



## CO-OPERATION BETWEEN LARGE ENTERPRISES (LE'S) AND SME'S: AN APPROACH TO OVERCOME THE STAGE INTERNATIONALIZATION PROCESS

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**Abstract.** Many companies are using their networks in order to overcome psychic distance – *liability of foreignness* – and *liability of outsidership*; and networks at domestic markets can be a base in which SMEs can find a lever to get a rapid internationalization process. Regarding this topic has been developed a case study in the Polish market, where a local retailer (“Biedronka”) owned by a Portuguese group (“Jerónimo Martins”) is offering Portuguese products. In order to apply a constructivist methodology, using the case study method, five SMEs were selected in order to understand if co-operation between these companies and a LE (Large Enterprise) would be a way in order to overcome the *liability of foreignness* and the *liability of outsidership*. It was also our purpose the understanding of which are the main issues that promote *insidership* and also the promotion of a rapid internationalization. Our conclusions have shown a LE as a source of institutional and market-specific knowledge, and regarding this last type of knowledge, as source of opportunities, and also how a SME with internationalization knowledge, an international focus and adaptation skills (in order to adapt products and prices) can introduce in a co-operative international venture, in far psychic markets, the ingredients needed to get a successful and rapid entry in a foreign market. Trust as a resource, accumulated during lasting relationships in the domestic market, has been shown as a basic requirement to develop these co-operative approaches in international markets.

**Keywords:** SMEs internationalization, network theory, Uppsala Model, liability of foreignness, liability of outsidership.

**JEL Classification:** F20, F23, L81.

### Introduction

Portugal is facing a huge decrease of its domestic demand. Facing a bailout process, managed by the IMF (International Monetary Fund), the European Commission and the European Central Bank (ECB), many Portuguese SMEs are struggling in order to survive and are looking to international markets as a source of new clients and new revenues. For many SMEs to do it rapidly is not an option: it is a need. At this point, the usual stage approach wouldn't be a solution (Johanson, Vahlne 1977). At same time, these companies don't fit in the “Born Global” concept (Oviatt, McDougall 1994; Knight, Cavusgil 1994, 2004; Madsen, Servais 1997). This topic – how to increase the speediness of the SMEs internationalization process – is not only getting awareness in

our society, or mainly in the Southern Euro Currency Area (ECA) countries, but also among the research community.

Rialp *et al.* (2005) developed a framework where it is made a comparison between “Born Globals” and “Traditional SMEs” features. This work was a contribution which has been a basis in which Kalinic and Forza (2012) have developed a third set of companies: “Traditional SMEs” which are developing rapid internationalization processes. Based on five case studies these authors have found some characteristics which are enablers of a “Traditional SMEs” rapid internationalization. Among these characteristics or features Kalinic and Forza (2012) have found an issue that promotes a rapid internationalization: “The research of tight connections in host markets allows companies to overcome the difficulties

not only due to the *liability of foreignness* but also to the *liability of outsidership* (Johanson, Vahlne 2009). Direct and close relationships with local partners and stakeholders permit to extend rapidly the local supply network.” (Kalinic, Forza 2012: 704).

This statement relates the speed of the internationalization process with the find of connections or links in the host country in order to develop a local network; thus, this approach takes into account as background the network theory, developed by Johanson and Vahlne (1990, 2009) when these authors have made an update of their Uppsala Model (Johanson, Vahlne 1977), but also relates the overcome of the *liability of foreignness* and the *liability of outsidership* with a close relationship with some local (host) market partner. It means, the speed of the SMEs internationalization process is related with the overcome of psychic distance and with the way how companies overcome also the lack of market knowledge, in order to be more committed with some unknown foreign market.

Nonetheless, the finding of this local partner in the host market is usually a hard task, and at same time, even if that partner is found, the accumulation of trust is a key issue and can be a quite slowly process. It means, the *liability of foreignness* and the *liability of outsidership* are not easy to overcome.

Thus, regarding the domestic nature of the large majority of European – and among them the Portuguese – SMEs, their network has the same scope. Nevertheless, this network can be a basis in order to overcome this slowly trust accumulation, and to be a context where SMEs can find a lever to speed up their internationalization process.

Our purpose is under the network theory developed by Johanson and Vahlne (1990, 2009), to add understanding about how the domestic network, combining large enterprises (LEs) and SMEs, can be a tool to overcome the *liability of foreignness* and the *liability of outsidership*, and which are the main issues that contribute to promote *insidership* and at same time a rapid internationalization process to more distant markets. This contribution can be also important to entrepreneurs and managers, which can find in our conclusions some managerial implications, in order to boost their internationalization processes.

## 1. Literature review

### 1.1. The internationalization process: from the stage approach to the business network model

The internationalization process has been studied in different perspectives. Since the mercantilist approach, the absolute advantage (Smith 1776) and the Ricardo’s comparative advantage (1817), until nowadays where the New Economic Geography (Krugman 1991, among others) or the Porter’s Diamond (1990) are shown as theoretical approaches which explain how a country is engaged on international trade.

The Factor Proportions Theory (Heckscher-Ohlin, since the 30’s – Krugman, Obstfeld 2011) or Vernon’s Product Life Cycle Theory (1966) are other approaches to this topic. Although, as we have mentioned before, this set of theories are mainly focused on country trade, and have not gotten the firm as object of analysis.

The first approach based on the firm was developed by Hymer (1976), and later by Buckley and Casson (1976). Their contribution was mainly focused on MNEs – Multinational Enterprises. The safeguard of ownership, based on *Coasean* Transaction Costs Theory (Coase 1937), was the main reason why MNEs where investing abroad. Hymer (1976) has faced some difficulties to publish his work: the perspective was quite different and was not focused on countries’ international trade; Buckley and Casson (1976) developed since then the Theory of Internalization. Dunning’s research works, since the 70’s, developed the Eclectic Paradigm (1979) – ownership, location and internalization (known also as well as OLI Paradigm) – a framework which explains why MNEs invest internationally. An envelope that is used even today in order to address answers how MNEs obtain and sustain competitive advantages on the global battlefield.

Nonetheless, it was the Swedish school of Uppsala which has given a major contribution in order to explain the internationalization process, based on Cyert and March (1963: 202) works, which have seen an organization as a “decision-making process”. This behavioral approach was the basis of a gradual or stage model – usually known as U-M (Uppsala Model). The U-M internationalization process can be described as a step-by-step approach where each company selects firstly near psychic distance markets, and choose firstly as well less risky – or committed – entry modes (Johanson, Vahlne 1977). The market knowledge accumulation will lead to more committed decisions (from non-regular export activities to overseas production manufacturing – see also in Johanson and Wiedersheim-Paul (1975)). Since then, other stage models were presented by different authors: the I-M (Innovation-Models – Bilkey, Tesar (1977); Cavusgil (1980); or Czinkota (1982).

This step-by-step approach has been updated by Johanson and Vahlne (1990), mainly when these authors introduced a network perspective in their original Uppsala Model (Ruzzier *et al.* 2006). In 1988, Johanson and Mattsson (1988) have presented a stage approach which linked the U-M and the network approach. Four stages were presented: “Early Starter”, “Late Starter”, “Lonely International” and “International Among Others”. The U-M has given a step forward, and the update introduced some changes, which is important to stress: firstly, a focus on “opportunities”, which is considered by Johanson and Vahlne (2009) a subset of knowledge, which are enabled by the company’s network position; secondly, relationships and commitment decisions, which are a source of learning, trust building and

creation of new opportunities. A dynamic perspective where remains the behavioral background (Penrose 1959; Cyert, March 1963), but taking into account also the new international environment.

Nevertheless, this contribution was discussed, in the nineties, when the concept of “Born Global” and “International New Ventures” was emerging. The “Born Global” concept was presented firstly by McKinsey Consulting Company (McKinsey & Co 1993), and later developed by Oviatt and MacDougall (1994, 1995), Cavusgil (1994), or Coviello and Munro (1995, 1997). A lot of criticism was added, regarding the deterministic U-M stage approach.

These authors stressed that many companies were overcoming stages, and at same time investing in far psychic markets. Rialp *et al.* (2005), a decade after this discussion, have highlighted the differences found between these approaches. It was a basis in which relied the research presented by Kalinic and Forza (2012). Applying a constructivist methodology, these authors when were comparing rapid internationalization processes with “Born Globals”, have found some common characteristics: firstly, a prior international experience in selling, but mainly in developed markets; secondly, a strategic international commitment, focused on sales activities; thirdly, a proactive international strategy in a previous unknown market, with direct and close relationships with local partners; and, finally a flexible adaptation to external opportunities and local circumstances.

The five case studies developed by Kalinic and Forza (2012) were focusing FDI operations; but it has been an approach which stressed the need of being part of a network in order to avoid “not only (...) the *liability of foreignness* but also (...) the *liability of outsidership*”, reinforcing the Johanson and Valhne (2009) arguments (Kalinic, Forza 2012: 704).

Johanson and Valhne (2009) argue that the mechanisms of internationalization remain the same; the change in the international environment and the research advances in network theory were the causes which lead to an adaptation of the original U-M.

Thus, the *liability of foreignness*, presented by Hymer (1976), and later developed as psychic distance by Uppsala Model researchers – “(...) defined as factors that make difficult to understand foreign environments” – is replaced by a concept of *outsidership* and *insidership*. Companies which don't be *insiders*, within a network, in some foreign market, will suffer of *liability of outsidership*, and more than psychic distance not to be a part of a local network is the main constraint which reduces the speed of the internationalization process. In this sense, to be an *insider*, is the way to learn, to build trusty relationships and to increase the level of commitment. Regarding this issue, a SME part of network would

select markets where the *liability of outsidership* can be overcome – or minimized – more than other markets which, in a first sight, the psychic distance would be shorter (e.g. same language, former colonial ties, neighboring countries, among other issues).

Additionally, the stage internationalization process would lead not only to an increasing of the next market's psychic distance features, but also to an approach which relies also on more commitment overtime. It means, in some foreign market, the entry mode would be characterized by less commitment, and later, new investments would lead, finally, to a wholly owned manufacturing company, avoiding trade tariffs and other export costs (e.g. transports). At this point, it is important to stress the concept of commitment (Johanson, Valhne 1977): Johanson and Vahlne (1977, 2009: 1412) in their original research paper published in the seventies, considered commitment “(...) as the product of the size of the investment times its degree of inflexibility”.

Nevertheless, regarding the network approach, the entry mode decision making is more constrained by the way how to exploit the *insidership*, and to be part of a local network. It means, the entry mode would be more committed than would be expected by the original U-M, if it is the way to take advantage of the opportunities identified within the network.

Thus, relationships within the network are the key in order to select markets, and achieve a rapid internationalization process, which can be defined as a process where more distant markets and more committed involvement in some foreign make is developed or achieved in a shorter time period, overcoming stages from the U-M (Coviello, Munro 1997).

## 1.2. LEs as sources of market-specific knowledge: vertical relationships based on trust and commitment in the network

Many authors have developed their research work based on the U-M, and later on network theory (see e.g. Johansson, Valhne 2009). However, one of the most important issues is how can a SME overcome the *liability of foreignness* and the *liability of outsidership*, in some local (host) market, without or with a low degree of connection (within a local – host – network). Moreover, this approach is particularly difficult if the market is a far psychic market. Regarding this issue, the speediness of the internationalization process would be slowly. It means, it is going to be a slow process, where the *liability of outsidership* is a huge barrier that is hard to overcome.

Many SMEs are focused only in the domestic market; their formal and informal relationships are developed in a quite narrow national or regional scope. We would say, according to the Johanson and Mattson (1988) framework,

that many of them are “Early Starters”, which should develop their internationalization process following a stage approach.

Nevertheless, their relationships with local (host) clients can be a way in order to access to market-specific knowledge, which the lack of it “constitutes the *liability of outsidership*” (Johanson, Valhne 2009: 1416). Eriksson *et al.* (1997) have made the distinction between institutional market knowledge and business knowledge. The first one is mainly related with psychic distance issues – local language, law and rules – and, the second with a scope focused on business environment in a foreign market. Johanson and Valhne (1977) in their first approach has pointed the importance of general internationalization knowledge, which is an outcome of the experiential activities developed during the internationalization process; and, later, in 2009, the same authors have added other important knowledge scope: the relationship-specific knowledge. This last related with the knowledge “(...) about each other’s heterogeneous resources and capabilities” (Johanson, Valhne 2009: 1416).

Nonetheless, two points should be added: to be an *insider* is not sufficient, if the network position is not relevant in the local (host) market – the company will suffer the *liability of outsidership*, and Forsgren (2002) and Petersen *et al.* (2003) have pointed out that market-specific knowledge is the most important – critical – knowledge.

Thus, not only “Early Starters” would have as constraint the *liability of outsidership*, the “Lonely Internationals” will face it also in new markets, mainly in those where the institutional and market-specific knowledge is scarce (where the *liability of foreignness* is higher – and the psychic distance longer, and local market features are not known).

In this sense, the network position at the home (domestic) market can be a lever in order to avoid the *liability of outsidership* at local (host) markets. Coviello (1996) have found that *insidership*, developed before the entry a new market is an important tool in order to develop an internationalization process.

Taking into account the nature of many SMEs, focused only in the domestic market, the rapid internationalization process can be leveraged by exploiting the relationship with LEs, which usually have developed internationalization strategies, and are present in a more diversified set of foreign markets. Hadley and Wilson (2003), confirming this statement, have concluded: not only LEs which are “International Among Others” are those who show higher levels of business market-specific knowledge, but also LEs “Late Starters” have shown also higher levels of business market-specific knowledge when compared with “Lonely Internationals” (LEs also). It means, LEs, and those who get a relevant network position, are able to have access to that most critical knowledge, which avoids, or minimize, the *liability of outsidership*.

Thus, enhancing a relationship with a LE, which has developed activities in some far markets, would allow a SME to overcome some of the predictive stages of the original U-M; and, at same time to be an *insider* in a local (host), overcoming both the *liability of foreignness* and the *liability of outsidership*.

Coviello and Munro (1995, 1997) have concluded that relationships are a key factor in the market selection and the in entry mode decisions. And several studies have shown how supplier/client relationships were a basis for client-following strategies (Erramilli, Rao 1990; Majkgård, Sharma 1998).

Therefore, the relationship with a LE can be a source of business market-specific knowledge, a facilitator in order to access to institutional market knowledge, and a way to easing the entrance in a foreign market.

If relationships are key issue to be an *insider*, following the Möller and Halinen (1999) categorization of firms’ relationships, and taking the SME as the focal firm, we are arguing that: a strong relationship, which is built on trust, commitment and co-operation, formal or informal, but with a vertical approach, supplier/client, in which the later is a LE, would be a way to increase the speediness of SMEs internationalization process, and overcome stages of the gradual approach presented by Johanson and Valhne in 1977 – the U-M, but also, later, by other authors (the I-M).

In the scope of this international business topic, how networks among LEs and SMEs would be a lever in order to overcome the *liability of foreignness* and the *liability of outsidership* and which are the main features that contributes to *insidership* and at same time promote a rapid internationalization process is our purpose, and a gap which we intend to fulfill with our research.

## 2. Method

Johanson and Valhne (2009: 1426) have suggested a research agenda; and underlined, among other issues, “(...) that a firm’s problems and opportunities in international business are becoming less a matter of country-specific and more one of relationship-specificity and network-specificity.” Later, same authors argue: “Although we have avoided constructivist methodology, we believe that it does have the potential to contribute to a deeper understanding of the international network development processes that we have conceptualized in this paper”. Reihlen and Apel (2005) research paper about the internationalization process of professional services – cited by Johanson and Valhne (2009) – is given as a good example why the constructivist methodology, using longitudinal case studies, adds understanding and knowledge about how network theory is useful to explain this phenomenon. Kalinic and Forza (2012) have used the same approach. These studies follow

Yin (1984), Eisenhardt (1989) and Strauss and Corbin (1990) approaches, where multi-cases are used in order to detail their theory-building development. Chetty and Holm (2000) have selected also case study method in order to add knowledge about SMEs internationalization and how business networks are used in that process, and have mentioned Eisenhardt's (1989) contribution, when she states "(...) the multiple-case approach encourages the researcher to study patterns common to cases and theory and to avoid chance associations" (Chetty, Holm 2000: 81).

Our purpose doesn't follow only the Johanson and Valhne (2009) contribution, but also the Kalinic and Forza (2012) work, focused on SMEs rapid internationalization. As we have mentioned in our introduction, our purpose is to add understanding about how the domestic network, combining large enterprises (LEs) and SMEs, can be a tool to overcome the *liability of foreignness* and the *liability of outsidership*, and which are the main issues that contribute to promote *insidership* and at same time a rapid internationalization process to more distant markets.

Following this purpose our case study method was developed taking into account five phases (Runeson, Host 2009): 1) case study design; 2) preparation for data collection; 3) collecting data; 4) analysis of collected data; and, 5) reporting.

### 2.1. Case study design and data collection

Eisenhardt (1989) stated that in the multiple-case approach there is no ideal number of cases. Nonetheless, recommends a number between four and ten. And, at same time recommends also the selection of cases with different characteristics.

Thus, taking into account our purpose, has been selected a market which would be not considered as a far psychic market, and at same time a LE that would have operations in both markets – domestic and foreign. Our unit of analysis it was each relationship between a domestic SME and this LE selected, regarding the main objective of selling products in this far psychic market as fast as it has been possible.

Regarding pre-design case study features, Poland was the county-market selected, and the LE chosen was "Jerónimo Martins" (a Portuguese wholesaling and retailing group).

Poland is an EU market; nevertheless is not a near psychic market for Portuguese SMEs. Not only because geographical distance, or even economic distance. If it is true that Portugal and Poland are part of the same tariff area (European Union), the first one is a Euro Area member and the second it is not. PIB *per capita*, usually used as a *proxy* of economic distance (Dias, Marques 2012a), is still quite different: in Poland is \$12,660 and in Portugal \$ 20,620 – World Bank (2013). Additionally, Portuguese SMEs usually

chosen neighbor and former colonies for their first international markets ventures. Spain – the neighbor market – and Germany, France, Angola and United Kingdom are markets where Portuguese companies concentrate more than 50% of all exports; and Portuguese speaking countries as Brazil, Angola and Mozambique – and the neighbor Spain – are the most common destinies when "Early Starters" begin their international activities.

Poland is 15<sup>th</sup> Portuguese export market, and Portugal is 40<sup>th</sup> Polish provider; in 2012 1818 Portuguese companies export to Poland. Mainly LEs and the automotive industry was the most important exporter to Poland. Among Food and Beverages products, Portuguese wine is the most important (AICEP 2013).

Regarding the LE selected – "Jerónimo Martins" Group – it was founded in 1792, and is the most important Portuguese Distributor, leading the wholesaling and retailing rankings. "Jerónimo Martins" owns in Portugal *PingoDoce* (Supermarkets) and *Recheio* (Cash & Carry's), and in Poland owns "*Biedronka*" – the market leader of retail supermarket business, with a market share of 14.7%, more than 2,100 stores and 36,970 employees. "*Biedronka*" is a hard-discount player in the Polish retail market, where "Jerónimo Martins" sells 65% of its retail business.

In order to select SMEs, which start their export operation to Poland, have been considered some criteria (see Fig. 1): firstly, where selected taking into account if the first step, in order to export to Poland, was taken by the LE or the SME; secondly, it were also chosen companies which are classified as "Early Starter" and "Lonely International", following the Johanson and Mattsson (1988) network approach to the internationalization process; thirdly, it was selected a case study in the service sector; and, finally, it was included a case which has been an non-successful (or non-positive) operation in Poland.

The five cases selected were: "Science4You" (S4Y), an "Early Starter" which exports scientific toys; "Quinta do Vallado" (QV), a "Lonely International", which exports wine – and mainly Oporto wine; "ControlVet" (CV), a service company, which provides food safety services; "Vale da Rosa" (VR), a company which exports premium fresh table grapes; and, "Vieira de Castro" (VC), a company which exports biscuits.

Data was collected in Poland and in Portugal; during the first semester of 2013, in Poland, "Biedronka" and the Portuguese Trade and Investment office in Warsaw have been the sources of data (reports and other written data, and interviews with "Biedronka" local management), and finally in Portugal, in the second semester of 2013, data was collected in the five SMEs previously selected (reports, other written data, and interviews with general managers and/or export managers – see Table 1) .

### 2.2. Data analysis and multiple-case reporting

Poland was a destiny which has been chosen by this set of companies because the LE and SMEs were using their relationships in order to enable the internationalization process. Even if one of the SMEs has taken this step in a proactive way, it was the previous relationship which led these companies to Poland, and all companies highlighted

this issue a key factor in order approach the Polish market. For example, Mr. Ricardo Costa (Export Manager of “Vale da Rosa”) said: if “Jerónimo Martins” had not businesses in Poland “we might not be able to export to Poland”.

The LE initiative was based on trusty relationships, consolidated during many years of commercial transactions and operations in the domestic market. Commitment and co-operation in the domestic market – for instance

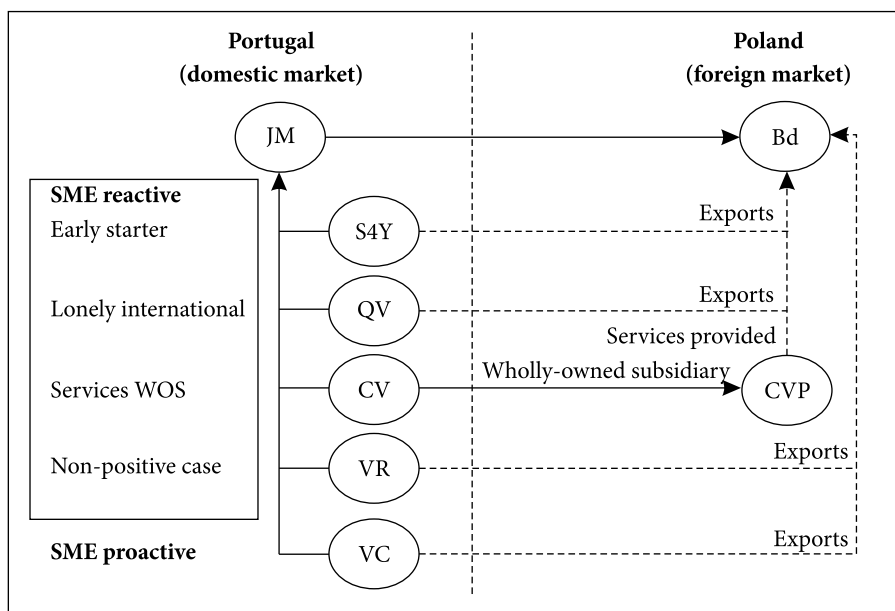


Fig. 1. Multiple-Case Study Design (S4Y – “Science4You”; QV – “Quinta do Vallado”; CV – “ControlVet”; VR – “Vale da Rosa”; VC – “Vieira de Castro”)

Table 1. Multiple-case study general data

Companies (SME's)	Product/ Service	Years (since the foundation)	Exporting (markets)	Exporting (% turnover)	Exporting (to Poland)	Turnover (last year)	Turnover (trend 2010–2012)
Science4You	Scientific toys	6 years (exporting since inception)	15	30	200.000.00 €	2 million € (2013)	Increasing
Quinta do Valado	Oporto Wine	300 years (exporting activity performed since XVIII century)	30	40	Not available	3.5 million € (2012)	Increasing
ControlVet	Food safety services	14 years (exporting since 2010)	5	not revealed (domestic market largely predominant)	Not relevant	2.8 million € (2012)	Decreasing
Vale da Rosa	Table grapes	53 years (exporting since 1972)	9	30	60.000.00 €	7.3 million € (2012)	Increasing
Vieira de Castro	Bisquits	70 years (exporting since 1992)	45	50	Not available (2012 it was the 1 <sup>st</sup> year)	35.1 million € (2012)	Increasing

“Science4You” has shown responsive operations in some high-demanding periods (e.g. Christmas season) – has led to new opportunities in a foreign market. A lasting relationship, all of these companies have more than 5 years of commercial transactions with “Jerónimo Martins”, was a key factor in order to extend this relationship to Poland. Formal and informal (personal) interactions consolidated relationships, where trust emerged as a result of successful commercial transactions. “Jerónimo Martins” management in Poland stressed this topic when argue that co-operation it is easier in cases of previous relationships because Portuguese SMEs are often reliable producers and offer quality products that posed few or no risks to supply “JerónimoMartins’s” (“Biedronka”) Polish retail stores. Pedro Leandro (Commercial Director of “Jerónimo Martins”) stressed: even if the strategy is “acting and buying locally”, and “(...) 95% of products sold in [Poland] are produced locally”, instead of other European sources Portuguese providers are preferred, since their products present the same or best price-quality ratio and are easily adapted to the Polish market.

For “Jerónimo Martins” it is important to fulfill the gap between Polish market needs and local offer. In order to do that Portuguese SMEs, which are suppliers at Portuguese domestic market, are, in many cases, the best alternatives.

We shall highlight this issue: despite the source and supply policy in order to buy local products – and JM stresses that develops partnerships with local producers, not only because it is important to act as a local development agent, but also in order to offer “fresher products [with] less transport costs” – “Jerónimo Martins” plays a role as “opportunities seeker”.

The market-specific knowledge and the institutional market knowledge gathered by “Jerónimo Martins” since the 1997, as owner of “Biedronka”, and before as owners of a Cash&Carry business – already sold to another Portuguese entrepreneur – it was at same time a useful resource in order to seek new market opportunities. This aspect it was quite important in the case of “Quinta do Vallado”. This company was exporting Oporto Wine to Poland; nevertheless, “Biedronka” has developed a local survey and figures have shown red wine as much more preferred by Polish consumers than semi-arid or semi-sweet wine (as it is the Oporto wine). Taking into account the previous relationship in the domestic market, this opportunity market was shared, and a new wine brand has been developed – “Quadrifolia” – with a lower price, “responding to the current Polish consumption trends” – João Ribeiro – “Quinta do Vallado” Manager. We can conclude that they have developed new solutions due the knowledge shared in the network. During 2012, “Quinta do Vallado” became one of the most important “Biedronka’s” Portuguese suppliers.

Nonetheless, “Quinta do Vallado” was not the unique case of local adaption through access to market-specific and institutional knowledge gathered by “Jerónimo Martins” in Poland. Also “Science4You” and “Vieira de Castro” have used them relationship with “Jerónimo Martins” to adapt product and price strategy.

By other hand, “Vale da Rosa” – a producer of premium table grapes – had some barriers in order to succeed in the Polish market. And the main reason was the difficulty to adapt the product to the local market, when Italian competitors were offering lower-prices products. This issue – the difficult to adapt, regarding this specific type of fresh products – was a barrier that has been quite hard to overcome. And this was the main reason why Ricardo Costa (Export Manager of “Vale da Rosa”) said that the Polish operation has not been as good as they had wished.

All SMEs have also mentioned the need of local legal rules adaptation. Even if Poland and Portugal are members of European Union, Portuguese SMEs have found some differences; those differences were overcome with the helpful support of “Jerónimo Martins” in Poland (e.g. “Science4You” and “Quinta do Vallado” needed special labeling and packaging changes which were introduced in order to comply with Polish legal rules).

Additionally, it is important to stress the entry mode, and mainly why did these companies select mainly the export mode. Regarding the Uppsala Model this would be a first step, in order to avoid risk in an unknown market. However, for a Portuguese “Early Starter”, as it is “Science4You”, Poland would not be a first selection, and the huge proportion of exports concentrated in this market it was only possible because the domestic network enables a fast adaptation to the foreign market, and trusty relationship with the LE has led “Science4You” to increase the level of resources commitment in the Polish market (mainly doing all the needed product adaptations). Moreover, “Quinta do Vallado” – a “Lonely International” – has taken the same path; and “Vale da Rosa” either.

Nevertheless, “ControlVet” and “Vieira de Castro” had different approaches to the Polish market. “ControlVet” respond to a challenge posed by “Jerónimo Martins”, and has tried to acquire a local company. However, Mariana Pessalva (ControlVet Export Manager) said that the decision making to expand operations to Poland “was independent of any contract with a concrete company”. They do not have signed any kind of special agreement with “Jerónimo Martins”, but “ControlVet” believes that it is possible to develop with “Biedronka” a good and trusty relationship, as it happens in Portugal since 2005. The first approach was the intent of acquisition of a local company and later the development of a partnership with a local player. Those two intents did not succeed; and “ControlVet” is developing right now its own local subsidiary. A laboratory it was

inaugurated in February 2013 (in Poznan), and all the local certifications are being gathered in order to develop the food safety service in Poland. A more committed approach to the Polish market, where “ControlVet” selected as entry mode a wholly owned subsidiary (WOS), due mainly the nature of service that the company wish to provide in the foreign market. The domestic network was crucial in order to select Poland and has given a frame to the “ControlVet” internationalization process.

“Vieira de Castro”, the biggest company regarding our five case studies, is exporting to Poland, and has developed its own market research report. Ana Raquel Vieira de Castro (“Vieira de Castro” Export Manager) said: “(...) the market dimension (and) its potential for development” have been key factors in order to select this market and, later, to build locally a “(...) new plant or the partnership with a local company”. For “Vieira de Castro” Poland can be the focal point from where it is possible to spread their products through European Eastern countries. Nonetheless, “Vieira de Castro”, even if the selection of the Polish market was not made only regarding the domestic relationship with “Jerónimo Martins”, has entered in this market through “Biedronka”. And the presence of this Portuguese subsidiary was a key factor in order to give priority to this market.

“Vieira de Castro” proposed to this retail company the selling of biscuits in “Biedronka’s” stores, trying to use the domestic network, in order to ease the entry in this unknown market. Ana Raquel Vieira de Castro (“Vieira de Castro” Export Manager), defends the co-operation between Portuguese companies in any part of the world in order to share risk and knowledge, and she is “(...) proud to be able to put [it] into practice.”

This was quite important, because “Vieira de Castro” was able to understand better local consumption patterns, local

distribution channels and also how Polish consumers buy this kind of products (biscuits, crackers and sweet almonds). Additionally, “Biedronka” imposed some adjustments in price strategy (adapting to local power purchasing) and in packaging (language and labeling). This local market knowledge has been crucial in order to test this set of products in Poland and it was an important milestone in the “Vieira de Castro” internationalization strategy in European Eastern markets (Table 2).

### 3. Discussion

If distance still matters Poland wouldn’t be, at first sight, a priority market for a Portuguese SME (Ghemawat 2001; Dias, Marques 2012b). The *liability of foreignness* and the *liability of outsidership* would be barriers which lead to a gradual approach, where Portuguese speaking countries (e.g. Angola, Mozambique or Brazil) or the neighbor market (Spain) should be first choices. When is taken a careful look to Portuguese international trade and investment statistics (AICEP 2013), Angola is the market to where a higher number of Portuguese SMEs is exporting; and, Spain is the first Portuguese client (in volume and value).

Even if we take into account that Poland and Portugal are members of the same trade tariff area, they don’t are part of the same currency area, and language, GDP *per capita* differences, or even other local administrative rules and laws would emerge as issues that enlarge the perception of (psychic) distance. At same time, market-specific knowledge – about local market competition, prices, products, local consumption patterns or even distribution channels – are quite difficult to access. A feeling of *outsidership* is felt; to be out of the market, more than out of the local culture and administrative issues. A lack of market knowledge – and market

Table 2. Multiple-case analysis – local strategy and local adaptation

Companies (SME's)	Relationship (time)	Compared with domestic market		Other issues	Adaptation	
		Price strategy	Product strategy		Local market	Institutional
Science4You	More than 5 years	Different	Limited range (cheaper products)	Lower average price (less 40% than in the domestic market)	Language	Special labeling
Quinta do Valado	More than 7 years	Different (lower)	Different (less quality products)	Other target market segment	Language	Special labeling (in package)
ControlVet	More than 8 years	Same	Same	2nd approach (aquisition was the 1st)	Language	Special laboratory certification)
Vale da Rosa	More than 10 years	Different (lower)	Same	High quality approach – Italian competitors with better prices	Language	It was difficult to find a transport service provider which fits with Vale da rosa requirements
Vieira de Castro	More than 10 years	Different	Same	Other clients are also important	Language	Didn't find special constraints



opportunities as subset of knowledge (Johanson,Valhne 2009) – and a weak (or not relevant) network position, at the local (host) market, would be constraints that will preclude SMEs, mainly “Early Starters” and “Lonely Internationals”, to speed up the entrance in a foreign market.

The use of a domestic network position, built during a last commercial relationship, and consolidated by trust, learning and knowledge (Johanson,Valhne 2009), would be useful – a resource –to increase the speed of the internationalization process, and to overcome the former gradual stage approach (Johanson,Valhne 1977). Covielo and Munro (1995, 1997) have shown how relationships are important on the international market selection and on the entry mode decision. Erramilli and Rao (1990) and Majkgård and Sharma (1998) have focused on supplier/client relationships. As it has been discussed before, in our literature review, those relationships would be strong if they are characterized as trusty, committed and co-operative (Möller, Halinen 1999).

Taking into account our five case studies, trust it was presented as a consequence of lasting relationships. And new ventures were possible because relationships were (are) strong; thus relationships, where time and recurrent operations reinforce trust and commitment in the domestic market is a basic requirement in order to co-operate in new market opportunities (and among these, those which can be presented to the SME, by the LE, in foreign markets).

If this basic requirement is satisfied, co-operation in international markets can be developed, not only by formal contracts or arrangements, but also by informal agreements, which are based on trust accumulated during lasting relationships in the domestic market. Nonetheless, co-operation, formal and informal, is based on shared objectives: the LE wants to sustain or develop a competitive advantage (ownership – Hymer 1976; Dunning 1979) in some foreign market, and the SME wants to increase exports or develop new international ventures (sustaining also its position in the network, moving from a domestic to an international scope). These objectives were present in our five SMEs cases, and it was also on our LE – “Jerónimo Martins Group” at Poland.

Firstly, all the companies (SMEs) were seeking for new markets, where would be possible to increase or raise sales in foreign markets. As an example, “ControlVet” was facing a decrease trend in domestic sales, and company managers were looking for new markets; and, secondly, “Jerónimo Martins Group” wishes to use its domestic network to reinforce (or improve) their offer at Poland, sustaining a competitive advantage (or a position at the local competitive arena). Moreover, these transactions, between partners which share a trusty relationship are more efficient, avoiding some of the control tasks that increase transaction costs (Coase 1937; Williamson 1985).

Nevertheless, even if basic requirements are gathered or fulfilled, in order to achieve the objectives, LEs and SMEs must take to co-operation not only commitment and will, both needed to enlarge the relationship scope to an international dimension, but also different ingredients which would be required to get a successful approach.

LEs are the source of institutional and market-specific knowledge. As it was seen in our case, product local adaption was needed, and “Jerónimo Martins Group” at Poland had a critical role in order to transfer legal and administrative rules to different Portuguese companies. That knowledge was critical to introduce in a fast way food and beverages products, adapting packages and labeling, and, regarding the “ControlVet” case, to gather all the certifications and authorizations needed to perform an activity. This was a key issue in order to overcome psychic distance, and rapidly raise exports to Poland. Nevertheless, it is the market-specific knowledge which allows an *insidership*, and is in this scope where the LEs contribution would be helpful in order to speed up the SME entrance in a concrete market. This market-specific knowledge is that which allows realizing opportunities. Regarding its role as retailer, which contacts everyday Polish consumers, “Jerónimo Martins Group” can transfer to their Portuguese partners market needs or niche opportunities. This informal market research would smooth the way of SMEs, mainly for those who don't have resources or knowledge to invest in an approach to a foreign market. “Early Starters” or even “Lonely Internationals” and “Late Starters” are those which would use this LE/SME co-operation as tool in order to overcome the *liability of foreignness* and the *liability of outsidership*.

Nonetheless, internationalization knowledge (general knowledge as it was mentioned by Johansson and Valhne (1977)), an international focus and adaptation skills are features that are needed in order to get an effective approach to a foreign market. These features were contained by SMEs which had the most successful operations with “Jerónimo Martins Group” in Poland.

Internationalization knowledge is related with the procedures and tasks that are needed in order to export or other kind of involvement in international trade and/or investment. All SMEs that have been object of our research project were in possession of that kind of knowledge. This set of companies knew how to give the steps needed to introduce their business in a foreign country, even if they didn't possess institutional and market-specific knowledge. They were able to follow the LE initiative even when they can be classified as “Early Starters” – as it is the case of “Science4You”. In other hand, all the companies were committed with the internationalization process; they shared as an ambition the development of international ventures (some of them were doing that for several years, but this commitment was also seen in “Science4You” and

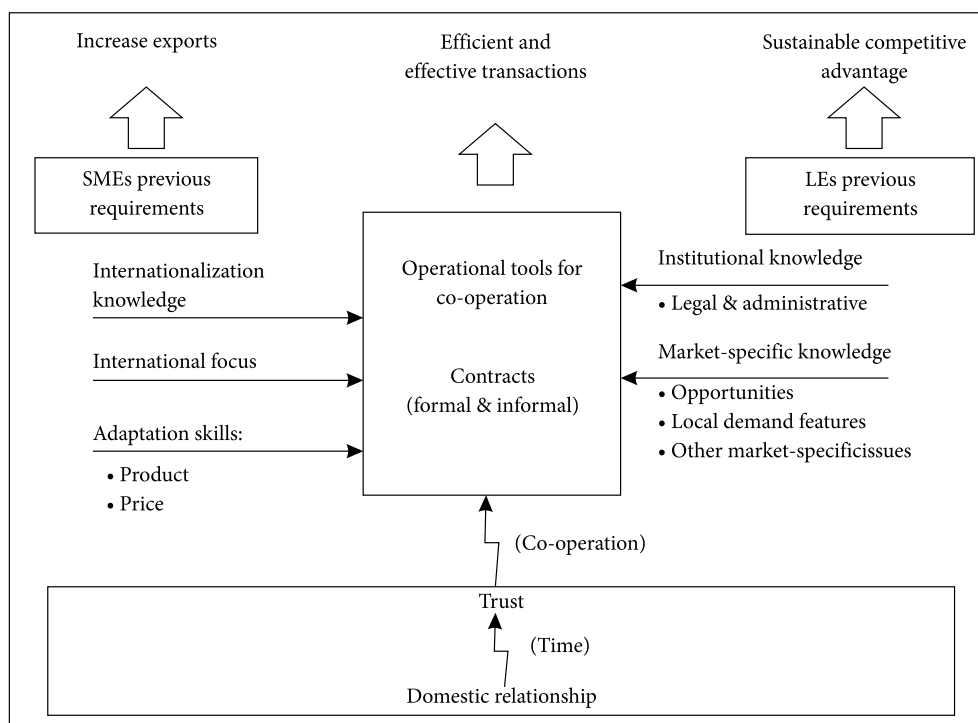


Fig. 2. Co-Operation LE/SME

“ControlVet”). This issue is important because would be a lever in order to build a truly co-operative approach with the LE. An international focus in SMEs management would be an enabler of more effective co-operations, and is going to be a important in order to allocate resources to this international activity.

Finally, it has been crucial to have adaptive skills. Not only regarding the administrative and legal issues, or even translating labeling to the local language, but also adjusting product and price to local market features, and even, in some cases where competition is more intense, in order to take decisions which would lead to a better competitive approach to the local market. In one of our cases – “Vale da Rosa” – it was difficult to adjust to local market competitive arena, and this was the major issue which lead to a non-positive outcome after two years of investment in the Polish market.

Thus, if SMEs are able to add to this relationship these three features, and give a positive answer to the LE’s knowledge transfer – in the two main scopes presented – and based on trust as a resource accumulated during lasting and successful operation in the domestic market, co-operation between LEs and SMEs can be a tool in order to overcome the *liability of foreignness* and the *liability of outsidership* (Fig. 2).

## Conclusions

Since the 90’s of the last century many authors have questioned the gradual or stage internationalization process.

Even Johansson and Valhne (1990, 2009) have move forward introducing a new network perspective, which would give a better understanding of this phenomenon. Not only “Born Globals” or “Born-Again Globals” were seen like special or different events, that can be understood by the nature of their entrepreneurs or by intensive-knowledge sectors, but also other companies were overcoming some of the deterministic features of the original stage approach (known as the U-M). Some authors have introduced the “client-following” strategies, as an example where the market selection or even the entry mode were not imposed by the gradual level of commitment and knowledge accumulation about a specific market, or even about the knowledge how to deal with psychic distance (and the *liability of foreignness*). Furthermore, weak or non-existent linkages in the local (host) market would raise a huge constraint which has been called the *liability of outsidership*. Those linkages are a key resource in order to access to market-specific knowledge (local market features).

Our main question had two different parts: how domestic network, combining LEs and SMEs would be a tool in order to overcome the *liability of foreignness* and the *liability of outsidership*, and, if yes, which are the main issues that contribute to promote *insidership*, and at same time a rapid internationalization process to more distant markets. The answer to this question has been can be also given in two different parts. Firstly, an integration of a SME in a domestic network can be useful to enable the internationalization process when those linkages are connected to companies which have international ventures. If those ventures are in

far markets – regarding the psychic distance concept – these companies can be a lever in order to open markets (and opportunities) to domestic market partners. This issue was observed in our case study. A LE – in our case from the retail industry – with operations in a far or distant market, not only geographically, but also in economic terms, has provided opportunities and insights about markets features, and transferring knowledge that allowed a smoothly market entry for different SMEs, even for those which are “Lonely Internationals”, and would face the *liability of outsidership*. Secondly, SMEs, which are part of the domestic network, must provide to the co-operation an international focus, that can be seen as commitment with co-operative international ventures, and must have adaptation skills, in order to provide de product and price adjustment to the local market. A SME which got internalization knowledge will enable a more efficient co-operation in international ventures.

Further steps should be taken, in order go deeper in this field. The gatekeeper effect has been studied from different perspectives, and also in retail internationalization. The gatekeeper could be a barrier to more knowledge acquisition, and if in a first approach to the market could enable a fast entry, in a mid-term perspective could reduce the scope of the learning process, and not be a truly lever of the internationalization process. The management of this process in a way which the learning process would be developed in a more fast way, and not constrained by the LE in the host market, it is an important topic and, can be for sure, a next step of our research project.

Nonetheless, even if the gatekeeper effect would narrow the learning process, this co-operative approach, between LEs and SMEs, would be helpful in order to initiate and develop international ventures, and could be an important lever in order to raise exports in distant markets where SMEs have a reduced presence. In countries where the domestic market is decreasing or even stable, this approach could be also a promoted as public policy in order to engage more companies in international trade and sustain and create new jobs. The development of this topic in the scope of internationalization public policies is also a research stream that can be followed.

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