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**International Market Selection - The case
of Portuguese companies in Poland.**

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ABSTRACT

There are 108 Portuguese companies in Poland, what makes this Central European country the 5th destiny of Portuguese foreign direct investment. How these companies selected this particular foreign market? The present work seeks to identify the factors that underlie the decision of Portuguese companies while choosing an international market to enter. The empirical basis for this investigation is provided by two in-depth case studies, concerning two Portuguese companies which internationalized to Poland: Mota-Engil SGPS, S.A and ControlVet SGPS, S.A. An extensive literature review about International Market Selection (IMS) has been conducted and, in order to enrich the methodology chosen, additional information sources, such as governmental agencies reports, newspaper reports, firms' brochures and annual reports were also used. The polish market selection by Mota-Engil and ControlVet suggests that there are two different reasons that made Portuguese companies to choose polish market for their international operations: 1) Poland was selected because of market characteristics and 2) selection of polish market was a firm response to unexpected opportunity. Despite the fact that the IMS process is quite broadly described in the existing literature, this study is the only one that approaches IMS from a perspective of one specific foreign investment destination country as well as one specific investors group. Thus, the findings provide an interesting insight not only for Portuguese companies wishing to expand their operations into international markets, but also for the foreign country governmental or trade institutions, providing them with a set of factors that influence the foreign investment flow into the market. Naturally, the use of case study methodology has its shortcomings, especially in terms of sample size. As such, the findings of this study must be further verified and extended by other cases.

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LIST OF ABBREVIATIONS

AICEP - Portuguese Investment and International Trade Agency

EE – Eastern Europe

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

IMS – International Market Selection

IP – Internationalization Process

JMG – Jeronimo Martins Group

ME – Mota-Engil

MNEs – Multinational Enterprises

OLI – Owner-specific, Locational, Internalization advantages (Dunning)

S.A – Anonymous Society

SGPS – Holding company (Sociedade Gestora de Participações Sociais)

SME – Small and Medium Enterprises

I. INTRODUCTION

There are 108 Portuguese companies in Poland, what makes this Central European country the 5th destiny of Portuguese foreign direct investment. What caused these investors to start their activities in Poland? This dissertation pretends to identify the factors that drove the decision of Portuguese companies to choose Poland as a foreign country market to enter. The International Market Selection (IMS) is the core concept of this dissertation, however, the existing literature about the topic does not deliver any example of an approach to IMS based on one specific foreign investment destination country. The present work approaches the IMS from one specific country perspective, Poland, and regards also a specific group on investors – Portuguese firms. The identified factors may be interesting and useful for Polish government as a beneficent of Foreign Direct Investment (FDI) flow into the country, as well as for Portuguese firms aiming to enter the Polish or other foreign market.

The work starts with detailed explanation of the research question and concepts related to it. Since the research question is directly linked to the IMS concept, the second chapter will be dedicated to the literature review about the topic, presenting, above all, two main approaches to it: the systematic and unsystematic one. Within both of them, the main findings will be described. In order to answer the research question, descriptive, non-positivist approach will be used. The empirical basis for this investigation is provided by two in-depth case studies, concerning two Portuguese companies that internationalized to Poland: Mota-Engil SGPS, S.A and ControlVet SGPS, S.A. The research methodology adopted is described in chapter three. The following chapter will present the findings of this study, describing the two identified factors which drove the decision of Portuguese firms when Poland was selected as a foreign country market to enter. These findings will be further discussed in the light of existing literature about the IMS process and some consistencies and divergences will be highlighted. The work will finish with conclusions, including theoretical and practical contributions of the study, its limitations and suggestions for further investigation.

1.1 Research question

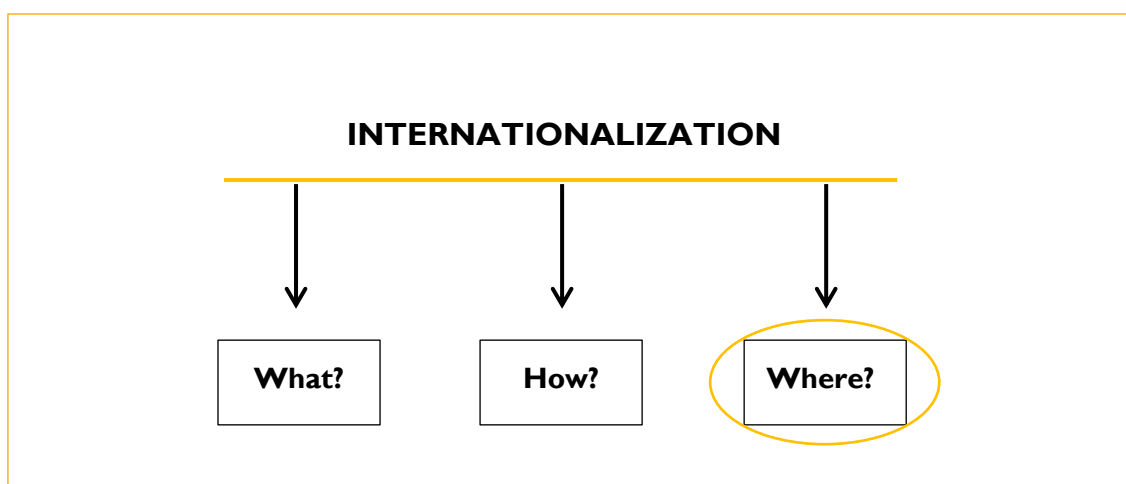
The continuous intensification of the globalization phenomenon augmented the importance of the internationalization process (IP) for firms of all sizes and industries. Many researchers started to investigate this process from different points of view: IP of large firms, IP of SME, IP of firms from specific industry, IP of service firms, entry modes, market selection, relations between import and export activities, factors that impact firm's international performance, and the like.

In general, one may distinguish three different dimensions of the internationalization process, corresponding to three simple questions that firms must respond to when planning an international expansion (Welch & Luostarinen, 1988):

- What? - Sales object: goods, services, know-how, etc.
- How? - Foreign operation mods: agents, subsidiaries, licencing, franchising, foreign direct investment (FDI), etc.
- Where? - Markets to enter

The present work, as presented on the figure below (Figure 1), focuses on the third dimension of the internationalization process: selection of the markets to enter.

Figure 1 - Internationalization dimension addressed in the present work



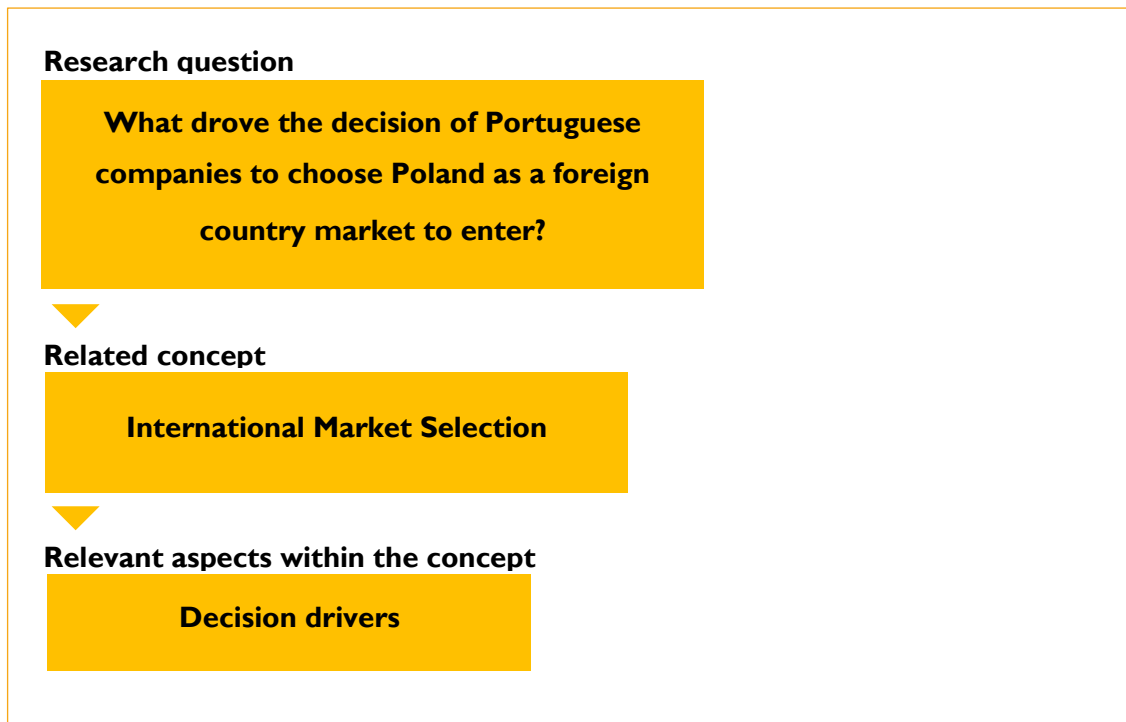
Source: Author systematization, based on Welch & Luostarinen (1988).

This specific dimension within the internationalization process is called in literature the International Market Selection (IMS). The existing research regarding this specific topic adapts different points of view: IMS process of firms from specific industry (Hutchinson, 2007; Coviello & Munro, 1995), IMS process of service firms (Majkgard & Sharma, 1998; O'Farrell et al, 1998), IMS of a specific country firms, regardless of the internationalization destination (Brewer, 2001; Johanson & Wiedersheim-Paul, 1975), the IMS patterns in companies (Johanson & Vahlne, 1990), just to name a few. The purpose of this research is not the internationalization itself and possible patterns of the process, neither a question why firms start to internationalize and what is the foreign markets choice sequence. The present work objective is similar to the Brewers' (2001) study point of view: IMS of a specific country firms, nevertheless with one significant difference. While Brewer's study investigates IMS of a specific country firms, in this case Australians, regardless of the internationalization destination, this research investigates concrete country firms, Portuguese, as well as one single internationalization destination – Poland. This way, the findings may be interesting not only from the point of view of the Portuguese companies which would like to acquire some knowledge about how the firms behave in concern of IMS while internationalizing, but also provide a valuable insight for the country of the foreign investment destination, identifying the motives underlying the decision of choosing it as a foreign investment destination.

By means of what has just been stated, the research question is as follows:

- What drove the decision of Portuguese companies to choose Poland as a foreign country market to enter?

In order to project clearly the research question and related concept which would be addressed in this work, the following figure is presented (Figure II).

Figure II – Research question and the related concept

Source: Author systematization.

With the intention to identify what has been written up to date about how firms select the international markets to enter, the following chapter will be dedicated to the literature review about the topic.

2. LITERATURE REVIEW

2.1 International Market Selection

International Market Selection (IMS) can be defined as the complete decision process that results in a choice of foreign market for the international expansion of a firm. In order to be more precise, and pursuing the Brewer's (2001) proposition of IMS definition, it is the actual application of marketing resources to the concerned market that indicate the completion of the IMS process, since the selection itself may not and up being proceed.

The IMS concept is inserted in the Internalization Process (IP) topic, which is broadly described in literature. Two main questions lay behind the internationalization issue, namely, the entry mode and country selection. The present IMS approach ignores the interaction between the country selection and other dimensions of the internationalization process. Although entry mode and country selection are recognized as being closely connected, separating these two questions may be prudent in a research context, since they require different inputs and have different implications for action (Papadopoulos, 1987).

IMS is a crucial step in the internationalization process and it actually may determine the success or failure of a company (Douglas & Craig, 1992; O'Farrell & Wood, 1994). The existing literature about country selection distinguishes two general approaches to the IMS: (1) the systematic approach represented by formalized decision process which embrace numerous models to analyze the potential of the target markets (Papadopoulos & Denis, 1988) and (2) the unsystematic approach, like the selection of foreign markets based on the perceived psychic distance from the home country or on other non-systematic criteria such as personal experiences and beliefs (Andersen & Buvik, 2002; Brewer, 2001).

2.1.1 Systematic approach

The systematic approach is broadly described in the existing literature and one can say that it is focused on how the decision should be made, rather than, on how it actually is made in organizations. This approach is based on economic theory, which has the cost factor as the main explanatory variable of firm's internationalization. According to this theory, firm's will establish their activities where the best advantages can be enjoyed. "Firms will seek to site their value-added activities at the most profitable points in space" (Dunning, 2000, p.177). Rationality of the decision maker and access to perfect information are assumed in this approach (Melin, 1992; Johanson & Vahlne, 1990) and the decision is based on evaluation of three advantages: owner-specific advantages, internalization advantages and location advantages. In this context, IMS may be viewed as

a process of balancing the differences between countries and firms characteristics in order to choose the most effective combination of advantages (Brouthers *et al*, 2009). The firm-specific advantages tend to be context-specific and may be more appropriate in one market than in another. Thus, selecting a specific country-market may enhance or undermine the specific advantages of the firm, in the sense that the economic system and policies of a country enable or not the firm to exploit its firm-specific advantages profitably (Dunning, 2000).

In order to support firms in a selection of the most profitable country-market option, numerous models have been proposed. Most studies on IMS which adopt the systematic approach are constructed over a few-steps evaluation process which is then followed by a proposition of a model to select the potential international markets. Based on the research done up to date, the process of evaluating foreign markets can be generally brought into three stages: 1) screening stage in which firms exclude some markets that do not meet their strategic objectives, based on macro level indicators, like country currency that cannot be traded in the open market for example, 2) identification stage where firms evaluate the country list resulted from the previous screening stage, taking into account industry-specific information, including the market size, grow potential, level of competition, taxes and other regulations, and 3) selection stage in which the firm-specific factors are observed, like the existing product portfolio or profitability and based on this considerations, the right market(s) are finally selected.

The stages of the IMS process differ in terms of indicators used for evaluation in each phase: macro, industry-specific and firm-specific indicators, but besides the indicators nature, the existing literature provides a further distinction of possible approaches, namely a quantitative/statistic and qualitative one. The quantitative approach is based on objective indicators, like: GDP, market size, market saturation, etc. which are further compared with the weight and value assigned by the firm to each of these criteria. This approach do not allow any subjective influence on the market selection decision and enable firms to evaluate a large number of countries, however, it has some important limitations: in most cases it tends to rely solely on the macro indicators, ignoring the strategic considerations of the firm and the suggested models are complex, not easy to

understand and costly, what may be problematic specially for SME (Papadopolous & Denis, 1988). The qualitative approach indicates the type of information that should be used in countries evaluation and also, in some cases, identifies the source(s) of information that firms should rely on (Cavusgil, 1985). This approach, although being classified as a systematic one by Papadopolous and Denis (1988) leaves a room for the subjective judgment of the decision maker and, due to its nature, limits the number of markets that can be analyzed before the actual selection.

Taking into account the complexity of markets and the increasing importance of global strategic positioning, the systematic approach with its in-depth analysis and multiple criteria employed seems to be the right one. However, there is evidence that foreign markets are mostly chosen without much of systematic analysis, especially in the case of small and medium companies (Cavusgil 1985; Cavusgil & Godiwalla, 1982). The limited usage of the systematic approach is explained by the difficulty in gathering the relevant data, absence of proven effective approach for the task and lack of manager's export experience (Papadopoulos & Denis, 1988).

As highlighted by Welch (1996) such a systematic approach based on foundation (models) upon which firms build their foreign market expansion may imply a danger by imposing "rigidity" on direction, form and content of internationalization process. Such a systematized approach may result in too formalized and ritualized process which can significantly limit the firm ability to identify and quickly respond to opportunities, which can never be fully anticipated at the IMS model formulation stage.

2.1.2 Unsystematic approach

Unlikely the systematic approach, the unsystematic one seems to be more focused on how the firms actually act when selecting a foreign market. Additionally, while the systematic approach is in alignment with the economic theory and transaction costs concept, the unsystematic one is not the result of a strategy for the most profitable allocation of resources to different countries, but rather a consequence of a process of

incremental adjustment to changing conditions of the firm and its environment. The IMS process from this perspective is not seen as a sequence of deliberately planned steps founded on rational analysis. Instead, the incremental nature of successive learning, personal and professional experience, relationships and networks are the main characteristics.

Psychic distance

The most well-known hypothesis within the unsystematic approach is that firms enter new markets with successively greater psychic distance (Johnason & Vahlne, 1990). The concept of psychic distance is understood as factors, such as differences in culture, language, political system or level of education, which prevent the flow of information between the firm and the market. The so called Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne 2003) evolves an interaction between the development of knowledge about foreign markets on one hand and an increasing commitment of resources to the market on the other, where the market knowledge is acquired primarily through experience from current business activities in the market. The experiential knowledge generates business opportunities as well as is assumed to be the primary way of reducing the market uncertainty. Thus, in a specific country, the firm is expected to make more significant resource commitment incrementally, as it gains experience from current activities. However, as the authors of the Uppsala model have mentioned, when firms have large resources, they are expected to make larger internationalization steps without the necessity to incrementally gaining experience in the market, as well as, when market conditions are stable and homogeneous, the relevant market knowledge can be acquired in other ways than through experience. There is a common agreement that the psychic distance, as well as other types of “rules of thumbs” are more likely to be used by small firms and firms that are in the early internationalization stage, than by larger companies with international experience (Johanson & Vahlne, 1990; Papadopolous, 1987). Despite of the doubtless importance of Johanson and Vahlne findings, the physic distance concept is not very relevant for the

present study, since the internationalization process as a whole, including the sequence of entering new markets is not taken into account.

Nevertheless, much of the current business activities carried by the firms, such as relationships with foreign intermediaries, customers, alliance partners, suppliers, government institutions and other entities, could be characterized as network activities. Thus, the psychic distance concept with learning process included is closely related to the network approach, described below.

Networks and Relationships

Networking and relationship development have been gradually utilized in the investigation of internationalization process, through demonstrating how business operations of various types can create networks, which afterwards lead to eventual export activities or foreign direct investment (Welch, 1996; Andersen & Buvik, 2002; Johanson & Vahlne, 2009).

The most important assumption underlying business network concept is that, to get access to external resources and operate successfully on the market, firms have to establish exchange relationships with other firms. One can consider a group of firms which are engaged in such relationships a network (Johanson & Mattson, 1987). Each firm in the network has relationships with customers, distributors, suppliers, competitors and also some indirect relationships with suppliers' suppliers or customers' customers. To be a part of such a network is very important for firms, since, as suggested by Johanson and Mattson (1987), most business transactions between firms take place within its earlier established relationships. As further suggested by Johanson and Mattson (1897), firms in a network, by building exchange relationships between each other, develop throughout the time certain bonds, like product or process adjustment, knowledge about the counterpart, personal confidence, special financial agreements or long-term contacts. These exchange relationships and bonds between firms take time an effort to be developed and consequently the eventual change of partners becomes more and more

costly. Despite the fact that by creating such bonds firms are creating a certain dependence on each other, such relationships are significant to the participants, for two main reasons: 1) to access important resources and 2) to sell products and services (Johanson & Mattson, 1987). Besides that, as further identified by the mentioned authors, relationships between firms may reduce costs of exchange and production or promote development of knowledge, they may also be used as bridges to other firms and when mobilizing partners against third parties.

Relationships between firms may be also considered as a “mutual orientation” of two firms toward one another, which means that firms are prepared to interact with each other (Johanson & Mattson, 1987). Johanson and Mattson distinguished two types of interaction: exchange and adaptation, which are described in more detail below.

Exchange

Single business exchanges between firms build up a whole process in which the participants gradually develop a mutual trust in each other. A relationship starts with small transactions between parties, with little trust required and little risk involved. Through the exchange process firms test how well they fit each other and usually a number of nonconformities emerge. This is where the adaptation process overlaps with the exchange process.

Adaptation

Once misfits has been identified and if there is a mutual will to carry out the relationship and eliminate nonconformities, the firms adapt to each other in many different ways. They may modify their production processes or planning and scheduling systems, adjust stock levels, develop common delivery system and handle payments in a certain way. Firms may also adapt to each other in technical terms by acting together in some specific development matters or may engage in some joint investments and projects.

These two interaction processes develop the mutual orientation of the firms toward each other. It may manifest itself as a common attitude toward some technical matters, contracting rules, standardization of processes, products and routines. Furthermore, the

most important aspect of the mutual orientation is a knowledge that the firms assume to have about each other and on this basis they communicate with each other.

In the IMS context, the international, as well as domestic relationships of a firm create awareness and can help the company to get a valuable inside about specific foreign markets. In some cases, certain relationships may even force the firm to enter a specific country, like the case when customer demands that the supplier follows him abroad in order to keep the business at home location. Indeed, there is evidence that many companies enter foreign markets via strategic relationships with suppliers, customers, and the like (Welch & Welch, 1996). The phenomenon, when an opportunity is seen through existing relationships and firms are attracted into specific foreign market because of a customer that has established offshore operations, is called “client following” (Erramilli & Rao, 1990). This concept is particularly important in the business services sector (O’Farrell *et al*, 1998). By analogy to the client following, firms may also follow the competitors, imitating their moves or simply in order to keep an eye on competitor’s actions abroad (Terpstra & Yu, 1988). Brewer (2001) in his study, identified networks as being the source of information, intelligence and contacts that help managers to make informed decisions and moreover, he also found out that talking to certain people may influence the managers assessment in a sense that, for example, a country A is more attractive than country B. Furthermore, in the same study, one of the interviewed managers said explicitly: “it’s the linkages you build (...) that are very important” and “if you keep those linkages, you can literally ride on their coat tails into the market (Brewer, 2001, p.165).” This example shows that effective development of interpersonal relationships, called in the example above as “linkages”, may lead to successful economic exchange relationships. The relevance of socially-based relationships between the key strategic actors is described in more detail below.

Social relationships

The exchange relationships already mentioned at the beginning of this chapter as actually formulating the base for business network concept often means interaction between two individual actors in firms, since the interaction processes are actually performed by individuals. Thus, interfirm relationships might be a matter of interpersonal relationships

between the decision-makers, or number of persons on different levels may be mutually oriented to each other as well (Johanson & Mattson, 1987).

The increasing importance of relationships was also identified by Dunning (2001), in his work about the eclectic paradigm. The author recognized that the access to external resources and capabilities is crucial for commercial success, thus the ability of the firms to conduct harmonious exchange relationships becomes a valuable advantage. As a result, new asset affecting FDI, apart the 3 already well known: owner-specific, location and internalization advantages (OLI) has been added: relational asset (R-asset). Dunning wrote about “social relational capital” that may be measured by the lack of crime, bribery and terrorism and which is clearly becoming an important factor that influences the location of foreign economic activity of firms. Furthermore, while the relationships are influencing the location choice for foreign activities, the balance of costs and benefits, widely described and explained by the eclectic theory, is affecting the mode of entry (Dunning, 2001).

The importance of personal relationships of the decision-maker is also pointedly presented by Johanson and Vahlne (2003), in the case study regarding internationalization of Nordic Management of Clinical Trials AB (NMCT). The company internationalized to Poland in 2001, and the main reason of this move was a wish of one of NMCT international client to have clinical studies performed in Eastern Europe (EE). But why the company has chosen Poland within all the EE countries? Because NMCT president knew a person in Poland, with whom he worked at another company some years ago, and it was this old tie to a trusted friend that made Poland the most attractive alternative. As says the president of the company in the study: “I make it a point to stay in touch with all the good people I learn to know. Aleksander Ratz has established an excellent network in Poland and we can now build on that. And through Aleksander Ratz we have also learned to know the local representatives of the large pharmaceutical companies (Johanson & Vahlne, 2003, p.88).” The importance of socially-based relationships is evidenced also in the Hutchinson *et al* (2007) research, where one of the studied companies moved to Netherlands because the founder's friends lived in that market at the time.

One can observe clear evidence provided by the existing literature that relationships are relevant phenomena in business. Their importance is summarized in Table I.

Table I – The importance of relationships (I)

Concept	Potential benefits for firms
Relationships	Access to important resources Sale of products and services Reduced cost of exchange and production Development of knowledge Easier access to other firms Partner alliances against third parties Reduced incidence of crime and corruption

Source: Author systematization, based on Johanson & Mattson (1987) and Dunning (2001).

Others

Among studies on IMS topic that adopted the unsystematic approach, one can find numerous factors identified as influencing the market selection decision, besides the psychic distance and networks. Brewer (2001) in his study grouped numerous factors which influence the IMS decision in firms and called it “informants”. Informants are sources and channels through which the firm accumulates the relevant knowledge needed to identify and afterwards evaluate country attractiveness and firms’ competitive position in it. The most important informants for the studied firms founded by Brewer (2001) are as follows: allies, enquiries, exhibitions, experience, government programs, networks, previous customers, primary research, published reports, quantitative models, referrals, representatives, seminars and visits to the market. The different kinds of influences, or so called informants, will have an impact on manager’s behavior, making him more likely to select those countries where the number and strength of informants is greater. The major factors identified by Brewer (2001) are summarized in Table II.

Table II – Other factors influencing the IMS process

Influencing factor “Informant”	Description
Allies	Firms make country selection choice based on knowledge, resources or suggestion of associated business units or other entities with which they share interests.
Enquiries	Firm is approached by foreign company with a proposition to engage in a business project. The choice of country-market is a result of this unsolicited enquiry.
Exhibitions	Firms participate in international exhibitions, fairs or promotions looking for eventual business opportunities. Some enquiries are also the outcome of firm's exhibitions on international fairs.
Experience	Previous working experiences of the decision-maker or other managers in specific foreign markets determine the country selection.
Government programs	Firm chooses a country because there is special support or incentives, such as tax breaks or financing facilities from both, the home country government or the foreign country one.
Primary research	Firms make a research to fulfill the need of particular information, necessary to evaluate a country. The country set taken into consideration may be the result of informants influence, as well as the outcome of the primary research itself may be further “tested” through different informants.
Published reports	Firms choose a market as a result of awareness created through access to published reports regarding a country.
Seminars	Firms choose a market as a result of awareness created through attending seminars related to specific country-markets.
Visits to the market	Firms choose a market on the basis of judgment about attractiveness and competitiveness of the country made while visiting the country.

Source: Author systematization, based on Brewer (2001).

There is also evidence that the personality of entrepreneurs and their cross-cultural competence allows them to identify opportunities and build their personal international network, which may lead to selection of a specific country (Hutchinson *et al*, 2007). The authors highlighted the individual character and risk-taking profile of the decisive people, as well as their previous experience, that is, the fact he/she has lived or studied abroad or has experience of being in different countries, as eventually relevant for the outcome of IMS process.

As presented above, firms which adapt an unsystematic approach to the IMS process are taking the specific decision for various reasons. Numerous factors have been identified by researchers as having an influence on the firms' judgment. What influenced the decision of

Portuguese entrepreneurs to start their activities in Poland? The following chapters aim to answer this question.

3. METHODOLOGY

In order to describe and explain a business phenomenon, giving a faithful account of a real-life aspect in question, the descriptive, non-positivist approach is used, as it is in the case of much of explanatory research done up to date (Remenyi *et al*, 1998). The empirical basis for this investigation is provided by two in-depth case studies. The appropriateness of this research method for the present work is supported by Yin (1984; 2003). According to Yin, a case study is an empirical enquiry that is adequate to being used while investigating a contemporary phenomenon within its real-life context, when the boundaries between it and the context are not clearly evident and in which multiple sources of evidence can be used. Within case study methodology Yin (2003) distinguishes between single- and multiple-case studies, where the first one stands for analysis of one unique case and the latter for various cases. Eisenhardt (1995) calls for a sample between 4 and 10 cases, this research however, due to limited resources, is based on two cases. In order to enhance the present findings, further research can be performed and additional cases can be added.

For the present work six firms were approached and two has agreed to participate. The firms were chosen with the intension to embrace different industries, different sizes and different dates of entry into the polish market. Two conditions were applied to the case firms' selection: 1) the firm should be registered in Portugal and owned by Portuguese based interests and 2) the firm should have operations installed/be in process of operation installation in Poland. The case firms' characteristics are summarized in Table III.

Unstructured interviews were conducted by the author with executives, maximum responsible persons of each firm. In both cases, it was one of the founders, and currently a chairman of the firm. The interviewees are presented in Table IV. The interviews were

held over a number of weeks and were approximately 1 hour long, each one. Although the interviews were unstructured, a guide was used to ensure that the same topics were covered with both firms. Both interviews were recorded and later transcribed for analysis. In order to enrich the methodology chosen, additional information sources, such as governmental agencies reports, newspaper articles and firms' websites were also used.

Table III - Case firms characteristics

Case No.	Firm	Industry	Size (employees)	Entry date into polish market (year)
1	Mota-Engil, SGPS, S.A	Engineering and Construction	19.400	1998
2	ControlVet, SGPS, S.A	Food Safety Services	131	2012

Source: Author systematization.

Table IV – Interviewees

Case No.	Firm	Interviewee	Position
1	Mota-Engil, SGPS, S.A	António Manuel Queirós Vasconcelos da Mota	Chairmen
2	ControlVet, SGPS, S.A	João Rebelo Cotta	Chairmen

Source: Author systematization.

4. FINDINGS

4.1 Poland as international market selected by Portuguese firms - Two case studies

In this section, two international market selection cases will be described: the case of Mota-Engil SGPS, S.A and ControlVet SGPS, S.A. Both cases concern a single internationalization destination – Poland. The descriptions are based on interviews with respective chairmen and supported by various types of secondary data.

Mota-Engil SGPS, S.A

Mota-Engil SGPS, S.A is the market leader in Portugal in the civil construction and public work sector. The company was set in 1946 by the father of the current chairman, António Mota and its first internationalization, to Angola, occurred in the same year. The company has three major business areas: Engineering and Construction, Environment and Services and Transport Concessions, and nowadays the firm carry operations in 19 countries, through brunches and subsidiaries. In 1997, Mota-Engil (ME) began its activity in Poland, through the award of two contracts for the construction and rehabilitation of 142 bridge structures on one of the Polish motorways.

During the decade 80', the company has grown substantially due to the great increase in infrastructure development in Portugal, what was caused by the European Union (EU) accession. The accession and pre-accession funds played very important role for companies at that time and allowed for significant investments in terms of construction work. As stated by the chairman, António Mota, at that time it was already clear for the firm that these funds will be further allocated to another place. At a time, the democracy arrival to the East and Central European countries was already expected and consequently, their application for the EU accession. "What we expected was that European funds will be drastically reduced for the countries which enter in year 86, like Portugal, and will be redirected into Eastern European countries, like Poland, Czech

Republic and Hungary. Therefore, in 1995, we took a decision to start looking at these markets.” The company founders were aware that, at a time, the infrastructure level in Eastern European countries was relatively low and the percentage of rural population quite high, thus a significant urbanization movement was expected, and consequently, great demand for construction work. The company established an initial set of countries: Poland, Czech Republic and Hungary and started to look for entry possibilities in each of them. The first, most important selection criterion mentioned by the chairman was the market potential. “Poland at that time had 30%-40% of rural population that, sooner or later, would move to cities, provoking a great infrastructure development, lots of investments in real estate and civil construction. Additionally, Poland could be a central point of a whole new business area – Central Europe.” Indeed, in 2010, after a set of acquisitions and mergers, Mota-Engil set up in Poland its main division for Central Europe – Mota-Engil Central Europe S.A. “When we think about internationalization, the first thing is the market potential. And Poland and other East European countries have a huge potential. We are talking about 40 million people, and if we consider the countries around, which we could manage from a single Polish market, we are talking about 300 million people. We hope that one day, Mota-Engil Poland will have enough dimension to reach the Russian market as well and might also be able to participate in the Ukrainian one. Yes, we think that this is a location with great potential.” The selection of Poland as internationalization destination was, with no doubts, an outcome of firm strategic consideration, as explicitly confirmed by the chairman: “It was a strategic decision at that time. We were not following anything; it was a concretization of our strategy. If we were following something it was the market that we knew will grow.”

The strategy chosen toward internationalization of Mota-Engil and foreign markets of interest is confirmed by the press release which can be found on the firm's website. One can read there that: “Foreseeing that the development of Europe will pass through Central Europe, the founder of the Group, Manuel António da Mota, made the decision to study the possibility of moving forward the international Group, so far present only in Portugal and Africa. After studying the possibilities of the market entry, Mota-Engil started its activity in Poland in 1997, extending later to the Czech Republic and Hungary (www.mota-engil.pt).” And furthermore one can find that: “Currently, and after 15 years,

Mota-Engil is considered one of the leading companies in Poland, operating through the whole Polish territory and from this country to another Central and East Europe markets. This is a strategy implementation that passes through concentration of the regional resources in Poland, a fact which has gained the form of reorganization of the firm into Mota-Engil Central Europe in 2010 (www.mota-engil.pt).”

ControlVet SGPS, S.A

The firm was founded in 1999 by the present chairman, João Cotta, and his two minority partners. ControlVet operates in food safety industry, providing food and water quality control, assistance to primary production and consultancy services. It is selling its services to other firms from different sectors, such as food production, food distribution, hotels and restaurants. The firm has few abroad operations: in Spain, Mozambique, Cape Verde and, since February 2012, also in Poland.

In Portugal, one of the biggest clients of the firm is Jerónimo Martins Group (JMG), owner of the Portuguese supermarkets chain Pingo Doce. The JMG is also the owner of the biggest, low-cost supermarkets chain in Poland – Biedronka. In recent years, JMG have faced some issues regarding the food quality in their supermarkets in Poland. The procedures regarding food quality control are slightly different in Portugal than in Poland. In the latter case, concerning food distribution, it is the supplier that carries out the entire quality control process, so the seller is not responsible for making any additional control. The relationship is much closer between quality control firms and the supplier, than it is between distributors and quality control firms. This may lead to situation when the control firm, on behalf of the close relationship, approves quality level of products that in normal circumstances should not be approved.

In such circumstances, ControlVet has been approached by JMG with the proposal of providing its food control services for the JMG business in Poland. “We will start our operation in Poland because JMG asked us to do so. It was not exactly our plan to start new abroad operations this year.” The founder highlighted that he was aware about

Polish market conditions, since other Portuguese firms are operating there with success for many years, but in that precise moment, he was not considering an internationalization move to Poland. “I was thinking about Poland, of course, I watch news and read newspapers. But Poland is a 40 million country and the market is quite saturated and very competitive now a days. When we started our operations in Cape Verde, we were the unique food quality control firm there. Poland is big, Poland is different.”

After receiving the proposition from JMG, no further evaluation of the market was conducted. The unique question for ControlVet was how to start operations in the Polish market as soon as possible. Thus, the firm started to look for a suitable partner in Poland, in order to speed up the whole process and balance its costs and risks. Few contacts to different firms in Poland were obtained in the Portuguese Investment and International Trade Agency (AICEP) and two companies were selected as the most suitable polish partners. Through various direct contacts with both, one of them was further selected as the ultimate choice and at the beginning of 2012 the joint venture has been formed.

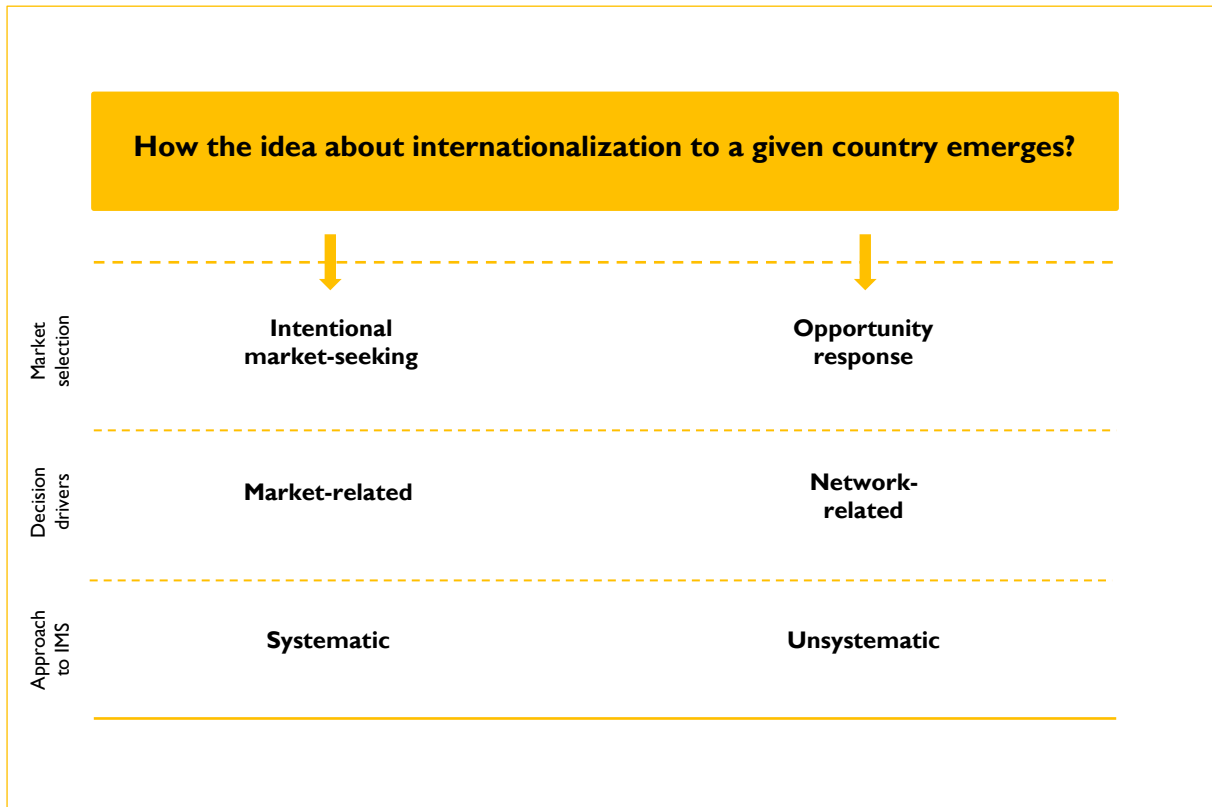
The ControlVet's founder statements are confirmed in few Portuguese newspapers' articles. One can read in one of them: “ControlVet which operates in the food security sector is acquiring 50% of one company in Poland. The aim, says João Cotta, the president of the company, “is to take advantage of the fact that Jerónimo Martins is our client in Portugal and can be so also in the Polish market.” (...) “In fact, it is a ride on the coat tails of an important group, which is well established in the Polish market (www.economico.sapo.pt).”

4.1.1 International Market Selection Process

Based on the two case studies, one can observe that a firm decides to initiate its activities in a given country because of two possible reasons: 1) it intentionally seeks a new foreign market to enter and in this case the market characteristics are primarily taken into account and a model is likely to be used to evaluate the alternatives or 2) it is provided with a specific opportunity to do so, which may arise from the firm existing network, like

client request to follow it to the foreign market. In order to facilitate the understanding of this statement, it is graphically presented in Figure III.

Figure III – International Market Selection



Source: Author systematization.

The decision about entering a new country market may have therefore a proactive (intentional seeking) or reactive (opportunity response) nature. Firms which intentionally seek new markets to enter are likely to establish a set of relevant criteria to consider when making the decision and in order to select a country within a set of alternatives, are likely to use a systematic approach. The factors to be taken into consideration are market-related, such as market size, market potential or localization. In the case of opportunity response, the market characteristics are of much less interest, since firms' decision is not about where to go, but rather how to get there in a most adequate and profitable manner.

5. DISCUSSION

This section aims to explain the findings from the previous chapter and identify some consistencies as well as divergences with the literature reviewed.

The research has some important connections to the existing literature. Firstly, the case studies confirm the generally assumed division of IMS approaches for systematic and unsystematic one (Papadopolous & Denis, 1988; Andersen & Buvik, 2002; Brewer, 2001). Furthermore, the study shows that the systematic approach is more likely to be used by firms that intentionally seek new foreign markets to enter and the decision drivers in this case are expected to be market-related. Accordingly to Dunning (2000), firms seek to establish their activities where they can enjoy the best advantages, what may be observed in the case of Mota-Engil. This Portuguese company has chosen Poland, due to expected inflow of EU funds, and because of this fact, it presented itself as the most profitable point in space at that given time. Just as stated by Brouthers *et al* (2009) IMS process seen from the systematic approach perspective, may be viewed as balancing the firm and the country-market characteristics. By balancing the firm characteristics and differences between countries, Mota-Engil, as a firm from civil construction sector, selected a market which presented the most effective combination of advantages, both: owner-specific and location advantages.

The case of Mota-Engil supports also the findings of numerous studies that identified three main stages in the IMS process: screening, identification and selection stage. One can observe this general stages in the Mota-Engil approach to IMS: 1) firstly, firm has considered only the markets which meet its strategic objectives, in this case, countries which were expected to join EU and benefit from the European funds, 2) in the second stage, the firm evaluated markets resulted from the screening stage, in this case Poland, Czech Republic and Hungary, taking into account industry-specific information, such as market size and grow potential and finally 3) firm selected one of the markets, Poland, and applied for a construction project there.

The unsystematic approach, as stated by Cavusgil (1985) is more likely to be used by small and medium companies and the selected countries are not the result of a strategy for most profitable allocation of resources, but a response to changing conditions of the firm environment. The case of ControlVet supports that statement, since the firm internationalization to Poland was a response to a client request. In accordance with Cavusgil and Godiwalla (1982), the IMS in case of small companies, like ControlVet, is closely linked to relationships and networks, personal and professional experience and incremental nature of successive learning. For ControlVet, the firm existing network was fundamental for the decision about the internationalization to Poland. The market itself was not directly chosen by the firm, but was determined by its customer - JMG. This phenomenon, when an opportunity is seen through existing relationships and firms are pushed into a specific foreign market is called client-following and has been already identified in various studies about IMS (Erramilli *et al*, 1998; Brewer, 2001). Additionally, the ControlVet case shows that in case of client-following phenomenon the foreign market characteristics are not of much importance, since the firm is primarily focused on how to enter the given market instead of evaluating its attractiveness.

Another interesting fact shown in this study is that besides the potential benefits for firm's staying in harmonious relationships identified by Johanson and Mattson (1987) and Dunning (2001), one can add to it that the existing relationships may lead a firm to international market expansion, like in the case of ControlVet. One can see the extended list of potential benefits of maintaining close relationships with other companies in the Table V.

Table V – The importance of relationships (II)

Concept	Potential benefits for firms
Relationships	Access to important resources Sale of products and services Reduced cost of exchange and production Development of knowledge Easier access to other firms Partner alliances against third parties Reduced incidence of crime and corruption Easier access to international markets

Source: Author systematization, based on Johanson & Mattson (1987) and Dunning (2001).

The ControlVet case study is also well illustrating two other aspects of firm's relationships with other enterprises. Firstly, one can observe in this study the mutual orientation of the partner firms, described by Johanson and Mattson (1987), manifested by a common attitude toward an important technical matter, in this case, the way of performing food safety analysis processes. The common agreement on this relevant aspect of the exchange between firms had significant influence on the fact that Jerónimo Martins Group invited ControlVet for cooperation in the Polish market as well. Moreover, the ControlVet case study explicitly confirms the Dunning's (2001) statement that the social relational capital "is becoming a more important factor influencing the location of economic activity by MNEs, while the balance of costs and benefits in owning or accessing resources and capabilities is affecting the way in which they are organized (Dunning, 2001, p.185)." Indeed, the ControlVet's relation with JMG totally determined the location of its abroad activities, while the costs and risks of the operation were addressed by the mode of entry. One can find the summary of findings from both case studies in Table VI.

Other decision drivers, like those identified by Brewer (2001) were not identified in this research, however, it is very likely that if more cases would be considered, the factors identified in his study would be identified as well.

Table VI – The case studies findings summary

	Mota-Engil, SGPS, S.A	ControlVet, SGPS, S.A
Company size¹	Large <ul style="list-style-type: none"> • 19.400 employees 	Medium <ul style="list-style-type: none"> • 131 employees
Internationalization driver	Strategic considerations <ul style="list-style-type: none"> • Most profitable allocation of resources at a given time: expected inflow of EU funds into Central and East Europe countries • Expansion into new region – Central Europe 	Opportunity response <ul style="list-style-type: none"> • Client request
Approach to IMS	Systematic	Unsystematic
IMS process	IMS process stages: <ol style="list-style-type: none"> 1. Screening stage <ul style="list-style-type: none"> • Countries expected to benefit from EU funds 2. Identification stage <ul style="list-style-type: none"> • Set of countries: Poland, Czech Republic, Hungary 3. Selection stage <ul style="list-style-type: none"> • Poland 	Client-following <ul style="list-style-type: none"> • JMG, important client of the firm in its domestic market, proposes cooperation in Poland and ControlVet accepts the proposal
Decision criteria	Market-related <ul style="list-style-type: none"> • Market potential • Market size • Localization 	Network-related <ul style="list-style-type: none"> • Foreign market determined by the client: JMG has already well-established operations in Poland

Source: Author systematization.

¹ Companies dimension classification according to Portuguese labor regulations: Código do Trabalho, Art.100, nr 1c, d. According to this regulation, large enterprise has more than 250 employees and medium enterprise between 50 and 250.

6. CONCLUSIONS

The present research was meant to identify factors that drove the decision of Portuguese companies to choose Poland as a foreign country-market to enter. In order to respond the research question, two case studies were presented and the following has been identified: firms present two different approaches to the IMS: systematic and unsystematic one. The first one, when adopted, is realized by intentional market seeking and a given market is selected through employment of different models and criterions. The systematic approach and intentional market seeking is likely to be adapted by larger companies. The other way to approach the IMS identified in this study is the opportunity response which represents the unsystematic approach to IMS. Especially in case of small and medium companies, the specific foreign market is not directly selected by the firm, but is “imposed” by opportunities that arise within the firms existing network, like in the case of client-following phenomenon. When a firm responds to the emerging opportunity the market-related factors do not have much of importance. The firm instead of evaluating country characteristics is focused on the mode of entry, since the market is already defined.

6.1 Theoretical contribution

The general separation of IMS possible approaches into systematic and unsystematic one is supported in this study (Papadopolous & Denis, 1988; Andersen & Buvik, 2002; Brewer, 2001). Within the systematic approach it was also identified that the firm, when selecting a foreign country market for their abroad operations, is passing through several stages: screening, identification and selection stage. It is also confirmed by this study that the systematic approach is more likely to be adopted by large companies and the unsystematic one by small and medium enterprises.

The study has shown that the market characteristics are decisive when firms intentionally seek a foreign market to entry, but are of much less importance in case of country selection as a response to arising business opportunities. In the latter case, the market is

even not directly selected by the company through evaluation of different alternatives, but is “imposed” by the opportunity.

The increasing relevance of firm's network is clearly shown in this study and one can add another benefit of firm's relationships to the ones already identified by Johanson and Mattson (1987) and Dunning (2001), namely, the firm's existing relationships may lead to international expansion of the firm.

6.2 Practical contribution

This study allows to understand better what factors caused the Portuguese companies to choose Poland as a foreign country-market for their operations. The study identifies two different reasons that made Portuguese companies to choose Polish market: 1) Poland was selected because of market characteristics and 2) selection of Polish market was a firm response to arising opportunity.

This study provides an interesting insight for other Portuguese companies wishing to expand their operations into international markets, presenting two possible real-life approaches to the market selection, as well as, for the foreign country governmental or trade institutions, providing them with a set of factors that influence the foreign investment flow into the market. Especially for small and medium companies, it is important to highlight the importance of networks and relationships, which may become a starting point for firms' international expansion. For the governmental and trade institutions it is worth to underline the role of international trade agencies and the like, as an important source of information and contacts, which may be a fundamental point in building successful and dynamic trade relations between the host country and foreign investors.

6.3 Limitations of the study and suggestions for future investigation

One of the limitations of this study is its restricted number of presented case studies since, due to time and resources constraints, it was not possible to realize more interviews with relevant for this research companies.

It would be interesting to continue the interviews with Portuguese companies that have their operations in Poland, in order to obtain more factors that drive the market selection decision. During the present study another phenomenon has been identified, which can be called “snowball effect”. It is likely that the Portuguese firms already present on the Polish market are attracting other Portuguese entrepreneurs to invest in Poland or like in the case of Jerónimo Martins Group and ControlVet they are the direct reason for other firms to enter the Polish market. It would be interesting to investigate to what extent the Portuguese companies already operating in Poland are a factor behind the Portuguese investment inflow into the Polish market.

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