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Internationalization and entry mode determinants of SMEs: The case of Adira

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Abstract

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This study aims to find out the reasons that push small and medium-sized enterprises (SMEs) to keep on expanding operations abroad as well as the motives they choose different modes on doing so. By adopting the case study methodology, we choose a company called Adira Metal Forming Solutions, S.A, (AMFS) in order to answer our proposed research question.

Our findings suggest that the first motive that triggered the company to go international in the late 1960's was the limited domestic market in which it was operating. This motive was also evidenced as a valid one for the whole process of internationalization. Additionally, the other motives that pushed the company to expand once it was already in the international market place were mainly the globalization of markets, the vision of the founder's son, a risk diversification strategy and, more recently, a shift towards emerging markets.

Finally, the export mode of entry seems to be the preferred entry mode adopted by the company. The main reasons could potentially be linked with a risk-averse manner of dealing with internationalization and constraints in terms of resources, which prevent the use of more intensive entry modes.

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1 - Introduction

1.1 Relevance of chosen topic

The beginning of internationalization research in the late 1950's and 1960's focused on multinational companies (MNCs) and on economic approaches to explain their internationalization efforts. This resulted in a vast body of theoretical and empirical data with an almost exclusive focus on MNCs (Ruzzier, Hirish, and Antoncic 2006). However, in more recent times, growth of SMEs is viewed as crucial to a nation's economic development and future wellbeing (Coviello and Munro 1995). As part of growth, the need for successful international market development is particularly important for SMEs pursuing niche strategies from limited domestic markets (Coviello and Munro 1995). Additionally, (Ruzzier, Hirish, and Antoncic 2006) argued that while previously SMEs were considered passive victims rather than active players, evidence indicates that this view is no longer valid. Since the importance of SMEs is a relatively recent topic (Mejri and Umemoto 2010), there is plenty of scope for improving what has been previously done in this field. With this study, we expect to complement and reinforce the literature on internationalization of SMEs with valuable contributions for both managerial and practical use.

The Uppsala Model presents the bulk of existing literature on internationalization of SMEs. Developed by the Swedish School of Uppsala, the model tries to explain how firms gradually intensify their activities in foreign markets. It describes the internationalization path as an incremental learning process through which a company accumulates and integrates the knowledge in foreign markets (Jan Johanson and Vahlne 1977; Jan Johanson and Wiedersheim-Paul 1975). Even though it has been largely criticized when applied to SMEs context (Fillis 2001; Madsen and Servais 1997), it is still largely considered a central model of internationalization of SMEs (Fillis 2001).

1.2 Research Question

While the above-mentioned model aims to describe the process of internationalization from a process perspective, the purpose of this study is rather different. We want to understand the reasons that push SMEs to keep on expanding operations abroad as well as the ones they choose particular modes on doing so. Our aim is not to find out how SMEs do it, but why they do it. Therefore, we will be looking to answer the question "Why do SMEs internationalize and why do they choose different modes on doing so?"

1.3 Paper Structure

The remaining of this paper will go as follow: Section 2 will cover a review of the relevant theoretical body of literature in order for us to understand where current research on this topic stands so far. Section 3 will explain the chosen method and data analysis while section 4 will describe our case study together with our findings. Finally, the last section will include a final discussion and point out possible limitations as well as future research directions.

2 - Literature Review

In this chapter of the dissertation we will discuss what has been previously acknowledged concerning the main topic of the present study. We will start by defining what internationalization means for the purpose of this study. Additionally, a brief historical context will be presented for the reader to get a general picture regarding the process of internationalization of SMEs. Particularly, an analysis of how the process evolved overtime will be shortly demonstrated. The second sub section will focus on SMEs, how we can define them and how existing theories explain why they engage in international activities. Finally, the last sub section will concentrate on the motives SMEs have to choose particular entry modes when deciding to operate in foreign countries.

2.1 Internationalization

2.1.1 Definitions

Table 1 - Definitions of Internationalization

Authors	Definitions
(Ruzzier, Hirish, and Antoncic 2006)	Internationalization is a synonym for the geographical expansion of economic activities over a national country's border
(Jan Johanson and Vahlne 1977)	(...) Increasing involvement of the firm in individual foreign country
(Calof and Beamish 1995)	(...) Adaptation of firm operations to international environments

Table 1 presents some definitions of main authors on the field of international business regarding the term internationalization. While (Ruzzier, Hirish, and Antoncic 2006) define it

as a geographical expansion across national borders, other authors interpret it as increasing involvement in individual foreign country (Jan Johanson and Vahlne 1977) or as an adaptation of the firm operations into international markets (Calof and Beamish 1995). As we can see, the debate in the literature about a precise definition for internationalization is quite inconsistent. Therefore, for the purpose of this study we will assume internationalization as the outward expansion of the operations of the firm across national borders. It is not interpreted as the first time firms engage in international operations, but as an expansion into new geographical markets. This distinction seems to be of great important because as (Andersson, Gabrielsson, and Wictor 2004) denoted, factors that influencing SMEs to go abroad and become international differ greatly from the ones influencing them to continue and grow once they are on the international marketplace. By outward expansion we mean operations that result in cash inflows such as sales. Conversely, inward expansion would stand for operations that result in cash outflows such as imports. This difference is also important because as (Ruzzier, Hirish, and Antoncic 2006) denoted, outward activities more than inward activities are the ones increasing, in the long run, the competitive position of the firm.

2.1.2 Historical Context

The internationalization process has been previously studied in different perspectives. Historically, discussion on internationalization can be traced to economic authors such as Adam Smith with the Theory of Absolute Advantages and David Ricardo with the Theory of Comparative Advantages (Fillis 2001). The first remarked on the importance of recognizing the scarcity of resources and subsequently endeavoring to implement a distribution system which involved transporting either the rude or manufactured product from the places they abound to where the places they are wanted (Fillis 2001). The sale of the exported good served to compensate for the cost of labor incurred in producing it in the domestic market. The second sought to explain the mechanics of international trade by means of viewing it as a competitive resource allocation in an international context, both in terms of barter and in terms of a monetary medium exchange (Fillis 2001).

These authors formed the basis of what become known as Classical Theory of International Trade, which saw internationalization on a country level perspective (Fillis 2001). Further to this macro perspective, from the middle of the 20th century, research began to focus on a microeconomic level approach tackling the internationalization question in a market/economic perspective (Mejri and Umemoto 2010). Examples of theories developed

within this line of reasoning are: the transaction cost theory (Williamson 1975), the eclectic paradigm (Dunning 1988), the product life cycle theory (Vernon 1966) and the monopolistic advantage theory (Hymer 1976). It is largely evidenced in the literature that the market perspective on internationalization has mainly been restricted to studies on internationalization or the diversification strategies of large firms conceived within the context of strategy research with roots in economics. (Jan Johanson and Vahlne 1977; Ruzzier, Hirish, and Antoncic 2006; Fillis 2001; Coviello and Munro 1995). As our central focus in this study is precisely on SMEs, those existing models seem to be no longer sufficient in themselves explaining the internationalization behavior of these type of firms (Fillis 2001).

Additionally, (Fillis 2001) argued that with the globalization of markets, and the increasing speed with which industry and product life cycles occur, various methods might be needed in order to better understand contemporary behavior of the internationalizing firm rather than on country trade. It became clear that the focus of internationalization analysis shifted therefore from the market perspective to the firm level. In the 1960's, the foreign direct investment theory, explaining the decision of US MNCs to invest abroad was proposed by (Aharoni 1966). However, it was with the contribution of the Swedish School of Uppsala in the 1970's that research started to address SMEs from a firm perspective. This resulted in the Uppsala Model (Jan Johanson and Vahlne 1977; Jan Johanson and Wiedersheim-Paul 1975) which presents the bulk of existing literature on SMEs context. Other theories trying to explain the internationalization process emerged using the firm as a main driver. Hence, in the beginning of the 1980's, research focused on network theory (Jon Johanson and Mattson 1988) as a framework to explain internationalization. Around the late 1980's and beginning of 1990's, as a growing number of small entrepreneurial firms, also called international new ventures, internationalized from their inception, a new stream of internationalization research called international entrepreneurship emerged (McDougall and Oviatt 2000).

Finally, in the beginning of the 21st century, research started to address the need for a new perspective to explain internationalization. Some integrative models were proposed being the most recent ones the knowledge-based models of internationalization (Mejri and Umemoto 2010).

Table 2 summarizes chronologically the discussion above, regarding the shifts on internationalization analysis occurred overtime.

Table 2 - Internationalization Perspectives

Internationalization Perspective	Theory	Authors
Country Level	Absolute Advantages	Adam Smith (1776)
	Comparative Advantages	David Ricardo (1817)
Firm Level – economic approach	Transaction Cost	(Williamson 1975)
	OLI Paradigm	(Dunning 1988)
	Product life cycle	(Vernon 1966)
	Monopolistic Advantage	(Hymer 1976)
Firm Level – management point of view	Foreign Direct Investment	(Aharoni 1966)
	Uppsala Model	(Jan Johanson and Vahlne 2009; Jan Johanson and Wiedersheim-Paul 1975)
	Network Theory	(Jon Johanson and Mattson 1988)
Individual Level	International Entrepreneurship	(McDougall and Oviatt 2000)
Integrative Models	Knowledge-based Models	(Mejri and Umemoto 2010)

2.2 Internationalization of SMEs

In this section, we will first define SMEs and then review their motives to engage in international activities.

2.2.1 Definition of SMEs

A review of the literature indicates that perceptions and definitions among researchers vary as to what constitutes a small, medium and large firm. The majority of the literature focused on studies in United States of America (USA) where perceptual and industry definitions of size vary greatly from the United Kingdom or Europe (Fillis 2001). Given these differences around the concept, the transferability and replicability of studies becomes difficult to achieve. Therefore, for the purpose of this study we will assume the definition of SMEs generally used by the European Commission.

According to the European Commission, the main factors determining whether a company is a SME are:

- Number of employees
- Either turnover or balance sheet total

The table below provides us with the conditions proposed by the European Commission as to what constitutes a micro, small and large enterprise taking into account the two criteria mentioned above.

Table 3 - Definition of SMEs

Company category	Employees	Turnover	(or)	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: (“European Commission” 2009, page 4)

As we can see, the two categories small and medium firms are described in the two first lines of Table 3. These include firms with a minimum number of 10 and a maximum of 50 employees and a total turnover or balance sheet comprised between 2 and 10 million euros. Medium-sized firms range from 50 to 250 employees, have a total turnover from 10 to 50 million euros or a total balance sheet going from 10 to 43 million euros

2.2.2 Why SMEs go international?

Typically, the reasons for SMEs to go international vary greatly from those of large corporations, which rely mainly on costs and risks analysis, based on market characteristics and taking into consideration their own resources (Hood and Young 1979). In the following section we will discuss existing theories explaining the international motivations of SME. It is worth mentioning that more theories than those presented in this study exist. The list below shows us a selection of those intended to be of more relevance according to the existing literature (Ruzzier, Hirish, and Antoncic 2006).

2.2.3 The motivations

2.2.3.1 Globalization

The process of internationalization accelerated in the post-second-world-war era and appeared unrivalled until the early 1970’s when a new phenomenon emerged: globalization.

The Organization for Economic Co-operation and Development (“OECD” 2013) uses the term globalization to define an “increasing internationalization of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries. Amongst other things this gives rise to increased mobility of capital, faster

propagation of technological innovations and an increasing interdependency and uniformity of national markets ”

When applied to the firm context, the definition of globalization seems to be rather different. According to (Ruzzier, Hirish, and Antoncic 2006), globalization is as a stage in which the firm’s operations are managed on a global scale, rather than on a few selected countries. However, for the purpose of this study, we will assume the definition used by OECD. It is therefore no surprise that today’s companies, especially SMEs, need to accommodate the rapid changes of the environment provided by globalization. A review of the literature indicates that there are mainly three forces driving the phenomena of globalization. First, the explosive growth of low-cost technology. Better information processing as well as communication technology are creating scenarios for firms in which the awareness of new international economic opportunities increases. Second, the steady dismantling of trade barriers and financial deregulation creates, as well, huge international opportunities. Third, the liberalization that followed the end of the socialism in Russia and Central/Eastern Europe as well as the geographical expansion of markets in Asia, and particularly in China open further opportunities for growth and investment. (Ruzzier, Hirish, and Antoncic 2006).

Additionally, the authors argued that especially for SMEs operating in high-tech or manufacturing industries it is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competitors. In that sense, it seems reasonable to argue that in today’s global market place, internationalization should not be viewed as an option for SMEs, but rather an opportunity that should be taken into account in order to remain competitive and even, in some cases, to survive (McDougall and Oviatt 2000). By “remain competitive” we mean profit maximization through access to new markets by creating market diversification or by launching of new products, as well as by guaranteeing access to sub-suppliers. The latter is driven by the rationalization of the production and a need to minimize labor costs (Jakobsen and Voss 2003).

However, one could argue that globalization has also an impact on larger firms. In fact, it does. The difference is that globalization’s impact on SMEs sector is likely to be more profound than on the already highly internationalized larger firms. According to (Madsen and Servais 1997), globalization has only recently been introduced in small firm development. While SMEs traditionally restricted their activities to the region of their location (Pleitner 1997), the fact is that in the last decade, SMEs have successfully set up operations beyond their home markets and their role is increasingly important in contributing to future growth. (Coviello and Munro 1995)

One could therefore conclude that the phenomena of globalization pushed companies and particularly SMEs to pursue international strategies as a way to remain competitive in the global market place.

2.2.3.2 Network Theory

In more recent literature regarding internationalization process, it is largely suggested that network theory can offer new and fresh insights, particularly for SME's whose development tends to be dependent on relationships with others (Axelsson and Easton 1992). According to (Coviello and Munro 1995), in network theory, "markets are depicted as a system of relationships among a number of players including customers, suppliers, competitors, and private and public support agencies". In this model, strategic options are not taken based on an individual approach. It is rather the nature of relationships established with others in the market that will influence strategic options (Axelsson and Easton 1992). Two types of network contacts are evidenced in the literature: formal and informal contacts. The first refers to business-related contacts in their network such as, suppliers, customers, competitors etc. The latter refers to contacts established with friends, family etc. (Coviello and Munro 1995). One could argue that a firm could further expand their operations abroad due to an existing relationship that provided such opportunity. Therefore, the interests of other players in their network of relationships might shape internationalization efforts. This holds true both for formal and informal network contacts. Hence, regarding the first, SMEs might go international for example, to follow a competitor in order to remain competitive, or a supplier in order not to lose it. Concerning second, they might go international due to an existing opportunity created by contacts provided by friends, members of the family, etc. (Ruzzier, Hirish, and Antoncic 2006) further discussed this topic. According to them, "if the relationships between firms are seen as a network, it can be argued that firms internationalize because other firms in their (inter)national network do so."

Additionally, it is argued that knowledge embedded in long term relationships is mostly centered in one person in the firm, who will have a greater influence on internationalization efforts of the SMEs through close social relationships with other individuals (Ruzzier, Hirish, and Antoncic 2006). This social network is a sub-network within the business network, effecting and being effected by the gained resources and the chosen operational mode (Ruzzier, Hirish, and Antoncic 2006).

Interestingly, (Jon Johanson and Mattson 1988) found that it is the nature of the relationships with current markets that will determine the success of the internationalization of the firm into

a certain country, while one could think it would be the relationships with the new market. At the same time, in a later study, it was argued that those relationships might restrict the nature of a firm's growth initiatives (Jon Johanson and Mattson 1988).

An important pattern on internationalization process was found by (Coviello and Munro 1995) in their study. The four case companies used reflected patterns of internationalization occurring fairly rapid across a number of international markets, which goes against traditional studies of stages approach in which companies gradually intensify their operations abroad as knowledge and experience increases. (Jan Johanson and Vahlne 1977; Jan Johanson and Wiedersheim-Paul 1975). Moreover, findings in the literature on network-based international activities challenged the "stages view of internationalization" (Jan Johanson and Wiedersheim-Paul 1975; Jan Johanson and Vahlne 1977), which until the mid 1980's has been the dominant version of SMEs internationalization process (Hollenstein 2005). Two important factors might explain the above-mentioned. First, within the case study context, the results might be biased due to the highly competitive nature of the international software industry and relatively short lifecycles for software products. Second, the domestic market (New Zealand) used to conduct the study was very limited, meaning that international expansion could be viewed as a crucial factor for growth. However, it was also clear that the rapid international expansion was linked to firm's participation in international networks providing the initial trigger for foreign market selection as well as entry mode (Coviello and Munro 1995).

Other authors, such as (Jan Johanson and Vahlne 2009) recognized the importance of network relationships and introduced them in their original Uppsala Model in an attempt to accommodate the changes in the firm's internationalization environment.

2.2.3.3 The central role of entrepreneurs: international entrepreneurship and the resource based-view

While research in international business has mainly focused on established, large companies, entrepreneurship research has focused primarily on venture creation and management of SMEs in domestic markets. During recent years, however, it seems that the integration of the two topics has been gaining wide attention and the concept of international entrepreneurship emerged (McDougall and Oviatt 2000). Even though a precise definition of international entrepreneurship is still ambiguous, (McDougall and Oviatt 2000) propose that "international entrepreneurship is a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations". Since the main

focus of this study is on SMEs, we cannot neglect the importance of entrepreneurs (founders/managers) widely interpreted in the literature as main agents of internationalization process on SMEs (Ruzzier, Hirish, and Antoncic 2006; Fernandez-Ortiz and Lombardo 2009). It is worth mentioning that this interpretation should not be confused with the one stated in the previous section. While in the first the influence of one person in the firm is viewed as a catalyst of internationalization mainly achieved through close social relationships with other individuals within their network, the latter assumes that internationalization efforts are centered in one person in the firm who owns individual skills allowing him/her to look for opportunities abroad. However, in order to strategically catch up the right opportunities, these individuals need to behave accordingly. In that sense entrepreneurs can be seen as “strategists who find a match between what a firm can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats)” (Ruzzier, Hirish, and Antoncic 2006).

(Alvarez and Busentiz 2001) developed a model proposing a bridge between the resource-based theory (Barney 1991) and entrepreneurship. They suggest entrepreneurs as the source of sustained competitive advantage moving the focus of analysis of the resource-based view of the firm level to the individual level but still in the context of resources. These authors argue that those individuals have individual-specific resources that facilitate the awareness of new opportunities and assembling of resources for the firm. They are “alert” to the possibility of combining resources from different national markets because of the competencies they developed in their earlier activities (Ruzzier, Hirish, and Antoncic 2006). Examples of such resources are: entrepreneurial knowledge, relationships, experience, training, skills, judgment, ability to coordinate resources (Ruzzier, Hirish, and Antoncic 2006; Fernandez-Ortiz and Lombardo 2009). Those resources are socially complex and add value to the firm because they are not easy to imitate and other firms cannot simply create them (Alvarez and Busentiz 2001). One could therefore argue that individuals possessing these kinds of competencies are more prone to use them in order to find new opportunities across national borders. Again, these competencies should not be confused with the ones described in the previous section concerning the fact that contacts established through social networks are mostly centered in one person in the firm.

2.2.3.4 The role of knowledge in SMEs

Research has shown that past models explaining internationalization efforts focused only on some parts of the picture because they only shed light on some aspects of internationalization.

There is, however, a need to use holistic approaches in order to see the “whole picture” (Mejri and Umemoto 2010). Many attempts have already been made but there is still a need for models that succeed to integrate the main findings of previous literature. The need for a new perspective to explain internationalization drives from the complexity of the phenomenon of internationalization. It is argued that there are numerous factors influencing internationalization such as: decision maker, network, firm characteristics, culture, and environment, just to name a few. Therefore, to understand internationalization, it seems to be imperative to look at the factors that make it happen or at least the main ones (Mejri and Umemoto 2010). In order to integrate results from past studies concerning internationalization efforts from SMEs, (Mejri and Umemoto 2010) propose in their model that a knowledge perspective enables one to be more integrative in explaining the phenomenon, meaning that previous explanations are seen through the lens of knowledge. Within this model, knowledge is seen as an extension to the resource based-view (Barney 1991) in the same way as described in the previous sub-section. Particularly for SMEs, knowledge seems to play an important role. According to (Mejri and Umemoto 2010), there are three reasons explaining the above mentioned. First, SMEs compared with large companies have relatively few tangible resources making knowledge a very critical dimension for these types of firms. Hence, the lack of tangible resources has to be compensated by intangible ones in order to be competitive. Second, according to these authors, knowledge has been, since the very old ages, the core of human achievements. The recent developments in environment towards what is so-called “knowledge economy”, has only emphasized more its role, yet it has been valuable since the very old ages. Building on that, these authors see internationalization as resulting from knowledge. Third, it has been largely evidenced in the literature that knowledge is crucial on understanding SMEs internationalization.

According to (Mejri and Umemoto 2010), there are two types of knowledge, arising from a categorization based on its source: market knowledge and experiential knowledge. The first “refers to objective or explicit information about foreign markets (market size, competitors, regulations, etc.), and can be acquired through written documents, reports, etc. The latter is composed by network knowledge, cultural knowledge and entrepreneurial knowledge (due to their relevance in the literature regarding the process of internationalization), and can only be acquired through experience. Their findings suggest that market knowledge plays an important role in the novice internationalization phase of the firm, while the role of experiential knowledge seems to increase as the firm becomes more internationalized. These findings are in line with stages models of internationalization, such as the Uppsala Model (Jan

Johanson and Vahlne 2009; Jan Johanson and Vahlne 1977) which view the internationalization process as learning process through which foreign market involvement increases as the knowledge about those markets increase.

Hence, one could argue that the acquisition of knowledge (both market and experiential) seems to shape internationalization efforts of SMEs.

Table 4 summarizes all the discussion above concerning the motivations of SMEs to go abroad, based on the proposed theories.

Table 4 - Internationalization Motivations

Theoretical Basis	Internationalization Motivation
Globalization	Remain competitive
Network Theory	Opportunities provided by both formal and informal network contacts
International Entrepreneurship	Founder/manager's own skills
Knowledge-based Theory	Knowledge acquisition

To summarize, all the proposed theories provide us some important insights concerning the first part of the central question of this study, namely the motives SMEs have to keep on entering foreign markets. Additionally, they will be further tested in the case study chapter. The next session presents us with the second part of the central question of this study: the motives SMEs choose specific foreign market entry modes.

2.3 Foreign Entry Modes

Every firm seeking to enter a foreign market needs to make an important strategic decision on which entry mode to choose. An entry mode is “an institutional arrangement chosen by the firm to operate in foreign markets” (Kumar and Subramaniam 1997). Many modes of entering a foreign market exist and all of them involve different resource commitment. It is therefore crucial for a firm to choose the most appropriate one (Kumar and Subramaniam 1997). According to (Agarwal and Ramaswami 1992), the four most common modes of foreign market entry are: exporting, licensing, joint venture, and sole venture. These will be discussed in detail on the following sections. It is worth mentioning that many authors assume additional or different entry modes (e.g.: strategic alliances, acquisitions, greenfield investment etc.) in their definitions of entry modes. However, due to its relevance in the body

of literature supported by its high number of citations, we will assume the ones defined by (Agarwal and Ramaswami 1992) for the purpose of this study. The second sub section will be devoted to the determinants of SMEs foreign entry mode in order for us to understand the reasons they choose particular entry modes. Finally, last section will conclude with some interesting findings regarding the entry modes usually adopted by SMEs.

2.3.1 What are the different entry modes?

As we mentioned above, the four common modes of foreign market entry will be described in this section relying on the articles of Agarwal and Ramaswami (1992). It is worth mentioning that as we go along in this list of different entry modes, the level of resource commitment and need for control increases, suggesting a higher level of risk/return pattern (these concepts will be further explained). Therefore, the more resources the firm commits, the greater the risk of loosing valuable resources in case the foreign market engagement fails (Laufs and Schwens 2014).

2.3.1.1 Exporting

Exporting involves only the physical transfer of goods from the firm to the foreign market with or without an agent in exchange for the value of the goods in monetary terms (Kumar and Subramaniam 1997). It is viewed as a low resource or investment strategy and accordingly low risk/return alternative. While it provides a firm with operational control, it lacks marketing control which might be crucial in order to operate adequately in foreign markets (Agarwal and Ramaswami 1992).

2.3.1.2 Licensing

Licensing is a binding contract between the firm and an agent to produce and distribute the goods in foreign market in return for some form of economic rent (Kumar and Subramaniam 1997). Like exporting, it is viewed as a low investment, low risk/return alternative which provides least control to the licensing firm (Agarwal and Ramaswami 1992). Both exporting and licensing are non-equity modes of entry, meaning that the resource commitment in order to enter foreign markets is low compared with equity modes of entry.

2.3.1.3 Joint Venture

A joint venture is the pooling of assets and (or) knowledge by two or more firms who share joint ownership and control over the results of the pooling (Kumar and Subramaniam 1997).

This mode of entry is considered an equity-based mode, since it requires significantly a greater amount of resource commitment. Additionally, it provides risk, return, and control equal to the extent of equity participation of the investing firm (Agarwal and Ramaswami 1992).

2.3.1.4 Sole Venture

A sole venture, is a high investment and consequently high risk/return equity based alternative that also provides a high degree of control to the investing firm (Agarwal and Ramaswami 1992).

2.3.2 Determinants of SMEs foreign entry modes

The previous entry mode choices mentioned were highlighted based on studies of MNCs. Therefore, it is largely argued that knowledge about the critical decision how SMEs enter foreign markets is limited (Laufs and Schwens 2014). However evidence show that SMEs differ from MNCs in three main aspects that might impact its entry decision mode (Laufs and Schwens 2014). First, the limited financial and personnel resources can prevent SMEs to choose high commitment foreign market entry choice. Second, research also show that SMEs have a high level of sensitivity to external influences making it particularly important to find a suitable entry mode allowing SMEs to effectively deal with risks that arise in the host country. Third, the ownership structure and management characteristics might also influence SMEs entry decision as many SMEs are family-owned and/or owner-managed. In that sense, they might not be willing to share control with a partner. In this section we will go deeper into the important aspects from the theoretical body of literature that helps us to understand the reasons SMEs adopt particular entry modes when engaging in international activities.

2.3.2.1 Risk and Return Perspective

According to normative decision theory, the choice of foreign market entry mode should be based on trade-offs between risks and returns (Agarwal and Ramaswami 1992). Therefore, a firm should choose the entry mode that maximizes its risk-adjusted return on investment. Evidence show that entry mode research originally relied on economic theories such as the transaction cost theory. In short, the theory states that firms need to create governance structures that will minimize costs and inefficiencies associated with entering and operating in foreign markets (Canabal and White 2008; Anderson and Gatignon 1986). In that sense, firms

should choose a certain organizational structure in order to minimize controlling and monitoring costs (Laufs and Schwens 2014). Scholars found that when transaction costs associated with finding, negotiating and monitoring a potential partner are low, firms tend to rely on the market to deliver required target market benefits. However, as this transaction costs increase, firms tend to switch their preferences for more hierarchical modes of entry, such as wholly owned subsidiaries (Brouthers 2002).

2.3.2.2 Resource Constraints and Bounded Rationality

At the same time, a review of the literature also indicates that the decision on foreign market entry depend not only on factors studied in past literature which are mainly based on the assumption that the manager is a rational, optimizing decision maker because of its roots in the international economic literature, but also on the time and resource constraints, and the quality of information available that the manager faces when making a decision (Kumar and Subramaniam 1997). By resource constraints we mean financial and managerial capacity of firms to serve a particular country (Agarwal and Ramaswami 1992), while quality of information is linked with the concept of rationality. According to (Simon 1972), “rationality denotes a style of behavior that is appropriate to the achievement of given goals, within certain limits imposed by given conditions and constraints”. In that sense, what happened is that many of these conditions and constraints were not usually taken into consideration because past literature assume that managers always have enough time and resources to make an informed, rational choice (Kumar and Subramaniam 1997). This is particularly important for SMEs, which typically do not have enough time and monetary resources to evaluate all alternatives at the same time. Additionally, it is argued that alliances with partners having local knowledge might be an effective strategy to overcome resource constraints of SMEs when they engage in international activities (LU and Beamish 2001). However, due to their specific characteristics, they tend to prefer minority-stakes to full ownership whereas in case of large firms the opposite is true (Hollenstein 2005)

2.3.2.3 Foreign Market Control

Behavioral evidence also confirms that the firm choice may be influenced by resource availability and foreign market control. The first has been already mentioned previously, while the latter refers to a firm’s need to influence systems, methods and decisions in foreign markets (Agarwal and Ramaswami 1992). Control is desirable to improve a firm's competitive position and maximize the return on its assets and skills. Higher operational

control results from having a greater ownership in the foreign venture. However, risks are also likely to be higher due to the assumption of responsibility for decision-making and higher commitment of resources (Agarwal and Ramaswami 1992). According to these authors, decisions of foreign entry modes are typically a compromise among those four attributes (risk, return, resources availability and foreign market control).

2.3.2.4 Firm and Market-Specific Factors

By including firm-specific and market-specific factors that influence the attributes mentioned above, and assuming that no single approach is able to fully explain a firm's international activity, (Dunning 1988) developed a model to explain the choice of foreign market entry mode. His model includes insights from resource-based, institutional and transaction cost theories. The theory states that firms choose the most appropriate foreign entry mode by considering advantages as they relate to three factors that together make up the "OLI" framework. These are: ownership advantages, location advantages and internalization advantages (Dunning 1988) and will be briefly described below.

- **Ownership Advantages:** These are firm-specific competitive advantages such as the firm's multinational experience, size and ability to develop differentiated products.
- **Location Advantages:** These include country-specific advantages of the international market such as market potential (size and growth) and investment risk (uncertainty of economic and political stability as well as government policies).
- **Internalization Advantages:** These reflect the benefits a firm obtains by choosing a high commitment entry mode rather than internationalizing through partnership arrangements (Dunning 1988).

To sum up, according to (Dunning 1988), all these firm and market-specific factors mentioned above are expected to impact the firms entry mode choice. One example could be shown by the firm's level of multinational experience. Firms without international experience are likely to overstate the potential risks, while understating the potential returns of operating in a foreign market, which makes the choice of less intensive entry modes more feasible for these firms. Conversely, firms with higher multinational experience may be expected to prefer more intensive modes of entry such as sole venture (Agarwal and Ramaswami 1992).

Another example could be demonstrated by the market potential measured by size and

growth. According to (Agarwal and Ramaswami 1992), in high growth markets firms tend to prefer wholly owned modes of entry in order to: first, obtain scale economies, hence reducing the per unit cost and second, to establish a long term market presence. The opposite situation would occur in low growth markets according to these authors.

2.3.2.5 Psychic Distance

The Uppsala Model mentioned previously on this study can also shed some light on entry mode choices. Within their model, (Jan Johanson and Vahlne 1977) argued that regarding entry mode, the first step is exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country. The rationale behind the model is related with the concept of “psychic distance”. Initially developed in 1956, the concept only gains relevance during the 1970’s when members of the Swedish Uppsala School introduced it in their model. (Jan Johanson and Wiedersheim-Paul 1975; Jan Johanson and Wiedersheim-Paul 1975; Hosseini 2008). Many definitions have been used, suggesting that there is some inconsistency behind the concept. According to (Jan Johanson and Vahlne 1977), “differences in language, culture, political systems, level of education, and levels of industrial development affect business activity, thus foreign direct investment (FDI), and other forms of international production, because such differences prevent or at least disturb the flows of information between firms and the market”. According to these authors, firms start exporting, in an orderly and risk-averse manner, to countries that are psychically close to their home market, before gradually expanding into countries that are more psychically distant. Even though psychic distance doesn’t seem to impact entry mode choice according to these authors as it follows the same sequence for every country (e.g., export, establish a sales subsidiary, and in some cases, begin production in host country) (Jan Johanson and Vahlne 2009; Jan Johanson and Wiedersheim-Paul 1975), evidence show that the majority of studies reveal SMEs tend to prefer lower-commitment entry modes when psychic distance is high in order to reduce risks and avoid costly resource loss in case of failure (Laufs and Schwens 2014). One could therefore argue that, according to the latter authors, psychic distance plays an important role when determining which entry mode to choose.

2.3.2.6 Host Country Institutional Environment

Institutional theory suggests that a country’s institutional environment affects a firm’s scope of action because the environment reflects “the rules of the game” according to which firms

must behave (Laufs and Schwens 2014). It is therefore largely evidenced in the literature that host country environment influences the entry mode choices. Host governments may restrict foreign firm's mode choice in order to increase domestic ownership. Where these kind of legal restrictions exist, firms tend to seek legitimacy, as well as efficiency by adopting less integrated modes of internationalization (Brouthers 2002). Evidence also show that high commitment entry modes such as acquisitions and greenfield investment improve SMEs ability to deal with institutional challenges that arise in the host country, and that entry mode choice of SMEs compared with MNCs differ, particularly when the firm is exposed to high levels of risk in the foreign market (Cheng and Yu 2008). According to the existent literature, one way to deal with institutional challenges arising in the host is to diversify risk by operating in multiple markets (Mudambi and Mudambi 2002). However, taking into consideration the specificities of SMEs (resource constraints, sensibility to external influences and management and ownership characteristics), it remains unclear whether these type of firms have what is needed to deal with institutional challenges arising in the host country, by operating in multiple countries, and therefore, diversifying the exposed risk (Laufs and Schwens 2014).

To sum up, table 4 summarizes the determinants of entry modes specified in the present study. A distinction between theoretical and contextual dimension was introduced in order to better understand the link between both. Additionally, they will be further tested in the case study section in order to find out whether they have any explanatory power concerning our case study.

Table 5 - Determinants of Foreign Entry Modes

Theoretical Basis	Determinants of the Contextual Dimension
Transaction Cost Theory	Risk and Return
Behavioral Evidence	Foreign Market Control
Bounded Rationality	Resource Constraints and Quality of Information Available
OLI Paradigm	Firm and Market-specific factors
Uppsala Model	Psychic Distance
Institutional Theory	Host Country Environment

2.3.3 Concluding Remarks

Taking into account the specific characteristics of SMEs (i.e., lack of resources, sensitivity to external influences, ownership structure and management characteristics) (Laufs and Schwens 2014), it seems reasonable to argue that SMEs are less prone to choose high commitment entry modes such as acquisitions or sole venture.

In that sense, it is expected that strategies such as exporting or contractual agreements (i.e., licensing, franchising) prevail over high investment strategies (Hollenstein 2005). However, evidence also show that some SMEs, particularly those with prior international experience, have the ability to opt for higher-commitment entry modes such as acquisitions (Laufs and Schwens 2014).

Studies have found that SMEs can internalize host countries related risks and contingencies by means of high commitment entry modes, and that SMEs' perceptions about the host country's risk significantly influences their entry mode choice (Laufs and Schwens 2014). Finally, the debate in the literature states that it remains unclear whether financially resource-constrained SMEs have access to other types of assets that would allow them to control their foreign market activities. In this case, such assets could reduce the need for internalization (by means of costly high-commitment entry modes) of host country activities (Laufs and Schwens 2014). As we have seen, past studies found contradictory results concerning SMEs entry mode choices. In that sense, decisions about their entry mode choices become difficult to be predicted.

3 - Method and Data

3.1 Method

The present study aims to answer a central research question by applying the case study methodology. The choice of the case study methodology can be justifiable due to the fact that within the present study we are trying to answer an exploratory "why" question (why do SME's internationalize and why they choose different modes on doing so?) as opposed, for example, with an enumerative "what" question which would lead to different kind of approach. According to (Yin 2009) this is because such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence. Additionally, he argued that case study methodology is more appropriate

when a “why” question is being asked about a contemporary set of events over which the investigator has little or not control, which seems to be the occasion as with the present study we are dealing with the process of internationalization of the company. Even though one could think that case study and historical study may overlap, the first adds however two sources of evidence not usually found in the latter: direct observation of the events being studied and interviews of the persons involved in the events (Yin 2009).

Regarding our research approach, the theories described in the literature review section will be applied to the case study using a pattern-matching strategy in order to find out whether they have any explanatory power concerning our research question, and in case they have, which one(s) is (are) more elucidative.

In order to understand the motives SMEs have to internationalize and to choose different modes on doing so, the significance of time seems to have no significance, as those motives were intended to be fixed in a particular point of time. However, in order to make the presentation of findings more clear, a process perspective was adopted as it can be seen in the case study section. Particularly, the description of the internationalization process of Adira was grouped into different decades according to entry timing, as it was hard to find out exactly the entry year of each host country independently. Therefore, we decide to use a mixed approach: content one to find out the motivations and a process one to present findings. By doing so, we are incorporating temporal progressions of activities as elements of explanation and understanding concerning the latter perspective, making the presentation of findings more understandable (Langley et al., 2013).

The chosen company to answer our research question is Adira Metal Forming Solutions, S.A. (AMFS). First, it fulfills all the requirements as to be considered a SME assuming the definition used by the European Commission: with a total turnover of € 15.1 M in 2014, and employing currently 136 workers (see table 3). Second, the company is active in numerous markets across all five continents with a deep understand of the global marketplace, potentially offering important insights for answering our research question. Third, as we conducted a six month internship in the financial department of AMFS right after finishing our bachelor, we believe the access to information as well as its timing would certainly be a plus for the elaboration of this thesis. For the reasons mentioned above, we believe to have found a great fit between the choice of the

company and the proposed study. An overview of the company will be described in the case study section as well as a brief history of the same.

3.2 Data

In order to answer our proposed research question, the primary source of data collection was based on interviews. The first interview was conducted to the vice executive president of the company and shareholder since 2008, Eng. Francisco Cardoso Pinto and lasted approximately one and a half hour. During this interview, the main theme broached was obviously related to the internationalization strategy of the company. Particularly, attention was given to the history and process of internationalization of AMFS as well as to its motives. A second interview was conducted to the same person as the first one, and lasted approximately one hour. In this interview, we went deeper into the aspects that pushed the company to go international since the first time. Initial conclusions have started to be made. This interview was also very useful as it allowed us to clarify some doubts that appeared after data analysis, as well as to narrow our research, since a lot of broad information was gathered during the first interview.

Finally, a last interview was conducted to Ana Maria Carneiro, a sales person from the commercial department and lasted approximately forty minutes. This interview was really helpful, as the interviewee was working in the company from 1979, being able to give us a more historical standpoint about the company. In that sense, important information, particularly related to the earlier years of the process of internationalization was collected.

Complementary data were collected through emails with Eng. Francisco Cardoso Pinto (vice-executive president) and with Inês Castro Moreira. Even though she was not directly linked with the internationalization strategy of the company (works for the financial department), she provided us with useful information, particularly for the company characterization. Several internal documents such as PowerPoint presentations and documents containing relevant information were also collected during the first interview in order to triangulate the data so that additional sources of evidence could be found. Similarly, online information was also collected from their website as well as from secondary data.

A first chronology was established with information regarding the first interview. This

was very important as it helped us to both organize information and to give sense to them, as well as to write our case study report. The other two interviews were also useful to complement the chronology with additional information.

4 - Case Study

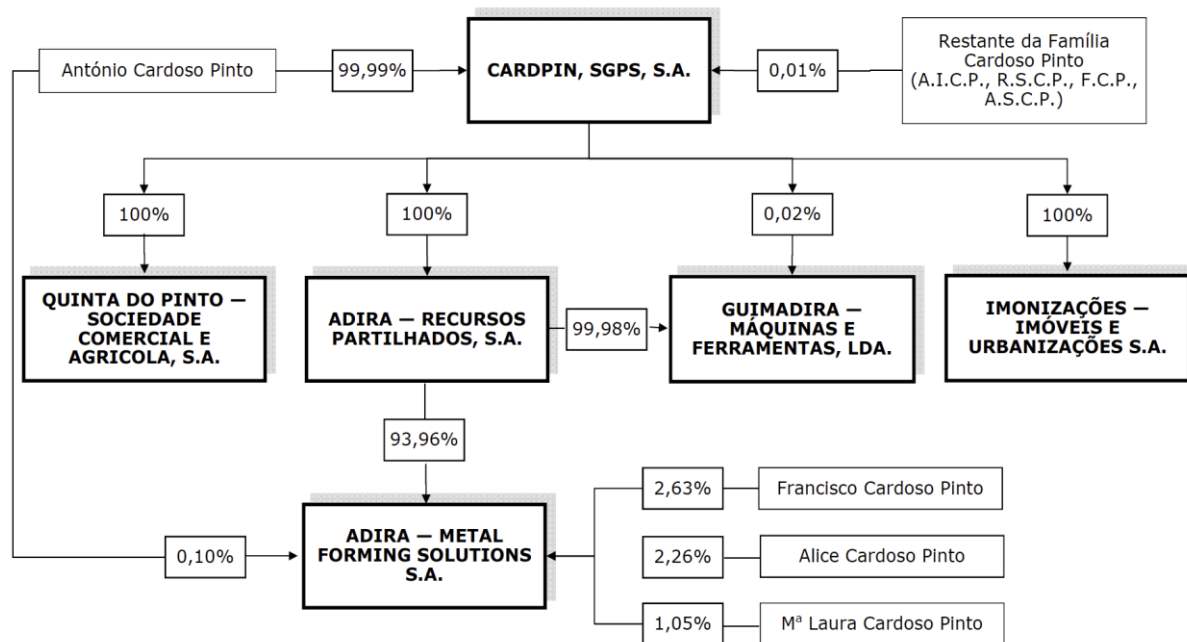
In this section of the dissertation, we will first present an overview of the company being studied. We will then review its process of internationalization, and discuss our main findings concerning our research question, namely the motives the company had to go international as well as the reasons it chooses different modes on doing so.

4.1 Company Overview

Adira Metal Forming Solutions, S.A. (AMFS) is a B2B company with headquarters in Porto, belonging in 93,96% to Adira - Recursos Partilhados, S.A., 6,28% to members of the family and the remaining 0,10% to Eng. António Cardoso Pinto as it can be seen schematically through the organogram represented in Figure 1.

The holding CARDPIN, SGPS, S.A., owns entirely Adira – Recursos Partilhados, S.A. Eng. António Cardoso Pinto owns, in turn, a 99,99% share of the holding assuming therefore majority of control of the group operations. The group owns other companies such as Quinta do Pinto – Sociedade Comercial Agrícola, S.A which is farm located in Alenquer, dedicated to the production and selling of wine, Guimadira – Máquinas e Ferramentas, LDA., a “low cost” line of production and Imonizações – Imóveis e Urbanizações S.A., a company dedicated to the real state business.

Figure 1 - Group Organogram



Source: AMFS

AMFS is a result of a further step in the growth and consolidation strategy of the group. Created in November 2012, it received all the operational activity of its participant Adira - Recursos Partilhados, S.A, concentrating in a single entity and under one roof all business activities of conception, manufacturing, production, design and marketing of machine tools for sheet metal work of the ADIRA group.

Previously called Oxisol, AMFS is a SME, employing currently 136 workers with a total turnover of approximately €15.1 M in 2014. The company establishes itself as “one of the leading manufacture and global supplier of sheet metal working machinery, specialized in the production of laser cutting machines, hydraulic press brakes, shears, robotized bending cells and automatic sheet metal transforming systems” (www.adira.pt). Additionally, it also supplies complete solutions for the sheet metal processing industry, including materials such as stainless steel, steel, aluminum, brass, etc. AMFS covers currently around 50 markets spread along the 5 continents, enforcing its global vision. Due to its significant amount of investment made in innovation (approximately € 2,5M in 2009), AMFS has received worldwide recognition, represented by international awards such as the Cotec for innovation from Tolexpo-Paris and, more recently, the Leonardo Da Vince prize for innovation. The engineering department is closely linked to universities and development institutes (University of Porto, MIT, INEGI, INESC) in a network of knowledge transfer, taking advantage of relevant technology developments.

Being a family business, AMFS was awarded with the SME Leader award during 6 consecutive years (2014), given by both national and international banks operating in Portugal. This award distinguishes both its financial health, as well as the contribution to the national economy.

The company deals with several clients from multinational companies in different sectors, such as the aerospace industry, the steel industry and the automotive industry, among others. Examples of clients are: NASA, Boeing, Lockheed, Bombardier, Tap, Air France, Salvador Caetano, Siemens, and Motorola. Currently, its product portfolio includes 3 main categories: bending, shearing and laser cutting solutions. Appendix 1 provides a snapshot of the complete product portfolio of AMFS, including also Guimadira – Máquinas e Ferramentas, LDA., line of production created in 2008 as a way to respond efficiently to the financial crisis.

Concerning its governance, the board is comprised by Eng. António Cardoso Pinto who is currently the Executive President, CEO and main shareholder of AMFS since 2008, by Eng. Francisco Cardoso Pinto, who is the Executive Vice-President and shareholder since the same year, by Dr. Lúcia Sousa, head of the financial department, by Eng. Tiago Brito e Faro, head of the engineering department and by M^a Laura Cardoso Pinto, also a shareholder, who is responsible for the marketing division.

4.2 History of the company

With approximately 60 years of existence, the history of Adira can be divided into the following relevant periods. These periods were carefully selected taking into consideration important internal marks about the company as well as external ones about the environment. They were identified mainly through the elaboration of the chronology which included information gathered both internally and externally, as well complemented by a brief overview of one master dissertation found online including a case study about the same company (Dias 2007).

4.2.1 From 1956 – 1966: The starting point

A A. Dias Ramos (Adira) called at that time, was founded in 1956 by António Dias Ramos. Since its foundation in 1956, Adira's route was one of constant development and technological progress. At the beginning of its activity, the company manufactured several types of machines covering only the domestic market and its colonies (Angola and

Mozambique). Until 1966, the company was far from having engineering and product development activities, as all the technology used was basically an imitation of the ones used by their competitors. In that sense, the company was much dependent on its suppliers.

4.2.2 From 1967 – 1980: Turnaround and beginning of internationalization

The year of 1966 was marked therefore by an important turnaround. An engineering department has been created in partnership with FEUP (Faculty of Engineering from the University of Porto) enabling the company to start developing internally competences in terms of product engineering. At the same time, it started to focus more on the customer by offering high quality and customized solutions to its clients, competing with international players.

The beginning of the process of internationalization coincides with the creation of the engineering office as the person responsible agreed that in order to develop new technologies the company needed necessary to access the European market. Hence, in 1967 Adira participated in its first international fair in Germany, and established several contacts abroad. The process of internationalization started officially with the company exporting to Netherlands and Switzerland in 1968 due to one contact established in that fair. It is worth mentioning that the founder's son (Henrique Ramos) made a key contribution to actively engage the company in international markets due to his vision about the need to internationalize the company, as opposed to the founder's. As a result to all these internal changes, Adira produces the first hydraulic press brake using its own technology in 1969. In 1974 the Portuguese revolution represented, amongst others, the independence of the colonies and a huge economic crisis, which negatively affected the company still much dependent on the domestic market. In a way to respond to those external threats, the company implemented several policies, being one them the diversification of the exporting markets in order to spread risk. Additionally, it was due to the large number of exports that were already occurring to Japan in the 1970's that the company survived the national crisis.

4.2.3 From 1980 – 2000: The era of digitalization and expansion

The decade of 80's represented the era of digitalization and exports in large scale. In this decade, the following could be identified:

- Development of the first graphical controls in 2D and 3D

- Start of exports to demanding markets such as USA, Australia and Middle East
- Certification of safety of the machines exported to Sweden and France
- First steps in automation: frontal feeders, systems for handling and storage of sheet plates
- In the end of the 90's the company was already exporting 75% of its production
- Investment project in modernization and innovation: high-tech equipment, renewal of layouts, new internal organization
- Introduction of new IT technologies: CAD, CAM, Intranet
- First European manufacturer to obtain ISO 9000¹ certification and the first in world to have its entire range of products with the CE² certification
- Expansion of equipment and existing facilities
- Acquisition of its main competitor – Guifil as a way to increase production capacity and “know-how” as well as to use their distribution network in the Nordic European countries and in the USA

4.2.4 From 2001 – 2010: The international crisis and a new strategy

In the new millennium, Adira saw a significant drop on its sales. Until 2007, the company was exporting largely to some of the OCDE countries (USA, Spain, France, England, Germany). Suddenly, with international financial crisis of 2008, the OCDE countries were negatively affected and Adira started to look for emerging countries, particularly those in South America due to cultural proximity. At the same time, the competition increased substantially, and Adira was forced to change its strategy of high quality in affordable prices to one that includes a higher value added in order to differentiate from the competition. The following could be identified in this period:

- Investment in R&D in order to increase value
- Introduction of brand new laser cutting machines, robots and automated systems
- Prices renegotiation with suppliers in order to reduce final prices

¹ A series of standards, developed and published by the International Organization for Standardization (ISO), that define, establish, and maintain an effective quality assurance system for manufacturing and service industries.

² A manufacturer's declaration, which states that the product is assessed before being placed on the market and meets EU safety, health and environmental protection requirements.

- Change in machines design and layout in order to increase value perception
- Creation of 3 branches in 3 strategic markets: Adira France (2001), Adira UK (2001) and Adira Latin America (2006) in order to increase market coverage and reduce its supply chain dependency as well as to act closer to the market
- Creation of Guimadira – Máquinas e Ferramentas, LDA., specialized in the production of “low cost” machines

4.2.5 From 2010: The Future – A clear focus on emerging markets

Adira enters the new decade continuing its firm commitment to innovation. The company debuts its new family of laser cutting machines as well as the GreenBender (see appendix 4) already recognized internationally. Additionally, as mentioned before, in 2012 AMFS was created, concentrating all the operational activity of its participant Adira Recursos Partilhados, S.A.

The company has also been adapting to new realities of the global market, with a clear shift of attention to emerging markets, while at the same time strengthening its presence in traditional markets. Particularly, in 2012 around 40% of its revenues have accrued from South American countries, which clearly demonstrates their relevance. Currently, there is an ongoing project of a possible joint venture with a local company in Brazil, where Adira would open a new industrial line of production together with a Brazilian partner (Gasparini) assuming a 50%-50% or a 51%-50% (where Adira would assume control) joint venture. In Eng. Francisco Cardoso Pinto’s own words “(...) Brazil is a strategic market for us. The biggest one in Latin America, which will grow immensely during the following years. This operation would result in significant cost savings arising from both transportation costs and exchange rate fluctuations. Moreover, culturally it is very close to ours and would also serve as a gateway to other important markets for Adira in Latin America”.

Adira is also undergoing a project of moving its current production facility located in the center of Porto to Canelas in Vila Nova de Gaia. (See appendix 2 and 3 for a snapshot of both facilities)

4.3 The Process of Internationalization

According to Eng. Francisco Cardoso Pinto, the milestones composing the process of internationalization can be briefly identified in the 4 following steps:

- **From 1956 – 1969:** No international involvement

- **Late 1960's:** Beginning of the process of internationalization to Netherlands and Switzerland
- **Decade of 80's:** Expansion of international markets (10%-40% of international revenues)
- **Decade of 90's:** Consolidation of international market activity with presence in around 60 active markets (more than 70% of international revenues)

Table 6 presents chronologically (ordered by decade) the process of internationalization of the company being studied, its motives to engage in those international markets as well as the reasons they choose particular entry modes. Next section discusses in detail our main findings summarized in table 6 concerning our proposed research question.

Table 6 - The Process of Internationalization: Motives and Entry Mode Determinants

Countries	Entry Decade	Entry Motive(s)	Entry Mode	Entry Mode determinant(s)
Portugal + ex-colonies	50's	-	-	-
Netherlands, Switzerland, Austria, Africa	60's /70's	Limited Domestic Market	Export through agent	Risk Aversion/Resource constraints
USA, Canada, United Kingdom, Norway, Finland, Belgium, Sweden, East, Egypt	80's	Respond to national crisis/vision of founders' son	Export through agent	Risk Aversion/Resource constraints
Italy, Denmark, China, Thailand, Hong Kong, New Zealand	90's	Start of Globalization	Export through agent	Risk Aversion/Resource constraints
Luxemburg, Mexico, Colombia, Venezuela, Argentina, Poland, Czech Republic	00's	Globalization/ International Financial Crisis	Export through agent	Risk Aversion/Resource constraints
Peru, Panama, India, Ukraine, Indonesia, Tunisia	10's	Emerging Markets Relevance	Export through agent	Risk Aversion/Resource constraints

Source: AMFS

4.3.1 Motives for Internationalization – Fit with literature

4.3.1.1 Limited Domestic Market

In terms of motives to go international, it became clear throughout the first interview that the first motive that triggered the company in the late 1960's to go international was linked with the limited domestic market in which it was operating. This seems to be in line with (Coviello and Munro 1995), who argue that the need for successful international market development is particularly important for SMEs pursuing niche strategies from limited domestic markets. Hence, the company was forced to look for other markets. Even though this motive was not properly identified due to lack of substantial evidence in the existing literature, we still found it relevant to mention, and therefore it was shortly stated in the introduction of this thesis. Throughout a particular contact established in its first presence in one international fair, the company started to export to Netherlands and Switzerland. In fact, it became also clear throughout the second interview that this motivation was linked with the whole process of internationalization, as the dimension of the domestic market didn't change. According to Eng. Francisco Cardoso Pinto "(...) Portugal was and still is a limited domestic market for us. Maybe if Adira was born in the USA, the domestic market there could be enough for us, and in that sense we wouldn't feel the need to go international so early. "

4.3.1.2 Risk diversification and vision of founder's son

In the 1980's, where Portugal became a member of the European Union, and following the national crisis triggered by the 25th April 1974 revolution, the company was forced to start looking for other markets as it had lost two important colonies (Angola and Mozambique) in which it had a monopoly situation. According to Eng. Francisco Cardoso Pinto, "(...) with the lost of its colonies, half of the Portuguese industrial companies bankrupt as they were not prepared to compete with international markets, the other half that survived became much stronger." As a response to it, Adira, start looking for other international markets as a way to diversify risk of being present in only a small number of markets. This motive was not identified in the existing literature as a SMEs motive to go abroad. It was, in turn, interestingly evidenced as motivation for MNCs to go international (Tallman and Li 1996). The vision of the founder's (Henrique Ramos) son also seemed to be crucial in the decision of further internationalize the company during that period, which can be supported by international entrepreneurship theory largely evidenced in the literature as a motivation to go international (Ruzzier, Hirish, and Antoncic 2006; McDougall and Oviatt 2000). According to

these authors, the importance of entrepreneurs (founder/manager) should be taken into account, as they seem to be interpreted in the literature as main agents of internationalization process on SMEs. Hence, the founder's own vision seems to be in line with these authors' reasoning.

4.3.1.3 Globalization

It became clear in one interview that even though globalization forced many SMEs to look for opportunities and threats presented by global competition, Adira was already highly internationalized when the phenomenon started to emerge. In his own words, Eng. Francisco Cardoso Pinto stated: "(...) fortunately, Adira was able to anticipate the phenomenon of globalization and in that sense it didn't trigger the company to become international as it was already highly internationalized." However, it forced the company to be continually active in international market activity, taking into account opportunities and threats imposed by the global marketplace. Particularly, it forced the company to start competing with Asian low-cost prices as well as with the high quality provided by German manufacturers. According to Eng. Francisco Cardoso Pinto, "(...) Once a company is able to compete with Asian prices or with German quality, it is pretty much in a situation to compete worldwide, either for prices or for quality". This seems to be in line with (McDougall and Oviatt 2000), who view globalization as a catalyst for internationalization of SMEs in order to remain competitive in the global market place and even, in some cases, to survive.

4.3.1.4 Emerging Markets Focus

In the second decade of the new millennium, Adira has been adapting to new realities of the global marketplace. Particularly, the company has been recently facing a shift towards emerging markets due to their enormous growth potential. According to Eng. Francisco Cardoso Pinto, he identifies two types of emerging markets: Asian emerging markets (India, China and Indonesia), and South American emerging markets (Brazil, Argentina, Colombia, Ecuador). The second ones seem to be much more important for Adira due to cultural proximity. According to Eng. Francisco Cardoso Pinto "(...) I can sell easier a machine in Brazil compared with Germans for example. I don't understand Russian or Chinese, I prefer to be in South America where I can negotiate without constraints" In fact, this could also explain part of the international expansions of the previous decade (00's), as a part of the process of internationalization concerning South American emerging countries was initiated in that decade due to the significant sales drop for the OCDE countries triggered by the

international financial crisis of 2008. However, it became clear that it has been in more recent years that these countries gained wide attention due to their enormous growth potential. We did not find any substantial evidence in the literature concerning emerging markets as a motivation for SMEs to go international. Our research has exclusively been canalized to SMEs context, which could eventually explain this gap.

Table 7 provides us with an overview of the discussion above, concerning the motives identified throughout the case study for Adira to go international vs. those identified in the literature. We also point out symbolically any fit or extension regarding the existing literature.

Table 7 - Motives for Internationalization: Fit with Literature

Case Study Motive	Fit with Literature	Literature Extension
Limited Domestic Market ³	✓	✗
Risk Diversification	✗	✓
International Entrepreneurship	✓	✗
Globalization	✓	✗
Emerging Markets Focus	✗	✓

4.3.2 Foreign Entry Mode – Model adopted by Adira

Regarding entry modes, the company adopts a model which seem to be in line with the Uppsala Model stages model (Jan Johanson and Vahlne 1977; Jan Johanson and Wiedersheim-Paul 1975) which sees the process of internationalization as a learning process in which firms start exporting through an agent in a risk-averse manner, latter establish a sales subsidiary, and eventually, in some cases, begin production in the host country. According to Eng. Francisco Cardoso Pinto, the entry chosen modes should follow a structure that comprises three steps:

- Export through an agent (*piggybacking*⁴)
- Open an own branch

³ Even though we did not find large evidence concerning this motive (it was only mentioned once in the literature), we still assumed it to fit with the literature

⁴ Describes a situation in which one company markets its products through the distribution channels of a second company due to lack of necessary resources, experience, or incapacity to learn what it needs, in order to be successful in the international market penetration

- Open an industrial line of production (FDI)

First, the company exports through a local agent. In case the demand in that market keeps increasing and it pays off, the company goes into the second stage: opening an own branch. As it was described previously, Adira adopted this type of entry in UK (Adira UK), France (Adira France) and in Latin America (Adira Latin America) in the early 20's. However, due to unfavorable market conditions, the company was forced to pull back to indirect exporting in all of the above-mentioned markets. The last phase involves FDI, namely the opening of an industrial line of production in host country.

4.3.2.1 Motives for entry modes – Fit with literature

4.3.2.1.1 Assumption of risk-averse and resource constraints

It became evidenced in the first interview that currently, the unique entry mode the company is adopting is the indirect export mode of entry, despite the two ongoing projects: one in Brazil (mentioned previously) and the other in Indonesia (with the opening of an industrial line of production). Even though the motives for adopting this kind of entry mode were not directly told to us during the interviews, or properly identified in alternative sources of data collected, it could be interpreted as a risk-averse manner of dealing with internationalization, which could be linked, as well, with resource constraints largely identified in theoretical body of literature as an important aspect influencing SMEs foreign entry mode (Agarwal and Ramaswami 1992; Kumar and Subramaniam 1997; Laufs and Schwens 2014). In fact, as we have seen, exporting is a low resource or investment strategy and accordingly low risk/return alternative, which could eventually confirm the above mentioned.

4.3.2.1.2 Local knowledge and host country institutional and cultural environment

Regarding the ongoing project in Brazil, the choice of the joint venture with a local partner (Gasparini) was justified by the fact that, while Adira could deal with the technical part of the business (manufacturing of machines), Gasparini would contribute with local management knowledge, including knowledge about customers, markets, institutions, etc. In that sense, it would result in a win-win situation. This seems to be in line with (LU and Beamish 2001), who argue that alliances with partners having local knowledge might be an effective strategy to overcome resource constraints of SMEs when they engage in international activities. Thus, it seems that the main trigger for Adira to opt for a joint venture (50%-50% at least) was

linked to struggles arising from managing the business in Brazil. According to Eng. Francisco Cardoso Pinto “(...) we could buy, instead, the whole company in Brazil. But they do certainly know better than us, how to deal with their own business practices.” In that sense, the choice could also be linked to the cultural and institutional environment of the host country as suggested by (Laufs and Schwens 2014; Dunning 1988), arguing that the host environment reflects “the rules of the game” according to which firms must behave.

Table 8 presents with an overview of the discussion above concerning the motives for entry modes. Likewise in the previous sub section, we have identified the fit or extension concerning the existing literature.

Table 8 - Motives for Entry Modes: Fit with Literature

Case Study Motive	Fit with Literature	Literature Extension
Risk Aversion	✓	✗
Resource Constraints	✓	✗
Lack of local knowledge	✓	✗
Host country institutional environment	✓	✗
Host country cultural environment	✓	✗

5 – Conclusions

The beginning of internationalization research in the late 1950's and 1960's focused mainly on economic approaches to tackle the internationalization process of MNCs, which resulted in a vast body of theoretical and empirical data with an almost exclusive focus on MNC's (Ruzzier, Hirish, and Antoncic 2006). However, SMEs have recently been gaining wide attention, particularly in small countries (Jakobsen and Voss 2003), due to their increasing relevance for the national economy (Mejri and Umemoto 2010). While many attempts have been suggested to explain MNCs internationalization efforts, few ones have actually concentrate on the reasons that push SMEs across national borders, which typically differ greatly from the ones of MNCs, relying mainly on costs and risks analysis (Hood and Young 1979). Examples identified in the literature are: the globalization of markets, the use of networks (both formal and informal ones), an international entrepreneurship perspective, and knowledge-based models (Jon Johanson and Mattson 1988; McDougall and Oviatt 2000; Mejri and Umemoto 2010; Ruzzier, Hirish, and Antoncic 2006). In terms of entry mode determinants, we found contradictory results in the literature. Even though resource constraints and a risk aversion profile have been largely identified in the theoretical body of literature as determinants of SMEs entry mode, forcing them to choose low intensive entry modes such as export or contractual agreements (Agarwal and Ramaswami 1992; Kumar and Subramaniam 1997; Laufs and Schwens 2014), evidence also show that SMEs are also opting for higher commitment entry modes such as joint ventures or sole venture (Laufs and Schwens 2014).

Taking this into consideration, this study aimed to answer a central research question (why do SMEs internationalize and why do they choose different modes on doing so?). By applying the case study methodology, we choose a Portuguese B2B SME (Adira Metal Forming Solutions, S.A.) to answer our proposed research question.

Our findings concerning the first part of our central research question suggest that the first motive pushing the company to go abroad in the late 1960's was the limited domestic market in which it was operating. In fact, this reason seems to be on the core of the internationalization motives, explaining Adira's international expansion even currently, as the domestic market is still limited. In terms of the other reasons that pushed the company to keep on expanding operations abroad once it was already in the international market place, these were: a risk diversification strategy triggered by the 1974 national crisis, the vision of the founder's son, the globalization of markets and more recently, the relevance of emerging

markets, particularly the south American ones due to cultural proximity. Regarding the second part of our central research question, our findings suggest that Adira's motivations to use the export mode of entry as the preferred entry mode are mainly related with a risk aversion profile and constraints in terms of resources. Lack of local management knowledge, together with institutional and cultural host environment seemed to be on the heart of the choice for a possible joint venture with a Brazilian partner. Finally, the company seems to use an internationalization model which is in line with the Uppsala Model (Jan Johanson and Vahlne 1977; Jan Johanson and Wiedersheim-Paul 1975). Hence, the first approach Adira has in each foreign market is the export mode of entry through an agent, and latter, as knowledge about host country increases and it pays, other modes (more intensive ones) might eventually become more relevant.

5.1 Limitations and Future Research

The first limitation that one can notice is the lack of inside information from the company concerning the second part of our central research question. This could be explained by the fact that the interviewee might have not be willing to answer more sensitive questions such as the one we have asked related to the motivations of choosing systematically the export mode of entry as the first approach. Therefore, our findings concerning the second part of the research question are mere assumptions, which are supported through evidence.

The second limitation we have identified was that the list of markets presented in table 6 might not reflect entirely the whole process of internationalization of the company, but rather a list of the current active markets. In that sense, some markets where Adira was once present may not have been fully identified in this study due to lack of information from the company as it started to internationalize in the late 1960's, with a different management team and where no digital support existed.

Finally, since with the case study methodology we are studying only one particular company from one specific industry, results cannot be extrapolated to fit the whole population. In that sense, future research could address the same topic with a different company/industry in order to test the theory, and eventually, to complement it with new insights.

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Appendix

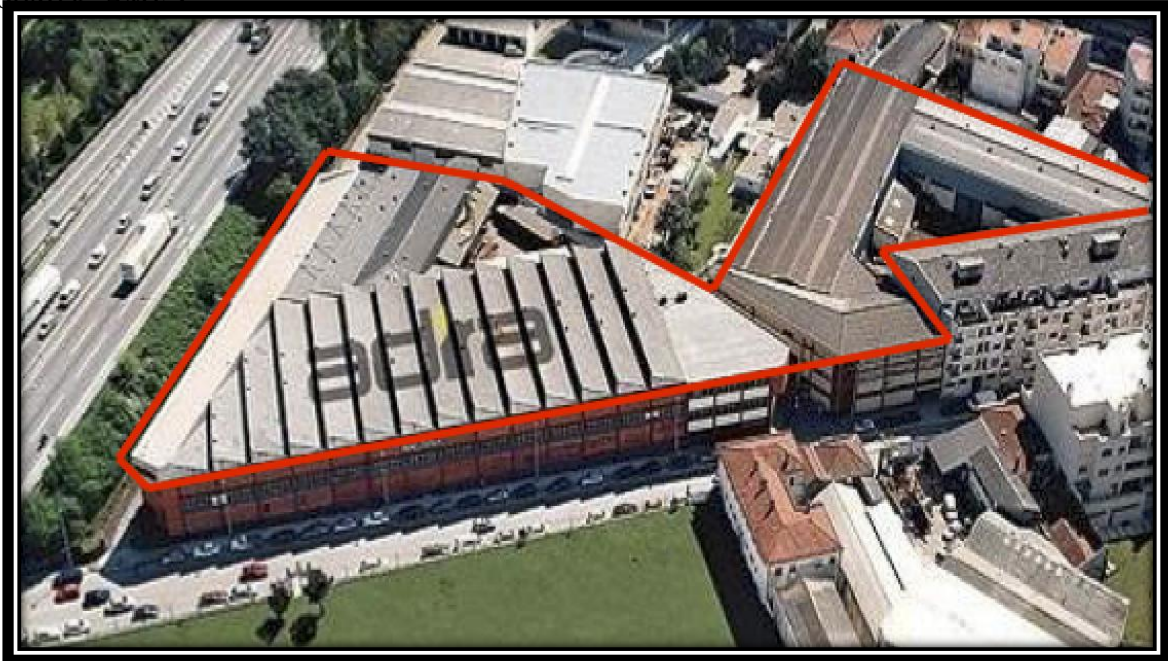
Appendix 1 - Adira's Product Portfolio



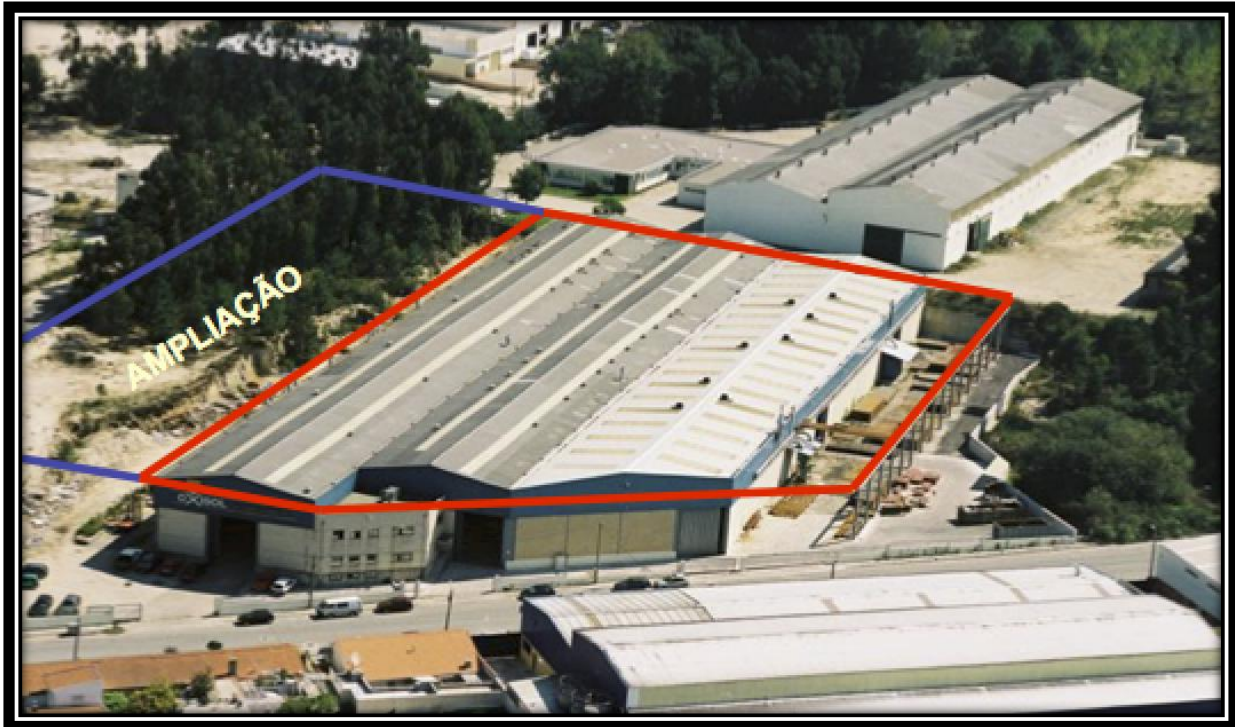
Source: <http://www.adira.pt/004.aspx?dqa=0:0:0:9:0:0:-1:0:0>

Appendix 2 - Headquarters and Current Production Facility (Porto)

Source: AMES



Appendix 3 – New Production Facility and Headquarters (Vila Nova de Gaia)



Source: AMFS

Appendix 4 - Greenbender



Source: AMFS