Abstract: A broader consensus is built around the rationale of internationalisation process as a firm-specific issue. Under this view, the state/governmental intervention is not usually seen as desirable or relevant; nevertheless it has always occurred whether catalysing, defining or disregarding the firms’ foreign market expansion. This paper presents a case where the government surpassed that ‘soft role’ and promoted a joint venture with banks in order to take an active part in the capital structure of internationalising firms. The findings from the empirical facts show that this strong involvement of the state responded to a ‘failure’ of the financial sector and catalysed the internationalisation of Portuguese firms. The discussion and conclusions underline three relevant issues within the international business field: the complexity of firms’ internationalisation process, the active presence of non-industrial actors in that process, and the interdependency established among firms and governments through collaborative strategies to assist firms’ internationalisation.

Keywords: internationalisation; complexity; interdependency; non-industrial actors; state; government; joint ventures; risk; lack of knowledge; venture capital; Portugal.

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1 Introduction

Firms are essentially focused on growth and profit and, thus, need to be increasingly concerned with regard to such issues as competitiveness and, particularly, to their engagement in internationalisation processes. This does not imply, however, any standard or deterministic mono-perspective strategy of the firms’ approach to internationalisation. In fact, a wide range of situations exist – from small local firms to large multinationals and from differences among sectors to the recent ‘emerging giants’. Moreover, firms’ decisions can face different modes and forms of involvement given numerous internationalisation obstacles. These modes range from local agents to foreign direct investments (Johanson and Wiedersheim-Paul, 1975; Anderson and Gatignon, 1986; Autio et al., 2000), and from single movements to collaborative partnerships (Contractor and Lorange, 1988a–b).

Along with these diverse approaches, the internationalisation phenomenon is not limited just to the scope of the firm and its firm-industrial partners. There are other non-industrial players that have always been pieces in the internationalisation chessboard. For instance, the role of governments, while limited, becomes relevant at both macro and micro levels. On one hand, governments strive to create an environment to support productivity and to operate as central players in protecting domestic markets or integrating various markets. On the other hand, governments behave as strong stimulators, handy facilitators, compliant regulators or permissive liberals in relation to the firms’ choices.¹

Within the mainstream view that only the firms concretise internationalisation, the cost of non-internationalisation (Forsgren, 2002) should be coped within the firms’ span. However, real markets do not function as perfectly as in Adam Smith’s metaphor, and
governments are gaining awareness on new forms of giving a hand to the ‘invisible hand’. That support is of major priority when firms do not have the necessary resources under the conditions of a globalised world economy.

This is the substance of the case we are presenting. The interaction with the state and the banking sector was crucial for Portuguese firms to hurdle two common internationalisation barriers: lack of knowledge and lack of resources. The Portuguese firms needed capital to support their foreign investments, yet banks and capital risk entities could not support those needs owing to their limitations on estimating the foreign investment risk. This has led to a sort of impasse, which can be linked to a lack of international knowledge that seemed to be transversal to the Portuguese economy, from firms to banks. The government perceived that it could act as an agent able to mitigate that risk perception and seek joint venture with banks in order to prop up the firms’ internationalisation.

Therefore, the aim of this paper is to illustrate the complexity and the interdependency that are increasingly being established among the firms and non-industrial actors in relation to internationalisation processes. The dyadic relationships within firms and banks and within firms and state were not enough to overcome the internationalisation constraints faced by common firms, which led to the creation of a third relationship vehicle amid the two non-industrial actors, the government and the banks.

The next section focuses on the internationalisation fundamentals of the firms’ scope and extends to a short literature review on internationalisation constraints and benefits and how firms are seen to have encountered themselves embracing different kinds of partnerships within networks. Section 3 presents all the empirical evidence gathered, including the case framework conceptualisation and insights on the related Portuguese internationalisation context. Supported on the experience of a joint venture between banks and the Portuguese Government (‘Fundo para a Internacionalização das Empresas Portuguesas’ (FIEP)), in Section 4 we discuss the results of this dialogue between state policies and risk sharing in the context of internationalisation processes. Through a three-part discussion – internationalisation of the firm as a complex process, non-industrial actors as partners to overcome the firm’s internationalisation constraints, and the interdependence between the firm and the non-industrial actors within the internationalisation context – we then arrive at the conclusions and further perspectives, emphasising the role of political actors as eventual catalysts for both the firms’ growth and the national competitiveness.

2 Some notes on firm’s internationalisation

A survey from the EU Observatory of European SMEs (The Gallup Organization, 2007), with 16,339 participants, highlighted the lack of knowledge on foreign markets as the main export obstacle to firms (13% of exporting SMEs mention this as their prime constrain), immediately followed by the lack of capital and by import tariffs in destination countries (both 9%). This actual European context on the SMEs internationalisation substantiates the lack of knowledge and the lack of resources as two of the major constraints to firms’ internationalisation found in International Business studies literature (Johanson and Vahlne, 1977; 2003; Shrader et al., 2000; Forsgren, 2002).
The international challenge is particularly important to the European firms because they have to face these constraints early on in their growth process. In contrast to their US counterparts, where the domestic operations’ growth achieves such a dimension that internationalisation becomes essentially a tension relationship between headquarters and subsidiaries (Doz and Prahalad, 1984), the European firms need to realise internationalisation as an unavoidable process of growth (Johanson and Vahlne, 1977), rather than an optimisation exercise in resource allocation.

Internationalisation could simply be defined as the firm’s attitude towards any foreign activities (Johanson and Wiedersheim-Paul, 1975), or, more dynamically, as the process in which firms acquire the knowledge that will influence directly and indirectly their transactions with foreign countries (Freeman, 2000). Thus, as a process, internationalisation consists on the increasing involvement in international operations (Johanson and Vahlne, 1977; Oviatt and McDougall, 1999) and on the firm’s consequent strategy, resources, structure and organisation adaptation to its international environment (Freeman, 2000), combining strategic thought, action, emergent circumstances, opportunities and necessities (Johanson and Vahlne, 1990).

International Business research literature embraces both static and dynamic conceptualisations. The transaction costs theory (Williamson, 1975) supports that the multinational firms exist owing to the insufficiency of resources in the domestic market or to the high domestic transaction costs. The firm is compelled to buy products in the external markets or even to acquire foreign production units either because it cannot find these products or because they are too expensive in the domestic market (Johanson and Mattsson, 1987; Rugman and Verbeke, 2004). In line with this perspective, the internalisation of production in foreign countries can be motivated by the increase of customs tariffs, transport costs or loss of economies of scale in the domestic market (Buckley and Casson, 1998) or even because firms find advantages in transferring resources to other countries, in order to combine them with other fixed resources or opportunities (Dunning, 1988).

According to incremental internationalisation models, firms increase their foreign activities along with their international experience in an interplay that promotes international growth. Thus, the process starts while the firms’ activities are still exclusively in their home market; they become aware of internationalisation with the occurrence of internal factors such as excess of resource capabilities (financial, management, marketing or production), and external factors like sporadic foreign orders (Johanson and Wiedersheim-Paul, 1975), governmental measures to support internationalisation (Wiedersheim-Paul et al., 1978) or domestic competition and limitation (Coviello and Munro, 1997). After this pre-international phase, when few irregular exports may appear, the firm tries to stabilise foreign sales via local agents. With the exports’ stability, firms refine their market information and carry on committing resources locally, primarily with representative offices and afterwards with production plants installation. This incremental allocation of resources to foreign markets is the basis illustration of the Uppsala Model (Johanson and Vahlne, 1977), one of the most widely accepted internationalisation process conceptualisations. This model accentuates the internationalisation process as a learning process. The firm’s international growth pace is directly dependent on the knowledge acquisition rate, i.e., the foreign market commitment increases as more foreign market knowledge the firms acquires. This relationship is not univocal and an interplay between knowledge and commitment is
established. Some researchers (Andersen, 1993) address this model as an incremental one, yet others support that the incremental notion must be circumscribed only to the ‘establishment chain’ (Hadjikhani, 1997). In fact, incremental models (Leonidou and Katsikeas, 1996) presuppose a never-ending cycle of growth and a deterministic perspective that do not fit in the Uppsala Model’s essence of progressive adjustments towards the surrounding environmental changes. Thus internationalisation, within the firm’s perspective, can be comprehended as a balancing exercise between the knowledge and resources committed to a certain market in order to face the different environmental contexts.

This balancing exercise has a direct impact on the firm’s risk perception. As stated in Johanson and Vahlne’s 1977 paper, the risk perception results from the product of two variables, uncertainty and commitment, which in turn can be associated with the previously found major constrains on the internationalisation, the lack of knowledge (Forsgren, 2002) and the lack of resources (Johanson and Vahlne, 1977; Hadjikhani, 1997). This particular emphasis on risk within the firm’s internationalisation process is substantiated in Hadjikhani’s (1997) implicit framework of knowledge, commitment and risk, because of the bounded rationality assumed in the Uppsala Model’s internationalisation mechanism. Closer to the market view, Rugman (1976) supports that international diversification decreases the variance of sales, and consequently, the firm’s risk, concluding that international diversification gains importance as smaller the firm’s domestic market is.

These risk perspectives illustrate the dilemma in Portuguese firms’ internationalisation. On one hand, Portugal being a small country with a small domestic market, internationalisation proposes to be a compulsory move for Portuguese firms to grow and minimise risk. On the other hand, Portuguese firms’ lack of knowledge and resources set the risk at such a high level that hinders the internationalisation process.

3 Empirical facts

The FIEP case we are presenting below is distinctive in what concerns its co-tangency to a wide range of normative patterns concerning internationalisation constraints, public policies benefits and partnerships potential. This broad nature of the case can, somehow, be a handicap once academic contributions to science are required to be specific and concise; nevertheless, with regard to International Business issues, this FIEP case serves as a reminder of the complex nature of the firm’s internationalisation process, namely the dual role of non-industrial actors in helping firms to overcome the constrains of internationalisation whether increasing the complexity of the process.

3.1 The procedure

The main information concerning the case presented was collected from one author’s involvement as member of the joint venture’s executive board. This central position allowed close insights into the joint venture developments and achievements, which deeply complemented the general information gathered in the FIEP’s Annual Reports. Moreover, it also allowed us to access unpublished data, such as board and media presentations, communications to stakeholders, portfolio evaluation procedures and other
management operational pieces. However, we should stress that, being aware of the possible difficulties with objectivity resulting from the mentioned professional situation, we tried to handle that in a defensive way, namely by avoiding undemonstrative cause-effect relationships and largely normative conclusions.

Another considered group of data pertain to the results of an inquiry answered by responsible executives of all the firms investing with FIEP, along with the proceedings of the five FIEP Annual Conferences, which included several major contributions of relevant national and international personalities invited to participate.

In order to go beyond the referred information sources, we also considered some secondary evidence on the macroeconomic environment of the Portuguese economy after having explored some elementary statistical data on external trade and foreign investment published by the national authorities, ‘Instituto Nacional de Estatística’ (INE) and ‘Banco de Portugal’ (BdP).

3.2 The Portuguese internationalisation context

In the second half of the 1990s, Portugal was living in a positive cycle coming from two major events – the transition of the country to democracy (1974) and the adhesion to the European Economic Community (1986) – and their impact on real and nominal convergence of national economy. Nevertheless, the persistence of obsolescent competitive factors and of a fragile, passive and concentrated internationalisation was still imposing the challenge of a qualitative economic change able to face the global openness of markets and their competitive intricacy and intensity.

Trade indicators were clear. There were only eight countries whose imports figured above €50 million. From total exports, 83% had Europe as its destination market and a significant positive trade balance of €10 million was limited to four countries. Nevertheless, outward investment data were even weaker; besides a clear absence of any major multi-market presence, the total amount of Portuguese investment abroad did not count for more than 0.3% of GDP and less than 18% of inward investment.

Some reasonable clues explain this low international performance of the Portuguese economy. For centuries the colonially ‘enlarged’ Portuguese ‘domestic’ market lowered the demand sophistication and the colonies bought what Portugal wanted to sell. The major events that occurred during the 1960s and the 1970s, namely, the country’s participation in the European Free Trade Agreement (EFTA) and the independence of the former colonies, did not change the picture: markets somehow remained non-exigent towards Portuguese products, thus giving a comfortable position to the Portuguese firms. Along with this external conjuncture, until the late 1990s, the Portuguese domestic growth and increasing exports under relatively protected conditions seemed to meet the growth expectations of the majority of firms. In such a context, internationalisation was perceived as a risk operation, namely in the perspective of the financial sector. In the same direction, Witt and Lewin (2007) have recently tried to make evident the ‘important but underexplored phenomenon’ of outward foreign direct investment ‘as an escape response to perceived misalignment between firms’ needs and home country institutional conditions’.

Therefore, the Portuguese firms were facing an additional constraint to the previously addressed lack of knowledge and resources. That is to say that their main problem did not seem to emerge either from the firms’ learning process (Johanson and Vahlne, 1977; Forsgren, 2002) or from the headquarter/subsidiaries’ management (Doz and Prahalad,
the fact is that the financial institutions were not answering to the firms’ intention to internationalise, i.e., the real barrier was related with the abnormal conditions of the credit market in relation to firms’ investments abroad. A former vice-governor of ‘Banco de Portugal’ illustrated this fact by referring a caricatural statement of a bank manager: “if a client says that he intends to internationalise, we will reply informing him that he will suffer a credit cut”! This kind of ‘market failure’ attained great visibility in Portugal when the President of the Republic (Jorge Sampaio) declared that “The internal market is small and companies need to have financial capacity to create their selling points or build new factories in other countries”, that “There is an opposition of banks in what concerns risking something with companies that want to innovate” and that “The financial system has to show availability in going to new economies, with the risks it frequently contains.”

The Portuguese government understood the bottleneck of late internationalisation and, anticipating its consequences, decided to become the promoter of a venture capital initiative (FIEP) oriented towards the leverage of firms’ internationalisation, thus supporting the business partnerships developed to encompass some issues on the financial and knowledge difficulties commonly addressed to outward foreign direct investment.

### 3.3 The case of FIEP in the internationalisation context

The idea of FIEP initially came about within the framework of ‘A New Policy to Internationalisation’ (NPI) of the Portuguese Government (April 1997). In the legal document (RCM No. 61) adopted by the Council of Ministers to approve the NPI, four fundamental assumptions³ are worth stressing:

1. ‘The Portuguese economy has lived for too long under a protectionist logic and has suffered the effects of a very exigent competitive adjustment in a short period of time, following its plain integration into the European construction.’

2. ‘We are facing a truncated and limited internationalisation, in the sense that some of the typical forms existent in the most developed economies are missing or scarce in the national entrepreneurial tissue’ (reduced outward Portuguese investment, excessive dependence from traditional markets and limited capacity of penetration in new markets, insufficiency of strategic thinking).

3. ‘The major aims of our economic development, like competitiveness promotion and more and better job creation, requires a reinforced international presence in old and new markets, within a global and complete perspective of internationalisation as a wide set of initiatives and businesses.’

4. ‘The set of mechanisms that are now reinforced or created envisage the constitution of a real ‘internationalisation support system’, which tries to play a role in accelerating the pursuit of internationalisation strategies and their support construction.’

The declared principles of orientation of NPI included, among others:

- the recognition of the central role of companies in the internationalisation efforts to be stimulated
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- the consignation of a supplementary role to the State and to the ‘internationalisation support system’
- the assumed need, as a requirement to the involved agents, of a larger capacity in cooperation, conciliation and partnership (between companies of all kinds, but also between Public Administration and the entrepreneurial world) and of a larger efficiency.

FIEP was mentioned inside one of the three intervention axes of this new policy: fostering the dynamism of entrepreneurial initiative, either through the channelling of new forms of financing or through the reformulation of the already existent systems of incentives. Quoting from the RCM:

“Investment projects of companies with significant internal market shares in multi-domestic industries and having multinationalisation as a growth strategy – the essential mechanism to support this kind of operations will go through a new financial instrument, which will assume the form of a fund to the internationalisation of Portuguese companies (FIEP) gathering public and private capital, and being empowered to fulfill either equity capital or financing interventions.”

3.3.1 The establishment of FIEP

Things evolved and, during a difficult negotiation process between the government and the major private financial institutions, FIEP was finally born with four major differences or specificities when compared with its founding governmental act:

1. a much larger scope of possible operations (namely, delocalisation of Portuguese companies, development of external commercial or distribution networks, international reference operations or projects of national engineering and technology exports)
2. a focus on equity capital partnerships, thus reducing its financing operations to shareholder loans
3. a private equity company – legally, a holding society – and not a fund
4. an equity capital of approximately €100 million, only 40% of which was owned by the State, distributed as shown in the following figure.

FIEP’s scope was presented as being oriented towards promoting the internationalisation of Portuguese firms, towards leveraging the financing of internationalisation projects by partnership and towards sharing capital risk and reducing stockholder’s equity shortage. It thus intended to accomplish strategic goals (internationalisation as a driver to competitiveness) and to fulfil ‘market failures’ within the existing conditions of Portuguese financial markets and institutions.

In fact, the fragility of the Portuguese society in terms of initiative and risk operations was by then well evidenced by:

- a clear institutional shortage, the private equity market being excessively participated by State institutions mainly associated with ‘companies with problems’ and viewed as an alternative to banking loans or as a way to compensate the unwanted participation of banks in this kind of ‘bad money’ processes
• a market share of 0.52% of the European market (according to European data), a percentage which negatively compares to a share of 1.22% in terms of GDP.

Figure 1  The FIEP joint-venture shareholders

![Pie chart showing FIEP joint-venture shareholders](image)

### 3.3.2 The collaborative strategy for internationalisation

Figure 2 presents a synthesis of the strategy under which FIEP tried to answer the limitations imposed by the mentioned constraints. It makes evident the intermediate and balanced role of FIEP in supporting a firm’s internationalisation, as compared with other market agents, namely, state venture capital entities or financial and other private institutions. A gradual sensibility scale of these three axes, the profitability required, the type of operation and promoter, and the flexibility of negotiation and ongoing relationship, helps to frame the relative positioning of FIEP towards those agents. In relation to the existent State entities (/other private institutions) FIEP ought to be more (/less) exigent in terms of business plan and valuation expectations, less (/more) open in terms of potential investees and business propositions accepted and less (/more) permissive in terms of contracts and follow-up of operations and results of the partnerships.

At the operational level, FIEP’s rules and constraints were defined in a very light way: no focus areas (geographical, sectorial or others), FIEP’s investment per project between around €0.6 million and €15 million, minority of equity on the company’s portfolio, equity of the promoter higher than 25%, the company’s management in the promoter’s hands (‘hands-off’), several capital risk sharing mechanisms (equity investment, equity loan, equity mix) and case-by-case contractual arrangements concerning the partnership rules and disinvestment processes.
3.3.3 The role of FIEP in the firms’ internationalisation process

During six years of intense activity (1998 to 2003), FIEP chose to adopt a non-proactive attitude in looking for projects (demand push, with some additional involvement of investment banks, audit and consultancy companies, industrial associations, etc.). There were 457 contacts with investors, 84 investment proposals were analysed, 49 projects were approved and there were signed partnerships with 28 companies. At this point, it is interesting to note the different degrees of selectivity that emerged in all these processes, extending from auto-selection after the first contacts (only less than 20% of eventual promoters pursued business plan presentations and further dialogue and negotiation) to technical and contractual selection (58% of proposals to the FIEP board were approved and 57% of these ended up as signed contracts).

The experience of FIEP is also relevant in what concerns the diversity of the projects. We shall especially comment on the following features of the agreed partnerships: projects in 18 countries and 3 continents (73% in Europe); projects in several manufacture sectors, retail, wholesale or emerging technology services; capital development projects (69% reinvestments and 17% acquisitions), as well as start-ups (14%); projects involving joint-ventures, privatisations, concessions, family businesses, and restructuring or management buy-outs.

As for financial values, FIEP showed a continuous pattern of investment (€17 to €24 million per annum), which contributed to a total rotation of its equity capital (investing more than €105 million and disinvesting around €47 million – see Figure 3) and to significantly place the institution within the rank of national private equity market (third to fourth according to the portfolio cost value, with 12.5% market share).
Complementarily, FIEP’s activities went beyond pure business, and thus also had a qualitative feature. In fact, management issues were heavily grounded on FIEP, that is, by focusing on the role of a knowledge transfer mechanism in internationalisation processes. The prestigious and largely attended FIEP’s five Annual Conferences were perhaps the best proof of that genetically tied ‘culture’ of service in favour of internationalisation (learning from other countries’ experiences, efforts in debating its strategic role in Portugal, entrepreneurial exchanges of views and ways of overcoming difficulties, etc.).

3.3.4 Some feedback notes from the firms and political players

According to the responses to questionnaires given to investors, the main positive features of FIEP were described as its ability to:

- induce confidence, namely through discretion and proximity, easy communication and quick answer, a profitability private logic, strategic competences, transparency and public rendering of results, yearly positive income statements
- foster change, both through its significant institutional weight (frequently important in the launching of external projects), knowledge (market conditions, organisation methods and procedures, structure of capitalisation operations, mergers and acquisitions) and innovative attitudes (focus on rationality, qualification, professionalism, information sharing and evaluation procedures).

The success of FIEP’s performance in terms of support to medium-sized national companies with competitive outward potential was a political fact. An insight shared by Sousa Franco (FIEP, 2001) states that:
“venture capital is possible in Portugal and it is possible to develop a State entrepreneurial activity with a modern logic, thus contributing to the abandonment of the old idea that, concerning economic activities, the State either subsidises, and it can subsidise less and less, or comes in to control, and it manages worse and worse.”

Jorge Sampaio, when addressing the 3rd Conference of FIEP said:

“But public capital can and must be associated to private capital, when innovative and meritorious initiatives require gaining critical mass or when it is necessary to promote partnerships that allow jumps of competitiveness to be able to deal with competitors based outside. The answer to this great and decisive challenge was at the origin of FIEP and has been present in the meritorious action it has developed.”

3.3.5 Data on inward and outward foreign investment

The fact is that, during FIEP’s activity period (1998–2003), the external projection of Portuguese firms had acquired a large offensive expression: significant values of investment abroad (Figure 4), (re)balance/reversal of outflows in relation to inflows and some years of unforeseen net investment abroad (Figure 5), a larger variety of geographical and sectorial outward situations, and an increasing sophistication of operations (Freire de Sousa, 1998; 2000).

Figure 4  Portuguese investment abroad

Figure 5  Portuguese investment abroad/foreign investment in Portugal
4 Discussion

Several perspectives have been conceptualised in the most diverse theoretical models, ranging from economic basis (Hymer, 1960; Williamson, 1975; Dunning, 1988; Porter, 1990) passing through the evolutionary Vernon’s (1966) product life cycle model to behavioural such as the widely cited Johanson and Vahlne’s (1977) Uppsala Model. All these models have in common the emphasis on internationalisation as a matter of firms. But, in fact, internationalisation may not be considered exclusively within the firm’s scope or even within the firm’s industrial network scope (Johanson and Mattsson, 1987; 1988). Actually, the internationalisation phenomenon goes further beyond the firms’ interactions and turns out to be the result of not just industrial firms, but also the result of interaction with other external agents, and institutions such as universities, state agencies or governments.

The case we presented shows that internationalisation constraints such as the lack of knowledge and the lack of resources cannot be understood solely on the logic of industrial relationship commitment (Johanson and Mattsson, 1988) or even on more generic network theories (Anderson et al., 1994; Todeva, 2005). Internationalisation is a concern of firms, carried out within the firms’ networks and also with its surrounding environment actors (Figure 6). In fact, these ‘secondary’ non-industrial actors can catalyse or restrain the international performance of firms (Hadjikhani and Ghauri, 2001; Hadjikhani et al., 2008).

Figure 6  Internationalisation: industrial and non-industrial actors

If the organisational process is properly attended to, networks can be a virtue of the market economy’s interactions (Coviello and Cox, 2006) when interdependency is attained among actors (Larson, 1992). This notion of interdependency is crucial to the perception of the case of non-industrial firms, like in FIEP’s network. Networks commonly illustrate a set of generic relationships and in this sense it is possible to say that networks do not have boundaries. However, business networks are only established
among firms when it is possible to recognise interdependency on those firms’ relationships (Andersson et al., 1994; Blakenburg-Holm et al., 1996; Todeva, 2005). Moreover, the interdependency of relationships’ primary and secondary functions (Andersson et al., 1994) gives a multidimensional sense to business networks, coupling the focal firm with highly interdependent relationships in an architecture similar to Eriksson and Johanson’s (1999) network business context.

In this rationale, we are compelled to say that business interactions are not only within the industrial network context. Collaborative non-industrial units play a strong role in mediating and reshaping business relationships, like FIEP did between firms and their financial sources. Besides, FIEP was effectively a partnership that catalysed internationalisation, although it could not be seen as an international partnership, at least within the common goals that motivate the constitution of international alliances with local firms (Arenius and Autio, 2002; García-Canal et al., 2002) or even within the transposition of lawful or institutional regulations (Contractor and Lorange, 1988b). Thus, FIEP case shows that more can be brought to most of the normative conceptualisations about network internationalisation and international cooperative arrangements. The direct business relationship established at the domestic market level between the firms and the state agencies and banks did not seem sufficient for the foreign operations. FIEP’s joint venture between banks and state constituted a third vehicle that effectively supported the industrial firm’s internationalisation. Moreover, it is to be noted that this is an uncommon kind of internationalisation partnerships, i.e., partnerships created domestically with the objective of sharing the internationalisation effort.

4.1 Cooperation with non-industrial actors

According to several authors, partnership effectiveness deeply depends on its capability to bridge dispersed assets and form portfolios with different kinds of knowledge in order to achieve synergies (Contractor and Lorange, 1988b; Gomes-Casseres, 2003; Todeva and Knoke, 2002). For instance, Vidal-Suarez and García-Canal (2003) assume that cooperation is more effective when there is a complementary link between firms’ capabilities and resources. Furthermore, Contractor and Lorange (1988b) suggest a formula where the alliance benefit quantification is achieved by comparing revenues and costs of the two scenarios (isolated and in joint-venture). These authors uphold five motives that potentiate the establishment of international alliances and gain a special pertinence in the entrance phase by reducing the firm’s capital investment, which enables the diversification of the market portfolio and, consequently, the decrease of individual risk.

Most of the benefits mentioned above may not be accomplished within the cooperative arrangements between firms and non-industrial actors. As seen, FIEP was obviously not a partner to attain economies of scale, rationalisation of resources, access to raw materials and technology or cost sharing. Yet, FIEP’s collaboration with firms has contributed to the reduction of the firm’s capital investment, which is one of the most important priorities when firms face major constraints in internationalisation.

Under normal institutional conditions (Witt and Lewin, 2007), that would not be a problem since banks would cover the additional capital needs. Nevertheless, if the financial sector does not deliver the amount of capital required for the firms to internationalise, a different path may have to be pursued. This was precisely the case presented through the Portuguese venture capital initiative; FIEP focused on equity
capital partnerships with firms involved in internationalisation operations. The situation described was rather in line with the commented idea of a market perception of the lack of capital as emerging from the firm’s discernment of risk and the lack of international knowledge endorsed by the Portuguese financial system of the late 1990s.

The vicious circle around knowledge and lack of resources would mean an internationalisation shortage – the private sector would not be able to handle the major lack of knowledge under way. The emerging consequences were perceived by the government, which decided to act and influence the internationalisation path of Portuguese SMEs. It then got involved in a sort of ‘social construction’ through a ‘collaborative partnership’ or, probably better if we expand the typology of international business networks’ relationships proposed by Todeva (2005), in an ‘autonomous partnership’. Thus, when the lack of international knowledge appears transversal to a national economy, the relationship between public and private sectors has to evolve from tacit influences to explicit partnerships.

4.2 The role of political players in firms’ internationalisation

The debate on the division/superposition of private and public sectors (private and public) is a sort of a never-ending story, permanently under way and with increasingly diffused outcomes that largely shift according to the mutation of economic, social and political conjunctures and to the diverse ‘preferences of structure’ (Perroux, 1948; Weiller, 1949) of nations and policies. However, having underlined all these substantial and remaining differences and aims, something appears as given; governments should not behave – and, in fact, they increasingly do not – as being apart from firms, either because of the recognised microeconomic foundations of macroeconomy or because of the fundamental impact of firms in wealth and employment creation. As shown above, internationalisation is a good illustration of this discussion.

Furthermore, within the recent knowledge-based global economy, a driving thought is imposing a different view on the traditional division of tasks (‘who does what’) between leaders of businesses, governments and institutions. They all should have a stake in the constructive action needed to meet the problems of every society, lines between public and private investment blur and other kinds of public–private relationships are developed. Quoting Klijn (2008, p.506): “Governments worldwide appear to be experimenting with new forms of horizontal governance, such as public–private partnerships, interactive decision-making, stakeholder involvement and other forms of citizen involvement.” This tendency represents the reemergence of views that were largely neglected under the neoliberal domination of the last decades. See, for instance, the classic works of Fligstein (1996, p.656):

“I develop a conceptual view of the social institutions that comprise markets, discuss a sociological model of action in which market participants try to create stable worlds and find social solutions to competition, and discuss how markets and states are intimately linked.”

This allows us to consider governments as potential wider players in internationalisation that evolve by embracing modern public policies conferring on them new roles in the endurance of ‘national competitiveness’.
As discussed above, the significance of governments’ attempts to influence the firm’s internationalisation processes is backed up in FIEP’s case. However, considering Elmore’s (1987) synthesis of public instruments and effects, we would also conclude that FIEP does not fit with one of the traditional instruments to attain political objectives; yet, it achieves most of the expected effects. In fact, while illustrating a vehicle that only presents certain similarities with that author’s ‘primary elements’ of ‘capacity building’ and ‘system changing’, FIEP’s case illustrates results at different levels (production of value, enhancement of skills and competences, short-term and long-term returns, and composition of public delivery system).

The traditionally external position of a state conferring subsidies, incentives and guarantees led to a path towards the internal participation of the State on the firm’s internationalisation process. That is to say that FIEP’s ‘hands-free’ participation in the firm’s capital allowed the comfort of risk sharing without constraining the innovation advantages of the internationalisation process, which is much in line with some authors’ findings (Acs et al., 2001) about the counterproductive activities of public agencies mandated to assist internationalisation.

5 Conclusions and further perspectives

The empirical facts in the case manifest some interesting results. First, unlike the internationalisation process model which endorses commitment and knowledge, we showed that sometimes firms’ internationalisation concerns a lack of resources that cannot be solved without an effective collaboration with non-industrial units. The firm’s internationalisation is thus complex and can meet a wide range of situations.

In this perspective, a second result from the study is the active and autonomous presence of non-business players. As the empirical facts illustrate, the firms’ internationalisation does not necessarily come from their internal push or from other firms in the industrial context. If eventually the firms are not strategically oriented or and if they are not unsatisfied with their present situation, either because they dominate their local market or they export under certain favourable protection rules, they will not seek to push for doing business abroad. This was the case under observation, which drive politicians to foresee internationalisation as imperative for the firms and, thus also, to foster competitiveness in the home country’s economy.

A third interesting direction that the case manifests, which has also been discussed in some recent research, is the interdependency of firms and governments (cf. Hadjikhani and Lee, 2006). Firms contribute to the GDP and employment growth needed by the governments for their political legitimacy, but they also need to gain support from political organisations. In this direction, we can easily find examples of collaborative strategies between non-business actors and firms to assist the firms in foreign market expansion. The described evidence, however, is even more powerful if seen as an extreme case of collaboration, namely because of the joint venture created between non-industrial agents to assist the firms in their internationalisation.

In one way or another, we have called attention to the compulsory ‘unending embrace’ between firms and governments. Moreover, we are convinced that we have pointed out the relevance of innovative rethinking on the tools and patterns of governance that may be better able to forge the institutions and countries’ capabilities
required to shape a balanced development of the dense societies in which we live and to allow the firms to ‘move ahead’ and ‘walk faster’ in the face of the challenges of a globalised economy.

References


Notes

1 From authors that analyse the role of the state in terms of a ‘strategic state’ (Lenway and Murtha, 1994) to others who see it as a correction of market imperfections (Stiglitz, 1989), from authors who consider political order as having a founding role in terms of economic incentives (North, 1990) to others who mainly focus on the efficiency of incentive schemes, such as financial subsidies to outward internationalisation or fiscal benefits to inward foreign investment, or on “the analytical problem of combining policy instruments into strategies”
(Elmore, 1987), from authors who praise non-governmental intervention (Miller, 1984) to others who pragmatically distinguish between a liberal economic philosophy and a political interventionist pragmatism (Bellon, 1986).

2 Under appealing titles like ‘A strategic option to the Portuguese economy and companies’, ‘Fundamentals and paths to stay in the world’, ‘Mutations, controversies and signs of future’, ‘Ways and crossroads’ or ‘And Portugal?’.

3 We will simply mention some other dimensions of the broad view of internationalisation that undermined the large debate that drove the political option taken. In fact, the internationalisation of the Portuguese economy was considered a major part of a compelling ‘competitive challenge’ oriented towards the adaptation and reaction of the Portuguese companies, institutions and citizens to the global economy, in the five following areas: the fight against microeconomic and macroeconomic productivity deficits; the possible synergies between inward and outward investment; the need to overcome the limits of peripheral location and small dimension; the acquisition and upgrade of competences and knowledge; ‘cultural’ learning and transformation.

4 It should be stressed that this final structure of the capital share of FIEP (40% public and 60% private, and including five financial institutions) also constitutes this institution as a good illustration of a new kind of modern public policies that can be explored with an appeal to public-private partnerships and market validation.

5 In 2003, FIEP had an average equity capital of 22% per company in partnership.

6 The average return on equity attained was around 7.5% for the six-year period of analysis.

7 Contractor and Lorange (1988a) enunciate five benefits of international alliances: 1) the possibility to share costs associated with the economies of scale on bigger markets; 2) the rationalisation based in the corporate advantages of each partner in his home country; 3) the eligibility of cooperative initiatives of state subsidies, 4) the partner’s access to raw materials, or 5) the partner’s technology and knowledge of better management practices.