



UNIVERSIDADE CATÓLICA PORTUGUESA

Understanding the country of origin effect: the case of Portugal

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by

Lucénio Vinicius Rodrigues de Almeida Saraiva

Thesis oriented by

Prof. Dr. Susana Cristina Lima da Costa e Silva

Católica Porto Business School

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Abstract

Nowadays, the panorama of international markets reflects an extremely competitive market, with many available products that stand out due to their quality, durability and diversification. Consequently, the process of evaluating products is increasingly more complex, due to the number of factors taken into account in the process. The country of origin effect is one of those factors.

The image of a country is directly associated with the country of origin effect and it can be shaped by the behaviour and habits of its society, the performance of its business sectors on international markets, and by the perceptions of foreigners about the country. A positive country image will reflect a positive impact of the country of origin effect, while a negative country image will reflect a negative impact of the country of origin effect. Portugal seems to be affected by a negative country image, but that dynamic seems to be changing. For Portuguese businesses, the way in which they work with the country of origin will be the difference between the success and failure in the international markets.

This thesis aims to identify what is the perception of foreigners about Portugal, the strategies used by Portuguese businesses to generate a positive country of origin effect and understand the impact of the country of origin effect on Portugal. We understood that the case study method was the best method to identify the strategies used by Portuguese businesses to work with the country of origin and determine the impact of the country of origin effect on Portugal.

The thesis suggests that the perception about Portugal is improving, generating a positive country of origin effect, supported by the success of Portuguese businesses and businessmen in international markets. The key to success is how companies combine their unique natural resources with the technological innovations and strategic tools available to them.

Key Words: country of origin effect; product evaluation; strategies; international markets; country image; perception; case study; Portugal

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Introduction

Although nowadays the international market is a united space, it is also very diverse. The markets and action areas of businesses and companies are increasingly difficult to distinguish. The products and services add more and equal value to buyers, complicating their decision. That's why factors like technological innovation, buying experience, design or product extras are now essential to the buyer. It is in this context that the country of origin effect has been gaining importance to companies, markets and buyers. Similarities between products require that buyers consider all the features and surroundings of the product. These changes in the way buyers evaluate and perceive products are due to two dynamics: globalization and companies internationalization strategies. Stiglitz¹ (2002) defines globalization as:

“The closer integration of the countries and peoples of the world...brought about by the enormous reduction of costs of transportation and communication, and the breaking of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders”²

The globalization dynamic has opened the door to foreign markets to companies and businesses worldwide. Establishing contacts and sharing ideas between countries has become regular and forced companies to reevaluate their business strategies. The possibility of entering new markets opened new business opportunities, and contributed to a more open and more liberal mentality in businessmen, influenced by the new business opportunities, and the saturation of domestic markets. Most businesses today lay a big percentage of their revenue on international sales, which explains the immensity of products, being sold, in markets.

In a process of internationalization there are big decisions to make, such as elaborating the advertisement campaigns, studying ways of getting governmental aid, selecting where to export, which products to export and understanding the perception of the target country towards our country of origin. Historically Portugal has been affected by a negative foreign perception. Bearing this context in mind we want to address the impact of the country of origin effect on Portugal.

¹ Joseph E. Stiglitz, Globalization and its Discontents, 2003

² Joseph E. Stiglitz, Globalization and its Discontents, Page 9

This thesis intends to describe the impact of the country of origin effect on Portugal, discover the perception that foreigners have about Portugal, and identify the strategies that Portuguese businesses use to generate a positive country of origin effect. The thesis focuses on the case of Portugal because it is a country that we may expect to face a negative country of origin effect, but seems to be changing. This implies that we can take positive elations to be applied to countries that suffer a negative impact from the country of origin effect. In order to analyse the Portuguese situation we have chosen three case studies that we believe to be essential to understand the ideal strategies for businesses that want to overturn a negative impact of the country of origin effect. Therefore the research question that will guide this thesis is: *What is the impact of the country of origin effect on Portugal?*

To support the theoretical conclusions, a study, encored in the country of origin literature and the strategies used to work with the country of origin effect, was conducted. The conclusion drawn on the perceptions of foreigners about Portugal were based on a research in magazines, newspapers and websites that reference Portugal, and its habits, social configuration, businesses, products, companies, stereotypes. The goal of this research is to identify what is the image of Portugal to foreigners, the nearest to the reality, in order to better understand the impact of the county of origin effect, nowadays, on Portugal.

The methodology used is qualitative, and we choose to use the case study method because it is the best suited to understand the impact of the country of origin effect on Portugal and is essential to understand the ideal strategies for businesses that want to generate a positive country of origin effect. Five chapters constitute this thesis. The first chapter incorporates a literature review on the country of origin effect and on the strategies that can lead to a positive country of origin effect. Right after the literature review on the country of origin effect, we have the second chapter, where the results of the research on the image of Portugal, by foreigners, are displayed and examined. On the third chapter it's explained the rational for the choice of the qualitative methodology and case study method. The fourth chapter presents the case studies that fundament the findings of the thesis. The fifth chapter will comprehensively explain the findings of the thesis. It will describe the impact of the country of origin effect on Portugal, the strategic decisions necessary to surpass a negative

country of origin effect and generate a positive country of origin effect, and explain how Portugal as changed the dynamic of the country of origin effect. This chapter will also incorporate the theoretical and managerial findings, the limitations of the thesis and some links for future research.

Chapter 1: Literature Review

1.1. The Country of Origin Effect

The country of origin effect is a complex concept that can produce a positive, negative or null effect on a country. Its complexity comes from the competitiveness between different markets and countries. This competitiveness made the country of origin become a differentiation factor for buyers, and a possible competitive advantage for businesses. The importance achieved by the country of origin effect, on product evaluation, led to a considerable increase on the number of researches of the concept. The phenomenon of globalization also had an important part on the complexity of the concept. Globalization gathered the markets and made products more equal, sometimes indistinguishable.

We understand that the researchers of the country of origin effect can be divided in two different lines of thought, which attach different significance to the country of origin effect: the fundamentalist perspective, which fully supports the power of the country of origin to influence the choices of markets and buyers and the sceptic perspective which takes a different approach, attributing higher power of influence to factors like the price or quality of a product.

We identify more with the sceptic perspective because it considers a superior number of factors to evaluate a product. It suggests that a product can have diversified strategies to create competitive advantage, while not depending solely on the country of origin to develop their image in international markets.

<i>Researchers</i>	<i>Research</i>
<i>Schoolern (1965)</i> <i>Fundamentalist</i>	The research was targeted for a group of Guatemalan students. In it, he sought to understand if the country of origin of a product influences the opinion, of potential buyers, on the product. He presented the students with several products, with fictitious labels of countries like Mexico, Costa Rica, Guatemala, and others. The trick was that the products were all of the same quality. Despite this fact, the students evaluated the quality of products differently. With these results Schoolern believed that he had the basis to affirm that the country of origin effect is real.
<i>Johansson (1985)</i> <i>Sceptic</i>	His research undermined the importance of the country of origin on product evaluation, in comparison with factors like the price, reliability, quality or design of the product
<i>Ettenson (1988)</i> <i>Sceptic</i>	Concluded that the price and quality of the products are the main factors to evaluate and decide on buying a product.
<i>Han (1989)</i> <i>Fundamentalist</i>	Introduced the halo effect. His research showed that the image of the country of origin heavily affected the opinion of a buyer about a product, by revealing that buyer's perceptions on the country of origin are reproduced on the product itself.
<i>Papadopoulos (1993)</i> <i>Sceptic</i>	Provided a research referring to the country of origin effect definition as basic and misleading. The criticism of Papadopoulos (1993) was because the majority of studies until then interpreted the products as having a single origin country. Researches interpreted that a product was idealized, designed and assembled in one place. In his study he proposed the PCI (Product Country Image) a concept that possessed the necessary characteristics to evaluate the multiple dimensions of products, and the various locations where a product can be made.
<i>Harrison-Walker (1995)</i> <i>Fundamentalist</i>	Studied the importance of country stereotypes on the buyer's decision. His research settled that a negative bias against a country impedes buyers from acquiring a product made in that country.
<i>Ahmed and d'Astous (1995)</i> <i>Sceptic</i>	Concluded that the impact of the country of origin could be different, depending on the product that is being evaluated. Buyers evaluate differently the impact of the country of origin on the design, assembling location and package.
<i>Ahmed and d'Astous (1999)</i> <i>Sceptic</i>	The research aimed to understand the importance of the country of origin in the buyer's evaluation of a product. Results showed that the country of origin was the least considered factor to evaluate a product, for the respondents of the study. The list included factors like the price, brand, and guarantee.
<i>Chisik (2003)</i> <i>Sceptic</i>	Identified the economic situation has the main factor for product evaluation. He believed that buyers would consider acquiring more products form a specific country, if the economy of the country were in a good state.

Table 1 – Country of origin effect researchers and researches
Source – Author

1.2. Different strategies on the country of origin effect

The Johansson (1985) research makes possible to identify that not all countries have the capacity to develop a positive country of origin effect through quality products or competitive prices. The countries without that capacity have to apply different strategies in order to generate a positive country of origin effect. These countries can take advantage of factors such as strategic planning, unique country and environmental conditions, exclusive raw materials, production know how or unified brand/identity of one activity sector.

Unique country conditions

Companies that have grown being associated with their country of origin, have from the perspective of consumers and markets, the same characteristics as the country of origin (Han, 1989). A country that appears in a market as unknown, with bad reputation, will be marginalized and rejected by the market (Silva, 2014). Countries that already have a recognizable image and good reputation can use their country image as a lever to sell their products, because the markets perceive them positively (Agis et al., 2010). This is what happens with alcoholic beverages (i.e. France and champagne; Ireland and beer; Scotland and whiskey). In these cases the country of origin is essential to the markets (Mandlaze, 2013), because the countries that produce the beverages take advantage of unique farming and production conditions, and specific technical-productive know how to produce single and distinctive products. Those conditions, for competitors, are very difficult to replicate. That is why the country of origin will be positive for typical and regional products, as the country of origin is the differentiator factor for the market (Gineikiene and Urbanavicius, 2009).

Strategic planning

The factors essential to product evaluation, defined by Johansson (1985), included the price, quality, guarantee, extras and country of origin. All of those factors can be applied and developed by the strategy of a company. The strategy is a determinant element to the country of origin effect, because it has implications on the image and reputation of a country (Silva, 2014). Companies

that are integrated in a country with a negative country of origin effect will have an increasingly harder path to success in international markets. As stated previously, the markets will apply the negative image of the country of origin to the company itself (Han, 1989). As markets become more international the more prominently the origin of the product will be (Papadopoulos, 1993). Nonetheless, the globalization phenomenon, the technological innovations and the changes of behaviour by societies contributed to dynamic international markets and the creation of more business opportunities (Ansoff, 1957). Companies with the tendency to invest on research and development, and predisposition to innovate, may revolutionize the markets, but they need to develop a solid strategic planning for support (Hamel, 1996). The strategy of one company includes marketing decisions, production decisions, sales decisions and internalization decisions. Companies that can triumph on the global market will be able to engender a positive country of origin effect, because the markets will consider as more important the production company, in comparison with the origin of the product (Chung Koo Kim, 1995).

Sector identity/brand

The capacity of one activity sector to develop a positive country of origin effect will depend on their ability to elaborate a brand or identity, for the companies of the sector, which can transmit to the markets an image of confidence and quality. The success of the brand is connected to the way that its representatives move, communicate and present the brand differentiator factors to the markets (Interbrand, 2003³). A brand needs to be easily recognizable, and possess a multitude of differentiator characteristics that distance them from their competitors. Those characteristics are achieved through adaptability and good value for money (Lencastre, 2007). The success of a brand gains more relevance to the sectors connected with the fashion world, since it serves as a reference to the markets (Agis et al., 2010). One brand can become bigger than the country of origin, and incorporates the products, the company, the sector and the strategy (Pereira, 2005).

This review on the strategies of the country of origin effect lays the basis for companies, sectors, industries or countries that want to pursue a positive

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

country of origin effect. The variety of strategies demonstrates that the quality, price or guarantees are not the only factors that can greatly influence the country of origin effect.

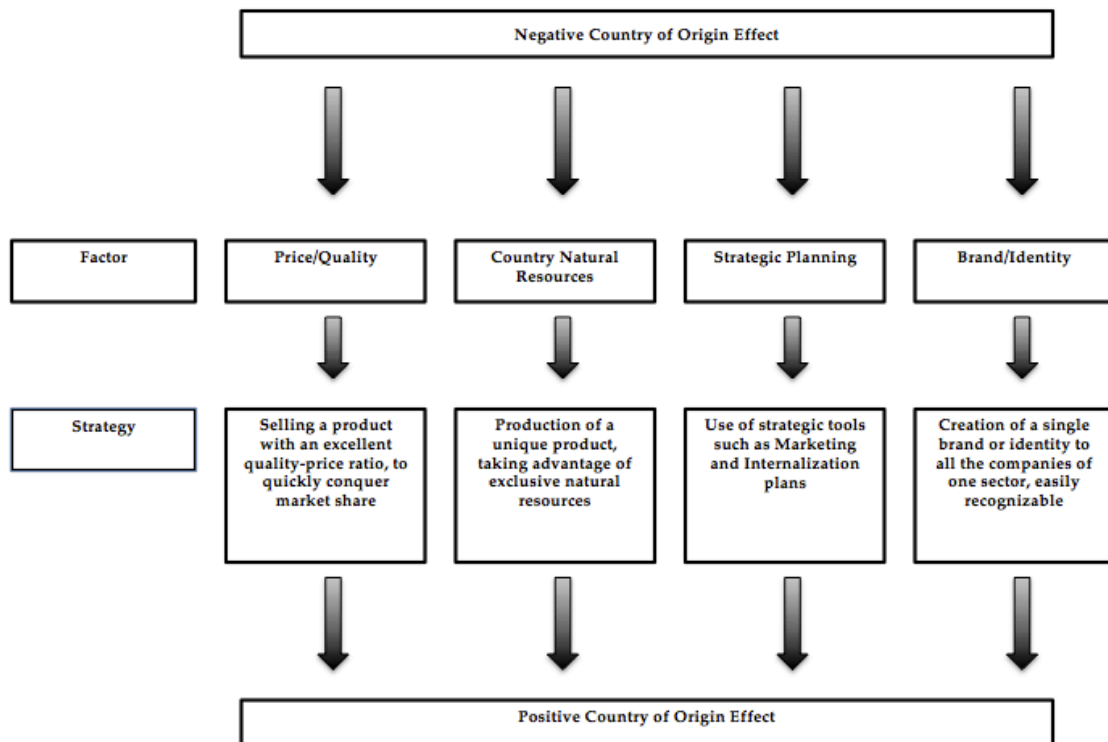


Figure 1 – Factors and strategies essential to turn a negative country of origin effect in a positive country of origin effect
 Source – Author

The literature review allowed us to identify and understand the multiple strategies to consider in order to change a negative country of origin effect into a positive country of origin effect. We defined four factors, which can serve as a basis, to countries and companies that want develop strategies capable of generating a positive country of origin effect.

The number one factor for markets is the quality and the price of the product (Johansson, 1985). A product with an excellent quality-price ratio will be able to quickly win market share, gathering immediate interest from the markets. The country or company that is associated with that product will have a positive country of origin effect.

Not all companies and countries can base their strategy for a positive country of origin effect on quality and price. They are forced to find other options to develop a positive country of origin effect. Those options will be based on factors like the natural conditions, resources and raw materials of one country,

strategic planning and brand or identity of one sector. In relation to the natural conditions, resources and raw materials, companies can develop unique products, from a single region, which competitors' can't replicate, taking advantage from excellent natural conditions. The country of origin effect will be positive as a result of the exclusivity of the product.

Strategic planning from one company can help surpass a negative country of origin effect. A company can produce a positive country of origin effect through strategic planning, supported by strategic tools such as, marketing activities, internationalization plans and efficient production processes. The capacity of one company to build a global and respected reputation, through the use of strategic planning, will determine the possibility of generating a positive country of origin effect.

One brand or identity, which identifies the products and activities of the companies of one sector, enhances the probability of creating a unified notorious and global brand. The cooperation between companies and sharing of ideas makes possible to produce quality products and develop the correct promotion techniques. A brand needs to be easily recognizable, and transmit a sense of quality and reliability to the markets. A notorious brand, known by a large number of markets, will contribute to a positive country of origin effect.

Chapter 2: Country of Origin in Portugal

The constant variations in the behaviour of the markets and societies worldwide, determines the importance of constantly controlling the impact of those changes on each country. In the case of Portugal, those changes have been continuous due to several changes in crucial areas of the country (i.e. government, economy, social norms, learning system). That's why we believe to be necessary to conduct a research on reports, articles and studies that reference Portugal, in order to realize what is, nowadays, the perception of foreigners about Portugal. Their perception about Portugal will directly influence the impact of the country of origin effect on Portugal.

2.1. Country of origin effect studies about Portugal

Regarding studies on the impact of the country of origin on Portugal, our research could only find a study, on the matter, about Portugal. Silva, R. et al. (2001) was the author of the study. The study was dedicated to understand if the labelling effect affected the behaviour of the buyers towards the country of origin (Portugal). The respondents of the study were from Portugal and the United Kingdom. The results showed that the Portuguese know that they are stereotyped by British, but underestimate this factor, since they believe the repercussions on their businesses activities are not significant. On the other hand, we could not find other published studies, which does not necessarily mean that there are not any other published studies on the impact of the country of origin effect on Portugal. The study has a big limitation for the present day, the year of the study. The study was conducted in 2001, and therefore does not include the radical changes in the panorama of international and Portuguese markets. This means that the study is partly out-dated and that it adds importance on studying how Portuguese and Portugal are perceived nowadays and how the country of origin impacts Portuguese products on the international markets.

2.2. Portugal Country of Origin Effect – Negative Factors

In order to access the influence of the country of origin effect on Portugal, firstly it is necessary to identify and understand the perceptions of foreign markets and buyers on Portugal. To describe in great detail those perceptions, we resort to the analysis of national and international articles and reports that address the Portuguese reality.

Portugal is oftentimes referred to in the same wavelength of the other Latin and southern European countries. As a result, it is not surprising to find perceptions or stereotypes common to these countries. The fact is that these countries present similar results to Hofstede Cultural Dimensions and currently face major economics and politics crisis, which shapes the countries as one in the mind of the markets and buyers. However each country is unique and it should be understood as such. Mathew Hancock, a British writer, wrote in his book “Guia do Xenófobo – Portugueses” that one of the things that marked him the most while living in Portugal was the word – “desenrascanço”. This word means that the Portuguese always find an incredible, last minute way to solve a big problem mostly caused by their own actions. Hancock believes that this word is the best to represent the Portuguese population and industries. This perception fits in the arguments of the website www.executiveplanet.com⁴, which considers that the Portuguese do not care much about the society instituted rules, until they face a situation of responsibility.

The International study on management practices, made by the International Monetary Fund (IMF), and the World Bank, in 2015, reveals that Portugal has bad managers and urges Portugal to invest on training managers. The traditional mentalities of Portuguese entrepreneurs lead foreigners to believe that Portugal is still stuck in time. Fortunately Portugal is already making important steps in this field. Two Portuguese Universities, and the respective management masters are ranked in the top 100 masters in management, done by the Financial Times in 2015. In the rank, we find that graduates from the Masters in Management from Univesidade Católica Portuguesa, Centro Regional de Lisboa, who take the 59th in the rankings, have a 98% rate of employment and a medium annual wage of 40 thousand dollars. Graduates from the Masters in management from Universidade Nova (31st in the rankings)

⁴ Accessed on 19/2/2016, at 9pm

have a rate of employment of 87% and a medium annual wage of 47 thousand dollars. The growing reputation of these universities along with the entrance in the market of their graduates, even if slowly, has been crucial for the development of management, finance and strategy processes.

The www.executiveplanet.com refers that the Portuguese society and businesses have a very conservative attitude. This attitude determines the behaviour, strategies, negotiations and image of Portuguese businesses. The Portuguese carefully look for the looks of people and strong signs of power, parting ways with the more sophisticated management processes and strategies. Portuguese bosses are authoritarian, averse to change and accumulate all the power in them. The centralization of power diminishes the chances of developing innovative ideas and change strategies for the company. This perception fits with the Hofstede Cultural Dimension⁵ study, which ranks Portugal with the score of 107 on the Uncertainty Avoidance cultural dimension. Countries with high scores in this dimension (Greece, Portugal, Japan and Uruguay) need as much clarification on everything as possible. They live with a lot of stress and constantly worry if something is going to force a big change in their normal routines. This means that the average Portuguese resists to change and feels comfortable maintaining the status quo. The power hierarchy is respected and subordinates tend to not make suggestions, since many of their previous suggestion were not heard or considered by their bosses. The Portuguese like to take so few risks that in a negotiation they always prefer to be face-to-face. As an article at magazine *Active* describes, the "Portuguese do not work well with cell phones or email...it's advisable to do a reunion face-to-face". This retraction against the international business activity shapes an image of unwillingness of Portuguese companies to work with foreign markets, which is, nowadays, false. It is important to refer that is not only in businesses that Portuguese have a long way to go on this subject. For example, on health matters Portuguese are one of the most insecure. According to data from the *Eurobarómetro*⁶ the Portuguese are extremely afraid of mistakes in health matters (75% in Portugal, 53% European Union average), even though the number of mistakes on health matters is lower in Portugal (14% in Portugal, 27% the European Union average).

⁵ geert-hofstede.com/portugal.html, accessed on 10/9/2015, at 5pm

⁶ 2013 Eurobarómetro

<i>Stereotypes</i>	<i>Verity</i>	<i>Improvements</i>	<i>Impact on the country image</i>
Disrespect for the instituted rules	True	Few	Negative
Unwillingness to internationalize	True	Several	Negative
Bad and Few Managers	True	Significant	Negative
Conservative Businessmen	True	None	Negative

Table 2 – Portugal country of origin effect – negative factors
Source – Author

The perception about Portugal has been constantly changing in the past thirty to forty years. For it contributes greatly the constant changes on the political and economic panorama of Portugal. The general opinion and perception is that although Portugal has been registering some major improvements, it still has a long way to go. The *executiveplanet.com* affirms:

“Only 30 years ago Portugal still had poor, backward agrarian economy propped up by wealth stripped from its colonies. While the changes since have been dramatic, Portugal has yet fully taken on board the requirements for competitiveness in a modern market economy”

However businesses have acquired an internationalization mentality. This mentality was enhanced by the work of AICEP (*Agência para o Investimento e Comércio Externo de Portugal*), a public entity dedicated to the development of Portugal businesses abroad, with the goal of globalizing the Portuguese economy. The positive impact of AICEP, the success of Portuguese start-ups and the necessity to export due to the decline on buying power of the internal market forwarded Portugal to an active presence and competitiveness on the international markets. As Paddy Cosgrove, founder of Web Summit⁷ said to the Portuguese newspaper *Público* “the most important and fundamental thing is that the basis were built a long time ago”. At this moment, in Portugal, we can find an important basis for entrepreneurs, incubators and business development programs. The goal is to give the Portuguese businesses an international dimension while disrupting the barriers of negative perceptions and stereotypes.

⁷ Web Summit, it's a technological conference, held annually since 2010

Chapter 3: Methodology

Taking in account the research question of this thesis - *What is the impact of the country of origin effect on Portugal?* – We opted for a qualitative approach, based on the case study method, which we consider the most suitable to comprehend the impact of the country of origin effect on Portugal and the strategies that can be used to generate a positive country of origin effect.

For Yin (1994) the case study method is suitable when researching a contemporary phenomenon in a real life context, the borders between the phenomenon and the context are not clearly defined and a multitude of sources can be used as evidence. In the case study method the first step is to establish a case study, Yin (1994) defends that a case study should have a research question, propositions and units of analysis, it should also explain how the collected data is linked with the proposition and define the criteria to comprehend the findings. This case study method intends to help the author of the thesis carry his research while contributing to enhance the credibility of the research. Yin (1994) defends the existence of single and multiple case designs. The single case design focuses on a single study for analysis, the multiple case design focuses on several studies for analysis. In this thesis we decide to use the multiple case design in order to demonstrate similar results. Therefore, we chose three case studies that helped fundament the results of the conceptual work developed by the author. In the case study selection two different criteria were applied: it should be about a Portuguese company or product; and it focused on internationalization processes.

The analysis of the social environment and social interpretations are important to the qualitative method. It ensures real and specific descriptions of a society or country, and is crucial to specify certain conceptions of previous authors that can be used in current situations. Also, the qualitative method makes it possible for the author of a thesis to generate his own conceptions, and review the validity of previous theories and concepts. This method, to be used correctly, needs to be accompanied by an author that has a strong critical sense and ability to greatly analyse the information acquired in his investigations.

This thesis includes mostly secondary data, which serve the goal of the research question. The secondary data collected were books, thesis, articles in

magazines and newspapers, and information on websites. Three case studies are essential to evaluate the impact of the country of origin effect and give examples of strategies that can eliminate a negative impact of the country of origin.

The first case study is on the Portuguese port wine sector and describes the successful internationalization process of port wine companies. The second case study is about the electromechanical sector, and explains the strategy behind the internationalization plan of EFACEC, helping comprehend how the company became a global, easily recognizable (notorious) company. The third case study studies the Portuguese shoe sector. It clarifies the perception of the markets on Portuguese shoes and describes the strategy of the association of the Portuguese shoe sector to develop a new brand and identity for the industry.

Chapter 4: Case Studies

4.1 Case study: Port Wine Sector

The Port Wine sector is one of the oldest and most traditional Portuguese sectors. Since the beginning of its activity it has been oriented to the international markets. Today most Portuguese port wines companies have been internationalized. This type of sector prefers to enter foreign markets through direct exportation or specialized contacts in these markets (i.e. intermediaries, distributors).

The regional products are associated with traditional habits of older societies, specific geographical characteristics, raw materials and unique production processes. In the case of the production of port wine, the *Região Demarcada do Douro (DOC)* is characterized by the climate of the region and the soils. The gravel soils help with the provision of the waters, guaranteeing the quality of the vineyards. Also the hills of the Douro region, on the North of Portugal, protect the vineyards from the moist winds of the Atlantic Ocean, providing the ideal climate for Port Wine raw materials. In the Douro region the precipitation is low and it reduces as we come closer to the summer, accompanied by a slow, but steady, increase on the average temperature. These unique conditions make the terraced hills of the Douro the best place to produce Port Wine, standing out from the rest of production locations, for its uniqueness and quality of production.

It was based on this premises that the groups of brands of Port Wine (i.e. Sogevinus Fine Wines, S.A.) built their way to success. Port wine companies are oriented to the exportation of its products, recognizing the decreasing trend of internal consumption and increasing consume, and interest in port wine by international markets. Depending on the market companies use: foreign distributors, direct investment, and foreign agents working on commissions. The target markets are the ones who present the best opportunities to increase the value of the brand and volume sales. In order to promote their product, companies establish an expanding strategy based on the participation on international fairs and industry related events, to expand the notoriety of the brand and advertise their products.

4.2. Case study: Electromechanical Sector

EFACEC Group is a Portuguese company, with a large presence in international markets, integrated in a sophisticated sector, the electromechanical sector. It operates on the energy, engineering and mobility sectors. It is the biggest Portuguese Electromechanical Group and it was founded in 1948. It is present in almost 65 countries and the volume of business to international markets represents almost 65% of the Group revenue. The EFACEC Group is embedded in an extremely competitive market, where companies constantly present technological developments, forcing competitors to adapt constantly. Bearing this reality in mind, in 1990, EFACEC developed an internationalization strategy based on market studies and the development of new products. The multitude of sectors in which the group works forced them to adapt different strategies, to different markets. They incorporated strategies like joint ventures, subsidiaries and direct investments. Nowadays EFACEC operates on the global market against other important companies. Although its dimension is far from more relevant and financially wealthy companies, EFACEC has won several businesses against them due to their business and internationalization strategy. The company invested on high tech processes, restructured its facilities, and equipment that has provided the Group with the capacity to produce the same or even better solutions than their competitors'. Supported by its innovative practices and the input of resources from the new owners of the group (*José Mello Group* and *Têxtil Manuel Gonçalves*) the Group outlined a strategic plan in order to potentiate its position on international markets and to respond to the challenges that the same markets present. The new organizational model consisted of ten business units, and three specialization areas (energy, engineering (environmental and services) and mobility (transports and logistics)), applied to specific markets. If the model proved to be successful in one country, the Group would replicate it in another.

4.3. Case study: Portuguese Shoe Sector

The traditional Portuguese Shoe sector is historically associated to the production and commercialization of low quality products. This means that the name of Portugal, when associated with this industry exerted a negative

impact. To fight this negative perception, the sector, seen as one of the most traditional, was forced to develop a series of differentiating factors (innovative production, modernization and improvement in the quality of the product through high tech processes) in order to compete with foreign industries in international markets. The changes resulted in the production and commercialization of products to high standard markets with a more risky fashion sense; yet, suited to the new fashion trends. It was a strong response from a sector mostly constituted by small, family companies to the growth of opportunities in the international markets, mostly provided, by the globalization phenomenon, which approximated societies and markets. The transformation of the sector was based on the changes of design and the marketing work to promote the new outlook on the Portuguese shoe sector. The Portuguese shoe sector became one of the most important sectors to the Portuguese trade balance. Of the total of exportation by this sector, 92% is for European markets. The improvement on the perception of the Portuguese shoe has been supported by groundbreaking promotion campaigns aiming at international buyers. The promotion of the product is being conducted by APICCAPS (*Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos*), an association responsible for the promotion of the Portuguese shoe sector and for the support of the internationalization of the brands of the sector. The promotion campaigns aim to consolidate the Portuguese shoe brands on the mind of international buyers and companies, while increasing the number of countries that receive exports of Portuguese shoes. The strategy defined by APICCPAS changed the paradigm of the Portuguese shoe sector. Nowadays the perception on the sector is that their products are high quality, with an appellative and modern design, making the Portuguese shoe became one of the best in the world.

Chapter 5: Findings and Discussion

5.1. Findings from the case studies

The need to open to international markets, along with the financial crisis that affected Portugal and the reduction in the Portuguese purchasing power have contributed to the expansion of Portuguese products and businesses to international markets. The three case studies demonstrate three different strategies to work with the country of origin effect, in order to generate a positive effect.

In the case of the Port Wine case study, the certified regional or national Portuguese product acquires its competitiveness and notoriety through its singularity and differentiation, on the eyes of the market. Portugal is a reference for Port Wine. The crucial part of the success of companies with this type of product is in the way in which they work their competitive advantages. The Port Wine sector it is the best example to prove that the soil and climate conditions (natural) of a country are essential to develop specific products and that the country of origin of a product influences the choice of a buyer, being that, in this case, the country of origin effect can apply a positive impact. The unique characteristics and qualities of the product, impossible to totally replicate by competitors, ensures the preference of the markets.

The case of the Electromechanical Industry (EFACEC) demonstrates the importance of strategy to the success of company's actions. It potentiates the growth of sales and the notoriety of a company. Through a well-organized strategy a company can grow in the international markets, proving that the influence of the price, quality or country of origin can be diluted. In this case the impact of the country of origin effect is positive because EFACEC built a strategy based on product innovation and adaptability to markets, which made the company reach global status and have a specific plan to each market. By surpassing the country of origin factor, now EFACEC applies a positive country of origin on Portugal. The positive perception on the company and the status that the company achieved, are applied to the country of origin, like a halo effect.

Although it is true that in the case of the Portuguese shoe sector the perception has changed and now the country of origin can apply a positive

effect, it also means that the industry will have to continue to work hard to maintain the positive impetus acquired in the past years. The work of APICCAPS and the companies of the sector annulled the negative effects of the country of origin on this sector. It was reached a change in the perception of the products, brands and companies associated with the Portuguese shoe sector. The innovation in design, the promotional work, the acquisition of technological advanced raw materials, the creation of one identity for the companies of the sector and the definition of a production and selling strategy of high quality products have changed the panorama of the Portuguese shoe sector.

These case studies demonstrate that the perception about an old-fashioned Portugal were wrong. They analyse two Portuguese traditional sectors (Port Wine and Shoes) and a sophisticated sector (Electromechanical). The traditional sectors had the ability to adapt to new realities and learn how to take benefit from their competitive advantages so as to succeed. The port wine sector uses the exclusivity and uniqueness factor of their products to triumph in a very active market. The Portuguese shoe sector used creativity, strategic planning and innovation to retune their image and productive capacity. Through the combination of critical internationalization strategies with an excellent use of the productive-technical know-how of the Portuguese labour, the electromechanical sector has managed to conquer the international markets.

We conclude that in order to annul a negative impact of the country of origin effect and generate a positive impact of the country of origin effect, Portuguese businesses need to work with their natural resources, use wisely strategic planning and invest on technological innovation to keep pace with international markets. These conclusions are in line with the strategies defended by authors of the country of origin effect, analysed in the literature review. The Port Wine case study proves that the positive reputation of Portugal, as a producer of Port Wine, due to the unique conditions of the North of Portugal, reflects positively and helps Port Wine companies' triumph in international markets. The EFACEC case study helps exemplify the case of a company that through the use of information and strategy developed a global reputation, which applies, nowadays, a positive impact on the country of origin. The Portuguese Shoe case study verifies the importance of the cooperation between representatives of one

sector in order to develop a single identity, brand, which will be the flag of the sector on international markets. It is the example of a turnaround from a sector that had a negative country of origin effect to a sector that has, currently, a positive country of origin effect.

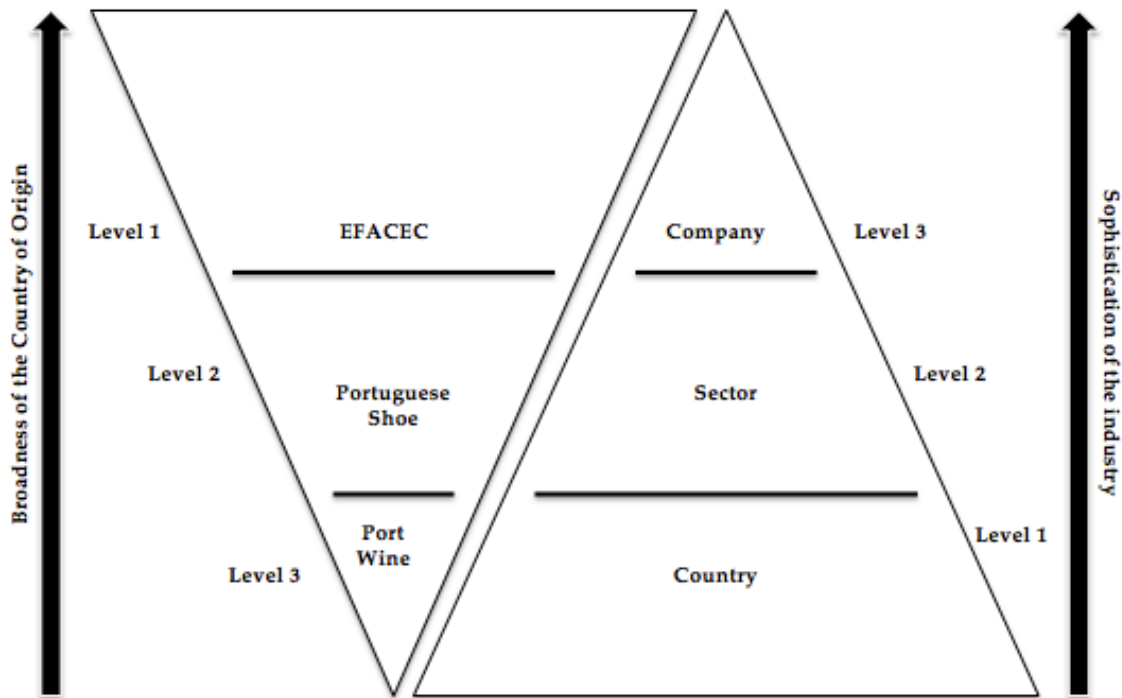


Figure 2 – Link between a positive country of origin effect and the type of business sector, and the necessary effort that agents must make
Source – Author

In the figure above, the first variable (Broadness of the Country of Origin) refers to the conditions for the development of a positive country of origin effect. The second variable (Sophistication of the industry) refers to the efforts necessary to build up a positive country of origin. As more sophisticated the sector, more difficult it is to build a positive country of origin effect and greater is the effort necessary to produce a positive country of origin effect, especially by a brand name.

The figure shows that in the more traditional sectors of the Portugal it is easier to produce a positive country of origin effect, contrary to the more sophisticated sector that have more trouble developing a positive country of origin effect. The difference is that the more traditional sectors (i.e. port wine and Portuguese shoes) have natural resources and recognizable products that propel them to be better perceived by the markets. As Gineikiené and Urbanavicius (2009) refer, the regional products, when notorious for being

produced in one region, have a better reputation for the markets. A company from a sophisticated sector (i.e. EFACEC – electromechanical sector) needs to use other tactics, like strategic planning and technological innovation, in order to produce a positive country of origin effect. At a time when the business world is increasingly competitive, a capable and assertive business strategy is, from the start, a source of competitive advantage to businesses. Businesses that are able to perceive the trends in consuming and the preferences of their clients and buyers will be in a better position to attack the markets and be successful in international markets.

Portugal as a country is specialized in traditional sectors such as textiles, wine, cork and shoes (Porter, 1993)⁸. In the Porter Report for Portugal, Porter (1993) identified these as the sectors that the government should develop, because he considered that Portugal didn't had the necessary competences to be a leader in sophisticated, technological sectors. However, we understand that the government should invest on sophisticated sectors and allow firms to take the lead in building a positive country of origin effect.

5.2. Understanding the impact of the country of origin: the case of Portugal

Resuming our research question – *What is the impact of the country of origin effect on Portugal?* - we can conclude that the country of origin effect has, nowadays, a positive impact on Portugal. We came to this conclusion based on data that analysed the perception of foreigners about Portugal, a literature review on the country of origin effect and the conclusions of the case studies. This allowed us to find evidence of the improvements on the image of Portugal in international markets and the positive country of origin effect that Portuguese businesses can develop and apply to the country of origin.

Nowadays we have several examples of important newspapers and worldwide TV stations exulting the qualities of the Portuguese products and the work of Portuguese companies. In May of 2012 *Financial Times* published an article praising several products, which are eye-catchers for famous foreign personalities and markets (Red coloured toilet paper by *Renova*, a favourite of Simon Cowel; Portuguese shoes, used by Pippa Middleton at the British Royal

⁸ Porter report – Portugal, 1993

Wedding of William and Kate and Port Wine, became a huge hit in every foreign market). The study “The «Made in Portugal» consumption and Country-of-origin perception in the context of crisis and austerity” made by Paula Arriscado, Rosa Conde e Bruno Galante, professors at IPAM Marketing School, came to the conclusion that the Portuguese population is increasingly consuming more «made in Portugal» products. The study refers that Portuguese products are attractive because they present high quality. Portuguese costumers prefer to consume Portuguese products in order to defend the Portuguese workers and industries. A large percentage of respondents in the study believe that consuming foreign products increases the numbers of unemployment in their country. Nowadays the Portuguese product is associated with quality, excellent quality-price ratio and adds value to buyers. The study carried out by *Centro de Estudos de Gestão e Economia Aplicada da Universidade Católica do Porto*, in the last edition of MICAM proves the improvements of the industry, showing the opinion of several foreign businessmen who classified the Portuguese shoe as of “great quality”, with “design”, “modernization”, “innovation” and “sexy” and giving evidence that the Portuguese shoe for women was better rated than the Italian.

The perception on the Portuguese product is changing. The rise in quality of the Portuguese products alongside with ground breaking business ideas, the development of Portuguese managers strategic know-how and the amount of notorious Portuguese businesses in international markets have helped to improve the perception of Portugal name.

5.3. Theoretical contribution

As Johansson (1985) describes there are a number of factors that have to be equated in the evaluation of a product: quality, price, guarantee, buying experience, raw materials and country of origin. Among these factors, one of the most subjective and difficult to analyse is the country of origin. The thesis identifies two main perspectives supporting the concept of the country of origin effect. The fundamentalist perspective (Schoolen 1965, Han 1989, Harrison-Walker 1995,) defends the importance of the country of origin in the buyer product evaluation. The skeptic perspective (Johansson 1985, Papadopoulos,

1993) confronts the fundamentalist perspective defending that the country of origin is just one of the factors that the buyers consider when evaluating and acquiring a product.

This thesis enhances the knowledge on the effects of the country of origin and how to work with it. The triangular models presented in the findings of the case studies, and the scheme presented in the literature review present a new optic on the variables of the country of origin effect. It helps understand that are various ways of working with the country of origin effect and that companies, depending on their sector and activities, will have to apply more effort to generate a positive country of origin effect. Sophisticated sectors have a harder path to a positive country of origin effect because they depend on factors like technological innovation and strategic planning. Traditional sectors will have an easier path to a positive country of origin effect, because they can take advantage of natural resources and conditions, which are not possible to replicate by competitors. Logically their product is exclusive and markets tend to associate the production country with quality products. The positive effect of the country of origin, for this case is more natural. A country constituted by a large number of traditional sectors has a better chance of having a positive country of origin effect, than a country mostly constituted by sophisticated sectors.

5.5. Managerial contribution

The improvement in the performance of Portuguese businesses internationally is obvious. Nonetheless, not everything is positive. Although the perception of Portugal and its business activities is much better, the lack of imagination and the tendency not to take risks by the Portuguese businessman is still a worrying sign. The Portuguese market is stagnated, the Portuguese business community is organized and dominated by small and medium companies whose goal is to survive on a monthly basis and believe that their financial resources should be channelled to equipment that can guarantee short-term financial gains. This uncertainty shines through the internationalization strategies of Portuguese companies. They prefer to take minimal risks and the businesses are made with the associated friction. It is extremely important that the Portuguese business mentality continues to evolve. The future should bring technological advances, support of start-ups, improvements on the contents

taught on universities (management, entrepreneurship) and participation in international fairs. This action should get international markets to know Portugal and help the name of Portugal produce a positive impact on its businesses. This thesis provides Portuguese businesses with examples of successful internationalization strategies, which will help prepare their own internationalization strategies. In the future, Portuguese businesses should invest on technological innovation, constant turnover and incorporation of qualified labour.

5.5. Limitations

The limitations on the elaboration of this thesis were the size of the samples of some of the studies consulted in the literature review. Small size samples can make some of the conclusions less reliable. Some of the conclusions withdrawn from the case studies are generalized. And although the country of origin effect is important for the Portuguese case, because it can negatively impact the country business activities, it is also true that some of the limitations of Portuguese companies like the know-how technique, financial resources and the lack of innovative spirit difficult the success of Portuguese businesses that want to go global. The 2014 edition of the *Estudo PME: Riscos e Oportunidades*, carried out by the Zurich insurance company, to senior management of Portuguese Companies, showed that only 13% of small and medium size Portuguese companies open up to exportation to foreign markets as a strategy to develop their businesses. Almost 32% of the companies make the reduction of the cost structure as the number one priority (proof of the traditional approach of Portuguese companies). The fact that only 13% showed a predisposition to explore new horizons shows, once again, that the country of origin effect is not the only factor that impedes the growth and globalization of the Portugal name and of Portuguese Companies.

5.6. Future Research

Future research should focus on investigating examples of well succeed Portuguese products on international markets, describe the changes on the perception of Portugal name and evaluate the impact of the Portuguese political and economic instability on Portugal country of origin effect.

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