Walkshoes and Ivory Trade: Two Export Networks in Portugal[1]

Luís Miguel D. F. Ferreira, Universidade Católica Portuguesa[2]

Abstract:

This paper reports research on two export networks, Walkshoes and Ivory Trade , that were financially supported by the Portuguese Business Network Program. This paper attempts to describe the use of export networks as a viable internationalization strategy for Portuguese SMEs, and to identify the principal factors that influenced the establishment and development of those export networks. The research involved a qualitative study of the two export networks. Presently only Walkshoes is operating in its target market (Poland), the other network is not developing any activities due the political instability in Ivory Coast. It was found that a strong market goal among the participating firms– the agreement about the target market, common market objectives and the long-term perspectives of the investment - played a very important, positive role in the establishment and the functioning of the export network. It was also found that grouping issues had a significant impact on the outcomes: (1) Group size; (2) Composition of the group, financial situation of the participating firms and owners' involvement; (3) Prior knowledge among the member firms and (4) the Broker's role.

Introduction

In the last decade, several countries, including Portugal, established business network programs to support SME growth and promote exports by brokering local networks of relationships between firms. The Portuguese Business Network Program (PBNP) traced the steps Denmark had taken with publicity, recruitment and training network brokers, as well as incentives to overcome firm's initial resistance to co-operation. Collaboration among SMEs is seen as a strategy for economic success. The Portuguese Business Network Program supported the creation of export networks and has taken a "supply-based" approach to the formation and operation of the export networks.

A Export Network is a set of connected business relationships among a group of industrial SMEs producing complementary/concurrent products, typically include 3 to six firms, that were brought together by a government agency or an industrial association, under the umbrella of the PBNP for the purpose of entering a specific foreign market where a clear market opportunity has been identified.

---

[1] The research reported in this paper was partially supported by the Portuguese Foundation for Science and Technology (FCT) REF – PRAXIS XXI-BD-16287-98.

[2] Escola Superior de Ciências e Tecnologia - Universidade Católica Portuguesa, R. Dr. Mendes Pinheiro, Nº 24, 3080-032 Figueira da Foz, Portugal, Tel. +35233428445/Fax: +351233428847, email luis.ferreira@crb.ucp.pt

The cooperation is mainly horizontal and the participating firms voluntary intend to develop a long-term and formal cooperation framework and share the objective of increasing their combined chances of export success in the selected target market. In this paper, research on two export networks – Walkshoes and Ivory Trade – financially supported by the Portuguese Business Network Program is reported. This paper attempts to describe the use of export networks as a viable internationalization strategy for Portuguese SMEs, and to identify the principal factors that influenced the establishment and development of those export networks.

The paper is divided into 4 sections. The first makes a bibliographic review about the concept of export cooperation. The section that follows discusses methodological issues related with this research. The third section presents the two exports networks and makes a discussion of the principal factors that influenced the establishment and development of those export networks. The last section presents the conclusions.

Export Cooperation

The internationalization process of small and medium firms is a long and demanding process. Given the problems and high failure rate amongst small and medium firms attempting to penetrate foreign markets (Rosson and Reid, 1987; Welch and Joynt, 1984) governments have utilized a wide variety of programs to encourage export development, including the use of different forms of export grouping schemes (Cavusgil and Czinkota, 1990; Seringhaus and Rosson 1990; Luostarinen et al 1994). One reason for this continued quest is that past approaches have been regarded as being of limited success (Kedia and Chhokar, 1986; Nothdurft, 1992).

It has been argued that the number of co-operative arrangements among small firms is relatively low (OECD 1997; Solberg and Welch, 1996). This may result from, for example, the lack of awareness of potential benefits (for example) or (to) the inability to get the process started (Wilkinson et al., 1998). In order to facilitate the cooperation among SMEs, several governments introduced different kinds of instruments to initiate and maintain cooperation among small firms (Solberg and Welch, 1996; Welch et al., 1996).

Interfirm cooperation has been suggested as one means to solve the problems mentioned (Welch and Joynt, 1987). Export cooperation is understood as an alternative strategy in small-business internationalization and the focus is on export cooperation among small independent firms jointly aiming at international markets (Nummela, 2000). Cooperating companies may either be competitors or offer complementary products. Export cooperation can be classified according to the depth of the cooperation and the integration of the activities (Welch and Joynt, 1987). In one side we have short-term cooperation (participation in trade fairs) and on the other side we have activities that require long term commitment and adaptation from the partners (system deliveries of complementary products). The research reported here is interested in projects that have a long-term nature, but are not system deliveries.

Welch and Joynt (1987) argued that the main benefits of export network operations result from size. The benefits are: the group is more visible in marketing impact; the group becomes more attractive to home based trade-support organizations and foreign agents/distributors; the network is a basis for mobilizing the separate export relevant skills within the group; allows spreading the cost and risk of exporting; produces economies trough the joint use of export facilities both at home and abroad, and increases the resources available to support the exports operations.

The few studies of export cooperation suggest that the advantages seem to fall in two main categories: resources advantages and managerial advantages (Nummela, 2000). Resources can be related to finance, skills and knowledge. The role of intangible resources, such as sharing experiences, learning, publicity, and increased credibility is also significant (Hovi, 1995). The benefit that has been mostly emphasised is partner's learning in different forms. Increased information flows create knowledge bonds between actors, and social linkages also become stronger (Welch et al., 1996). These knowledge and social bonds sometimes create economic bonds as well, such as reciprocal trade in the domestic market (Wilkinson et al. 1998; Hovi, 1995). The firms involved in export cooperation value new business contacts, opening up of opportunities in new markets and attracting of new customers (Holmund and Kock, 1998; Nummela, 1998; Wilkinson et al., 1998).

The analysis of export cooperation requires the identification of two simultaneously ongoing processes: the internationalization process related to the firm itself, and the cooperation process related to the export network of which the firm is part. The two processes may be identical or only overlapping. Welch and Joynt (1987) concluded that the success of export cooperation depends on performance in both areas. During export cooperation the partners coordinate their activities and a governance structure is created. This structure could be described as a network of partners[3]. However, the interpretation of export circles as networks is not straightforward: the number of partners is limited; the partners are not very dependent on each other, and the export groups are the result of explicit creation (Welch et al., 1996).

Export cooperation has not been extensively studied, and few empirical studies exist. The more recent publications on the topic have been theoretical articles (Welch and Joynt, 1987; Welch, 1992; Solberg and Welch, 1996), or articles presenting the results of empirical studies in Australia (Wilkinson et al. 1998; Welch et al. 1996; Welch et al. 2000) or New Zealand (Perry, 1999; Bell,, McNaughton and Bennett, 2000; Chetty and Patterson, 2002). In more recent contributions Tuusjarvi (1999) focused on group norms and the influence of individual interests in export cooperation, and Nummela (2000) analysed the concept of commitment to export cooperation.

Welch et al (2000), in a research on the first two joint action groups formed under the export grouping schemes initiated by the trade promotion authority in Australia, found that the group goal played an important, positive role in the functioning of the group. It was also found that group dynamic issues also appeared to have a significant effect on outcomes: group size, composition, and cohesion; along with an important facilitation role performed by the project manager for each project that was appointed by the trade promotion authority. The authors considered that the research needed to be extended, by examining similar schemes on a more widespread basis.

[3] See Hakansson, H., Snehota, I. (1995), "Developing Relationships in Business Networks", for a review of the IMP Network Model.

This paper attempts to describe the use of export networks as a viable internationalization strategy for Portuguese SMEs, and to identify the principal factors that influenced the establishment and development of those export networks. We want to understand if:

- The existence of a strong market goal had an important, positive role, in the establishment and development of the export networks;
- Grouping issues had an important, positive role, in the establishment and development of the export networks.

Research Method

The research conducted by the author is part of his PhD research project[4]. During the time of research only one of the networks was operating in the target market. Given the research emphasis on processes and the need to examine the operations of the export networks in depth, a qualitative case study approach was considered appropriate on this subject; see also (Yin, 1994). In this context, the case was the export network, with the phenomenon under study the formation and operation of each export network (Welch et al. 2000).

Multiple data collection methods were combined. The analysis of the cases was mainly based on primary data collected trough semi-structured interviews. The interviews were made with the person who represented the firm in the process, usually the owner or the commercial director, network brokers, personnel from IAPMEI (the public organization, dedicated to the support of Portuguese SMEs, that was responsible for the financial support of the export networks), and the "multipliers" (institutions that could see the benefits of networking and that had a multiplier effect by promoting the network concept to the business community). A total of 14 interviews were made. All interviews were tape recorded and transcribed, in order to increase the reliability of the data, as recommended by Hart (1991).

Archival sources were also consulted. Multipliers granted access to their archives, where documents concerning export networks are stored. Those documents were useful for verifying data and adding to the reliability of the results. These documents include memos of meetings, reports of progress, market research studies, correspondence among promoters and firms, and contracts.

Multiple data collection which made triangulation possible provides stronger substantiation of constructs and hypotheses. The aim behind triangulation is to capture a complete picture of the export cooperation process. It's assumed that the use of multiples types of data will uncover something that might have been neglected in a more simple research design (Jick, 1979). It has also been argued that different data-collection methods increase the validity of the findings in case studies (Eisenhardt, 1989; Jick 1979).

[4] See Ferreira and Hall Themido (2001) for a more complete description of the networks supported by the Portuguese Network Program during the period of 1997-2000.

Walkshoes and Ivory Trade: The Export Networks

The Portuguese Business Network Program (PBNP) followed the steps Denmark had taken with publicity, recruitment and training of network brokers, as well as incentives to overcome firms' initial resistance to cooperation. IAPMEI provided 100% funding for the feasibility stage and for the business plan preparations, mainly to pay the broker's time, a market research study and a financial viability study. The export networks were initially promoted by industrial associations that identified the opportunity of cooperation and the possible partners, and that gave administrative and legal support (meetings usually occurred in their headquarters). The two export networks will now be described and analysed in more detail[5].

Ivory Trade

In June of 1996, a group of 11 firms went on a trade mission to the Ivory Coast, and five of those firms considered that Ivory Coast could be an interesting market for the products they sold: alimentary and drinks. The trade mission to the Ivory Coast was the first contact with that market for all the five firms. The firms had a turnover varying from 2 million € to 18 million €, they were all in very good financial situations, there was already prior knowledge among some of the participating firms, and there was no direct concurrence between them. The main export market for two of those firms was Africa (Angola, South Africa and other ex-colonies of Portugal). Since some of the products were frozen and needed special storage conditions, an investment in a warehouse with special conditions had to be made. However it was an investment too risky and too large for just one or two firms. Those five firms have then decided to constitute an export network: "Ivory Trade".

When the PBNP started in 1997, this network was already developing contacts with the target market and searching for facilities. The PBNP supported financially this export network so that they could contract the services of a consulting firm.
The owners of the firms met regularly in the headquarters of an industrial association and they had the support of a consulting firm. The composition of the export network remained stable during the lifetime of the project.

Two more trips were made by the owners of two of the participating firms (those that speak French) and the consulting firm to find a warehouse, make contacts with local authorities and contract people to work in the warehouse. When the firms were preparing to buy the warehouse and start the operations, political problems surged and the project was suspended until political and safety conditions were stable. Unfortunately, instability remained until today.

The firms experienced a major disappointment. However, this experience has raised their awareness of interfirm-collaboration benefits. The major benefits reported by participating firms are: extended network of contacts, shared experiences, and acquisition of valuable knowledge about the internationalization process to African markets.

---

[5] In this PhD research project five exported networks, involving 26 firms, were selected for deeper analysis. But at the time of writing this paper only Walkshoes and Ivory Trade were already completely analyzed.

Walkshoes

The WalkShoes export network was created in February 1998. One firm – an industry and associative leader – showed interest to start operating in ex-communist countries (Poland, Hungary, Bulgaria and others). Two more owners (also associative leaders) stated immediately that they were also interested in that project. After that, invitations were addressed to another three firms carefully chosen. The number of participating firms was limited to six. The chosen firms were not competitors, they had a long history of friendship, were in a very good financial situations, and there was a great sense of trust among them. Their turnovers varied from 4 million € to 20 million €, and two of them had very large experience of internationalization processes. The person representing each firm was always the owner or someone else capable of taking quick decisions whenever necessary.

PBNP sponsored a market research study, which elected Poland as the target market. Poland was a new market for all the participating firms; they didn't have any contact with the selected market previously. There was consensus about the operation mode. They would sell their products using either a common label ("*Portugalia Shoes*") or their own labels. The products sold under the common label had to respect several rules and very tight quality controls. The firms' owners had a long term perspective. There was a written agreement stating that participating firms could only leave the project after three years of activity.

The multiplier and the network broker provided administrative and legal support to the network. A high level commitment was given by those two institutions, involving a large number of top-level professionals. This project turned out to be a demonstration project for the shoes and leathers industry sector. The broker has done virtually all the administrative work during the first two years, until the firms started selling shoes in Poland.

A first trip was made to Poland by the six firms' owners, the multiplier and the broker, with the purpose of trying to find a warehouse and get in contact with local lawyers, government authorities and possible clients. A second trip was made lately by two firms' owners to buy the warehouse. A warehouse was bought for 1.2 million €, each firm supporting 1/6 of the investment. This was a strong indication that those six firms were in fact committed to the network.

The next step was contracting a warehouse manager and additional investments were necessary. The total investment was higher then 2.5 million € of which 1 million € was supported by a government grant. The warehouse was inaugurated in June 2000.

The export network is currently operating and the firms are selling their shoes in Poland (on average Poland represents 1-2 percent of their income). They have invited eight more firms that produce shoes and other leather products to sell their products trough their network in Poland (they have to pay an annual fee). Besides the economic aspects firms also stated that it is a very positive experience, they shared experiences and gained valuable knowledge about the internationalizations processes to ex-communist markets.

Case Discussion

Based on the two export networks presented, a number of issues emerged and are now going to be discussed: the group size; the composition of the group; the financial situation of the participating firms; owners' involvement and prior knowledge among owners, the Broker's role; and the market goal.

There were a small number of firms involved in each export networks. In the Ivory Trade there were involved five firms, and in Walkshoes there were involved six firms. In both export networks the firms were also located in the same geographical area, so it was not difficult to combine and attend meetings. This seems to confirm previous studies suggesting that the possibility of disagreement increases with the number of cooperating firms (OECD, 1964). We can conclude that the small number of firms that participated in the export networks had a positive impact in their establishment and functioning.

In both export networks the firms were not competitors, they all had very good financial situations, there was owners' involvement since the first moment, and group composition remained stable. There was previous knowledge among some of the participating firms, and in some cases friendship relations. The owners usually attended the meetings and traveled together to the target market. We can conclude that the composition of the export network, the owners' involvement and the prior knowledge among some of the participating firms had a positive impact in the establishment and functioning of the export network

In both export networks the multipliers and brokers had given substantial secretarial, legal and logistical support in the establishment phase of the network. They organized trade missions and accompanied the firms in those trade missions, assisted in market promotion activities, collected and disseminated relevant information, and acted as a link between the networks and key government agencies in Portugal and in the target markets. The export network brokers acted as Project managers. Their role was judged essential to the establishment of the network. These findings also confirm the important and positive role played by the brokers in the establishment of the export network.

The chosen markets were, in both export networks new for all firms and the main goal was precisely to penetrate new markets. The chosen countries were not consolidated democracies with sophisticated market economies; the necessary investment represented a significant risk for all the involved firms. The firms' expectations were not very high and they had long term perspectives for the return of investment. In both export networks there was a very clear agreement about the choice of the target market and the mode of operation in those markets. The participating firms were committed to the project and they invested their time and money. This confirms that a strong market goal among the participating firms – there should be agreement about the target market, common market objectives and the long-term perspectives of the investment – played a very important positive role, in the establishment and functioning of the export network.

Conclusions

The analysis and discussion reported here of two Portuguese export networks financially supported by the Portuguese Business Network Program provides insights into the necessary requirements if those networks are to fulfill their objectives. The experience of these two networks seems to confirm the impact of the group goal effect in the establishment and functioning of the export network as was postulated by Welch et al. (2000). The agreement about the target market, the common market objectives, and the long-term perspectives of the return of investment had a very important and positive role.

Grouping issues also proved to be very important. Ignoring grouping issues can condemn to failure the export networks created by government programs. In the two export networks that were analyzed the number of firms involved was small, they were not competitors, all had a good financial situation, there was owners' involvement and in some cases friendship relations among them. All these factors seem to have avoided problems such as personality clashes and competitive behavior that could overwhelm the establishment and functioning of the export networks.

The broker also played a very important role in the establishment and functioning of the export networks. The secretarial, legal, and logistical support is critical in the establishment phase of the network, since the CEOs do not have the time and, in some cases, the necessary knowledge to prepare all the operation details. In this type of networks that were created by a government program it is very important to have the support of an outside agent that will act as a project manager in the first moments.

This research is based on the experience of only two export networks promoted by the Portuguese Business Network Program and seems to confirm the findings reported by Welch et al (2000). However, this research needs to be extended by examining similar export networks and by evaluating the learning and network development effects on the participating firms.

References

Bell, J., McNaughton, R. and Bennett, S. (2000), "Export Assistance 'The New Zealand Way", in. McNaughton, R. (Ed.), Advances in International Marketing: Developments in Australasian Marketing, JAI Press Inc., Greenwich.

Chetty, S. and Patterson, A. (2002), "Developing internationalization capability through industry groups: the experience of a telecommunications joint action group", *Journal of Strategic Marketing*, nº10, pp. 69-89.

Ferreira, L.M. and Hall Themido, I., "Export Networks as an Internationalization Strategy for Portuguese SMEs", 11th Nordic Workshop on Interorganisational Research, 17-19 August, 2001, Department of Industrial Marketing,Chalmers University of Technology, Göteborg, Sweden.

Holmund, M. and Kock, S. (1998), "Relationships and the Internationalization of Finnish Small and Medium-sized Companies", *International Small Business Journal*, nº 16, pp. 46-63.

Hovi, N. (1995), Outcomes in the process of interfirm cooperation: A case study of four subcontractors, Publications of the Turku School of Economics and Business Administration, Series D-3: 1995, Turku.

Kedia, B.L. and J.S. Chhokar (1986), "An Empirical Investigation of Export Promotion Programs" *Columbia Journal of World Business* 21 (4), pp. 13-20.

Nothdurft, W.E. (1992), *Going Global: How Europe Helps Small Firms Export*, Washington: The Brookings Institution.

Nummela, N. (2000), *SMEs Commitment to Export Co-operation*, Publications of the Turku School of Economics and Business Administration, Series D-3: 1995, Turku..

OECD (1997), *Globalisation and Small and Medium Enterprises*, Paris.

Perry, M. (1999), *Small Firms and Network Economies*, Routledge, London.

Pyke, F. (1994), Small Firms, technical services and inter-firm cooperation, Research Series 99, International Institute for Labour Studies, Geneva, Switzerland.

Solberg, C. and Welch, L. (1996), "Strategic Alliances for SMEs: A Path to Internationalization?", Proceedings of the 9th Nordic Small Business Research Conference, Lillehammer, 1996.

Tuusjarvi, E. (1999), "What makes an export group work? A study of SMCs export cooperation", Unpublished Licentiate Thesis, Department of Marketing, Helsinki School of Economics and Business Administration.

Welch, L. (1992), "The Use of Alliances by Small Firms in Achieving Internationalization", *Scandinavian International Business Review*, nº 1, pp. 21-37.

Welch, L. and Wiedersheim, P. (1980), "Initial Exports – A Marketing Failure", The *Journal of Management Studies*, October, pp. 333-344.

Welch, D. *et al.* (1996) (a), "Network analysis of a new export grouping scheme: the role of economic and non-economic relations", *International Journal of Research in Marketing*, nº 13, pp. 463-77.

Welch, D. *et al*. (2000), "An Exporting Grouping Scheme", *Journal of Euromarketing*, Vol 9, nº 2, pp. 59-84.

Welch, L. and Joynt, P. (1987), "Grouping for Export: An Effective Solution?", in Rosson and Reid (1987): Managing Export Entry and Expansion, Praeger, New York.

Welch, L. and Luostarinen, R. (1988), "Internationalization: Evolution of a Concept*", Journal of General Management*, nº 14, pp. 34-55.

Wilkinson et al., (1998), "Dancing to Success: Export Groups as dance parties and the implications for Network Development", *Journal of Business and Industrial Marketing*, Vol. 13, nº 6, pp. 492-510.

Yin, R. K. (1994), *Case Study Research*: *Design and Methods*, Newbury Park, CA: Sage Publications.