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THE RISE OF PORTUGUESE MULTINATIONAL ENTERPRISES (1980-2005)

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Abstract

This paper tries to make an assessment about the process of formation of Portuguese multinationals during the last quarter of century in the context of similar small emerging European economies.

The main question to be addressed is how much Portuguese peculiarities shaped the transnationalization process of the Portuguese economy in a different way, when compared to other European economies of similar size, which have also undergone the modern economic growth process during the second half of the 20th century and the privatization process during the last quarter of century.

The text focus on the consequences of two relevant facts for the Portuguese transnationalization process: the relative backwardness of Portugal, a latecomer to modern economic growth (a post WW II development, which only matured very recently along the terciarization process); the gradual evolution from import substitution policies (which protected firms from international competition and, eventually, made them less competitive abroad in the long run) to export-led growth.

At the same time, the paper tries to identify the typical expansion strategies of active transnationalisation, while the main cases of Portuguese multinational firms will be reviewed and put in the context of the ranking of the World multinationals.

Palavras chave: Multinational Enterprises

Classificação JEL: N84

Contents

1. Introduction

Research into multinational enterprises [MNEs] from a historical perspective has been an important area in the field of business history since the 1970s. It has developed under different theoretical approaches and already has a vast empirical work (e.g. Chandler, 1990; Dunning, 1993; Franko, 1976; Hertner and Jones, 1983; Jones, 2005a; Jones and Schroter 1993).

In this paper, we will try to make an incremental contribution to current research by adding a survey of MNEs in Portugal, a topic that has been persistently ignored by economic and business historiography. Castro (2000), Lopes (2005 and 2006), Nunes, Bastien and Valério (2006a), and Simões (1985, 1997 and 2003) are exceptions.

As a small, late industrialized country in the second global economy, Portugal has had only a minor impact on the dynamics of the global economy — even if some of its MNEs play an important role in specific markets — but it can present some relevant contributions towards a better understanding of established theories in their emphasis and scope. In fact, Portuguese MNEs have fewer local advantages than the long established MNEs, are smaller than most of those they compete with, and, as newly established MNEs, they face costs that do not affect long established MNEs. So, when joined together with other national cases, the Portuguese case-study can be relevant for making comparisons of MNEs in different geographical and historical settings and studying the representative behaviour of emerging MNEs in small and latecomer economies. National specificities relating to economic, institutional and cultural aspects will be underlined here as relevant factors for explaining when, why and how firms participate in investments abroad.

We will adopt the UNCTAD criterion for defining an MNE: a firm controlling at least a 10% equity share in at least one host economy. We will not take the number of countries in which a firm operates as a condition for classifying it as an MNE, as sometimes happens. The usual criterion of taking 6 host economies (Vernon 1971) as a minimum would actually reduce the Portuguese multinational enterprises to be analysed to a very small group of firms of reasonable size. Moreover, it would make international comparisons more difficult.

We will summarize the main aspects of the path of development followed by selected Portuguese firms in international business. We are dealing here with a subgroup of Portuguese non-financial multinational firms among the ones that take part in foreign direct investment [FDI]. The so-called 'pocket size' multinationals are considered to be outside the scope of this paper, as are the portfolio investment firms. We will take into consideration only the ten largest non-financial firms, classified according to the amount of foreign sales in their international business activities.

The paper is organized as follows. Section 2 summarizes some relevant theoretical approaches to the question of MNEs and introduces some qualifications to these. Section 3 underlines the impact of Portugal as a home country on the motives, strategies and performance of MNEs, especially the relevance of the privatization and transnationalization processes in the Portuguese economy in the last two decades of the 20th century and the early 21st century. Section 4 examines both the extent and the geographical and sectoral distribution of the investments of Portuguese multinational firms, as well as their modes of entry and their organizational and managerial features. Section 5 identifies apparent specificities of the Portuguese MNEs mentioned. Section 6 presents some tentative conclusions on the apparent specificities of the transnational process of Portuguese MNEs in the second global economy, drawn from the few case-studies under consideration.

2. Some brief theoretical remarks

A national case-study of MNEs must take into consideration the different theories concerning this type of firm in order to assess which of them seems to be best suited for explaining the transnationalization processes. In this particular case, such an assessment must not ignore the fact that Portugal is a 'latecomer investor'[1]. Actually, as in most Southern European economies, as well as in the emerging economies of Asia and Latin America, most Portuguese multinational firms only became established after 1980.

Neoclassical economics cannot be ignored as it is the mainstream economic school. Mainstream economics focuses its analysis on the market and the comparative advantages of nations when dealing with the international economy, but it is generally acknowledged that it is deficient in explaining the conditions underlying the success of individual firm competition, namely management and entrepreneurship. Attempts have been made to extend the application of the Heckscher-Ohlin setting to the multinationalization process of firms (e.g. Helpman and Krugman,

1 Jones (2005a) distinguishes three different categories of home economies based on their long-run path of development as foreign investors: 'persistent', 'erratic' and 'latecomer' investors.

1985). However, they have not been able to overcome some of its major drawbacks, even after increasing the complexity of the basic setting. The inherent abstraction of these deductive models and the fact that they do not take into proper consideration the nature and scope of the firm or the specific type of the home economy involved do not facilitate the detection of relevant differences in the patterns of multinationalization.

In the last few decades, some new theories have underlined new explanatory determinants of the multinationalitazion of firms. Transaction costs theory and the so-called knowledge-based theory are numbered among these. As these theories focus on one basic explanatory determinant, they seem to be too restrictive to be used in analysing the case of small latecomer investors. The former (e.g. Hennart, 1992) because it is particularly useful when there is a fragmentation of production activities and vertical integration, situations that are seldom found in the case of multinational firms based on small latecomer investors. The latter (e.g. Martin and Salomon, 2006) because it stresses technological and organizational innovation, while the growth of MNEs from investors of that kind is most frequently dependent on factors other than technological and organizational skills (Dunning, 1981). In fact, their basic elements are considered as relevant explanatory factors in more eclectic approaches, as is the case with the so-called OLI (Ownership, Location and Internalization) framework presented in Dunning (1981) and revisited in Dunning (1995).[2]

In view of its inductive nature and its eclectic approach, this framework seems to be particularly relevant for our purpose as it considers a wider range of factors behind a firm's capability and propensity for becoming a multinational enterprise. With some adjustments, it makes it possible to develop a consistent explanation for the emergence of MNEs in the case of latecomer investors. According to this framework, there are three types of relevant factors. The first type consists of the so-called *ownership advantages*, which concern the acquisition of specific skills by firms, namely technological, marketing, organizational and relational assets or financial skills, e.g., 'knowledge capital' (Brakman *et alii,* 2006: 91). The second type concerns the so-called *location advantages,* which determine the degree of attractiveness of host economies, assessed by the difference between the profits expected from exports and foreign production. National specificities in factor endowments, the relative size of markets, transport and communication costs, the degree of protection in host economies, infrastructure, national incentive policies to attract FDI, and cultural distance, are the main determinants considered under this heading. The third group of factors, *internalization advantages,* determines the firm's choice in regard to the transaction costs involved in different modes of entry, namely choosing between equity strategies (undertaking foreign

2 For a recent and well developed critical-view of these approaches see Jones (2005a: 7-15) and Brakman *et alii* (2006: 85-95).

production through greenfield investment, acquisitions or alliances) or non-equity strategies (licensing or franchising).

All types of factors are supposed to be present in the firms' multinationalization process. However, as suggested above, their relative weight differs according to the type of home economy within which MNEs evolve.

3. Portugal as a home economy: a general view

The home country's impact on the motives, organizational behaviour, strategy and performance of MNEs is generally accepted as a vital element to be taken into consideration in any research into the history of firms of this type. Three main aspects of the contemporary economic and political history of Portugal seem to be particularly relevant in this context.

The first aspect worth underlining is the fact that Portugal is a small, developed economy but was a latecomer to modern economic growth and, as noted above, a latecomer investor. In fact, it only sustained its economic growth after the Second World War, and especially after the 1960s, under relatively high — though diminishing — levels of internal and external protectionism and an export-led growth policy. When high levels of *per capita* GDP were reached, a sustained path of convergence towards the most developed European economies was followed[3]. Accordingly, Portugal became a highly developed economy in the last quarter of the 20th century and only achieved a mature stage in its development in the 1990s. This process inevitably implied a parallel process of late development in the case of its MNEs. Actually, if we adopt the five-phase model of Dunning and Narula (1996), which relates the level of *per capita* income of an economy with the level and direction of FDI, as a rule, capital exports flow mainly from highly developed economies to other highly developed economies and to emerging economies. The fact that only after 1998 did Portugal reach Dunning's stage 4 and thereby become a net outward investor (Castro, 2001: 183) seems consistent with its relatively backward process of economic development. Moreover, this fact does not mean that Portugal has reached a high level of competitiveness in the second global economy, as seems to be proved by the difficulties encountered in sustaining that stage in recent years4.

Another relevant and peculiar aspect of Portuguese economic and political history in the European context is the fact that Portugal remained a colonial power, with a large empire, till the

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3 This macroeconomic path was very similar to the ones found in other semi-peripheral European economies, namely Greece, Spain and Ireland (Maddison, 2001).

4 Another sign of Portugal's difficulty in competing abroad is the large and persistent deficit in its balance of trade, in comparison with most other nations that have reached stage 4.

mid-1970s. The main implication of such a situation is that some outward investment by mainland firms in the colonial economies took place from the 2nd half of the 19th century onwards under very different political, institutional and international business settings. Some of these were freestanding firms, others had very large concession powers, namely the chartered companies, while yet others enjoyed some kind of formal or informal privileged status. After the 1974 Revolution, the situation changed and the newly emerging flow of Portuguese FDI towards these economies stopped. Most of the subsidiaries were either nationalized by the emerging states or simply abandoned.

The last relevant particularity of Portuguese society is the relatively important economic role played by the State, particularly in the 1970s and 1980s. In fact, in 1980, a significant part of the Portuguese economy (roughly 23% of gross added value, 19% of employment and 43% of gross fixed capital formation) was under State control in the form of public enterprises. These were mainly the result of both the extensive process of nationalization which took place during the revolutionary period of 1974-76 and legal restrictions on the activities of private enterprises in several sectors that remained in force till the 1980s (Nunes, Bastien and Valério, 2004).

However, at the beginning of the 1980s, the political climate in relation to the public enterprise sector began to change in the world in general and in Portugal in particular. This resulted in new laws establishing the limits of the public and private sectors and ensuring an increasingly greater openness of the economy to private enterprise, leading at the end of the 1980s and thereafter to a massive process of reprivatization. In the fifteen years after 1990, nearly 200 privatization operations were undertaken involving the sale of nearly 150 enterprises. Portugal's accession to the European Communities in 1986 was certainly not unrelated to this turnaround (Nunes, Bastien and Valério, 2006b).

The privatization process and the liberalization of the capital market favoured the restoration, consolidation and formation of business groups, some of them strong enough to start, or resume, an outward process of transnationalization.

However, the general setting under which such developments have taken place in Portugal has not been very favourable to the acquisition of high levels of competitiveness. Firms, in general, have not been particularly skilful in profiting from natural resources, creating factor endowments, overcoming the size and characteristics of internal markets or making greater use of R&D and entrepreneurship — the national 'diamond' (Porter, 1989) — instead of depending on preferential government and personal connections to officials (Luo, 2002: 103). The macro-institutional environment designed by governments and the country's cultural attributes have also been blamed for this situation. In fact, in some industries, in spite of high concentration levels (which in the case of small economies may induce outward FDI), firms have operated in the domestic market under a quasi-monopolistic setting, being subject to only a very loose regulatory scheme. It is worth noting that active transnationalization was often undertaken by enterprises that remained under the control of the government, a scheme designed to reduce the initial risks of internationalization and attract private interests to the privatization process.

The overall picture is that Portugal was a net inward investor during the last two centuries and investment abroad, which was mostly speculative, was negligible except for a brief period after the First World War. Data available from the 1950s shows that the amount of Portuguese outward FDI during that decade remained insignificant. Portuguese firms investing abroad, frequently in alliance with foreign partners, were integrated into local economic groups. Such investments, involving a low level of technology in the agricultural and mining sectors, were concentrated in the territories under Portuguese colonial rule (Simões, 1985).

However, from the middle of the 1960s to the end of 1990s, there was sustained growth in the level of Portuguese outward investment while manufacturing, utilities, trade and banking became increasingly interesting activities for investing in abroad. The high levels of Portuguese emigration to many European, North American and Latin American countries since the 1960s had led to a significant geographical dispersal of investment outflows in banking, with most Portuguese banks opening branches and affiliates in those economies (Simões, 1985). After 1985, Portuguese outward FDI was directed mainly towards the other EU countries, with Spain being in an outstanding position. From 1995 onwards, Brazil became a very important host economy for Portuguese MNEs[5]. Nonetheless, in the 1980s, Portuguese FDI abroad was still at a low level, and its average value as a percentage of gross fixed capital formation (GFCF) was 1.1% in 1985-1995. In 1999, this value had risen to 10.2% (UNCTAD, 2005)[6].

Following the general trend, Portuguese outward FDI reached its peak in 2000, when it rose to 25.4% of GFCF, becoming more and more concentrated in services[7]. Note that, in 1997, the Portuguese government adopted a systematic policy for the internationalization of Portuguese firms, which was reversed in 2002. In 2004, the outward flow of FDI as a percentage of GDP reached

5 Portuguese FDI flows abroad by geographical destination: 2000. Millions of euros and percentage

TOTAL	8 309.2
EU	36.8%
(of which, Spain)	(27.2%)
Brazil	33.4%
Africa	12.3%
Others	17.5%

Source: UNCTAD 2004 and authors' elaboration

6 According to Mendonça (1997), Portuguese FDI abroad at the beginning of the 1990s amounted to 0.7%-0.8% of GDP, and only in the second half of this decade did it reach values above 1% of Portuguese GDP.

7 According to UNCTAD (2005: 309), the share of services in total outward flows of FDI in 2002 was 95.4%.

3.7% and the *Outward FDI Performance Index 2002-2004* ranked Portugal in 15th place among 128 countries (UNCTAD, 2005)[8].

4. Portuguese multinational enterprises: exploiting opportunities

At the beginning of the 21st century, Portugal had about 600 parent corporations with 3000 foreign affiliates out of a world total of 70 000 and 700 000 respectively (UNCTAD, 2005: 264).

According to the most recent data available, the situation of the most important non-financial Portuguese MNEs is as follows[9]:

8 The Outward FDI Performance Index 2002-2004 is calculated as the share of a country's outward FDI in World FDI expressed as a ratio of its share in World GDP.

9 For more information on the cases of Portuguese banking and insurance MNEs, see Nunes, Bastien and Valério (2006).

Table – The top 10 Portuguese non-financial MNEs in 2004, ranked according to foreign sales

MNE	Industry	Initial year of multinationalization	Host economies	Foreign sales (10^6€) / % Total sales	Foreign empl / % Total empl.
Portugal Telecom	Telecommunications	1991	Angola – Botswana*** - Brazil – Cape Verde- China - East Timor – Guinea-Bissau - Kenya - Morocco – Mozambique – SaoTomé	4 100 / 29.0	10 000 / 38.5
EDP	Electrical utility	1997	Brazil - Cape Verde - China – Guatemala - Spain	1 793 / 25	5 183 / 32.0
Galp Energia	Petroleum refining / distribution Crude oil prospecting	1993	Angola – Brazil - Cape Verde – Guinea Bissau - Spain – Mozambique	1 539 / ..	727 / ..
Sonae Indústria	Wood based industries	1975	Argentina - Brazil - Canada – France - Germany – Japan - Netherlands - South Africa – Spain - Switzerland – United Kingdom	1402 / 88.7	4 644/81.3
Jerónimo Martins	Retailing	(1949)* 1995	Poland – Brazil*** - United Kingdom***	1 059 /30.0	11 883 / 41.0
Inapa	Paper wholesale trade	1992	Belgium - France – Germany – Italy - Luxembourg - Spain – Switzerland - United Kingdom	1 006 / 94.5	.. / ..
Modelo Continente	Retailing	(1985)* 1995	Brazil***	997/37.6	20471 / 53,3
Cimpor	Non-metallic mineral products	1992	Angola - Brazil – Cape Vert - Egypt - Morocco – Mozambique – Spain - South Africa - – Tunisia	856 / 63.0	4040 / 71.0
Mota-Engil	Construction / Public works	2000**	Angola – Argentina - Benin – Chad - Czech Rep. – Hungary – Mauritius - Mozambique – Netherlands - Peru – Poland – Romania – Sao Tomé - Slovakia - Spain – USA - Venezuela	196 /16.8	3106 / 23.0
Teixeira Duarte	Construction / Public works	1978	Algeria - Angola – China – Mozambique – Spain – Venezuela	159 / ..	3090 / ..
TOTAL				13 087/..	63 144/..

* International joint venture operating in Portuguese domestic market.
** Before Mota-Engil was created in 2000 both companies were MNEs. Mota & Companhia since 1975 and Engil since 1978.
*** Now closed or sold.
Note 1: Financial firms are not included because of the different economic functions of the assets of financial and non-financial firms and the non-availability of relevant data in the case of the former.
Note 2: Foreign sales include sales of he foreign affiliates of MNEs, as well as exports from parent firms.
Note 3: .. means 'not computed'.
Source: Nunes and Carvalho (200)5 and authors' elaboration

The ten MNEs included in the table cover eight different industries and diverse groups of host economies, suggesting different internationalization patterns.

Portugal Telecom (PT)

Portugal Telecom was created in 1994 by bringing together the nationalized firms in the telecommunications sector. Its privatization process started in 1995. This process was successfully completed, but the Portuguese government was to retain golden shares in order to ensure alleged Portuguese public interests.

Its first step towards internationalization was taken when it took control of the Brazilian Mobitel firm in 1991. PT became engaged in significant crossborder activities in 1998, with the partial acquisition, during the privatization process, of Telesp Celular and some other communication firms in Brazil. In spite of the support of important Portuguese banking institutions, the financial burden of this operation led PT in 2002 to accept a joint venture with the Spanish firm Telefónica. They are now joint (50/50) owners of Brasilcel/Vivo, the main South American mobile operator. PT has recently been facing serious difficulties in this market (Fonseca, 2003).

PT has also established affiliates in the PALOP[10] countries, as well as in other African countries, namely in Morocco in a joint venture with the Spanish firm Telefónica. In the Far East, it has established operators in China (Macao) and East-Timor. In all, PT owns 24 affiliated firms in host economies.

This internationalization process involved many changes in governance, including in particular the creation of separate firms in Portugal to control those investments in different areas (PT Investimentos Internacionais and the sub-holdings Asia PT and Africa PT).

Energias de Portugal (EDP)

EDP is a producer and distributor of electricity, formed in 1976 after the nationalization of the main firms in the energy sector in 1975. This firm, which resulted from the merger of the previously existing Portuguese electricity firms, was privatized after 1997. However, as in the case of PT, the Portuguese government was to retain a golden share in order to preserve Portuguese public interests.

EDP has engaged in a number of crossborder activities since 1997. Again, the main target has been Brazil. EDP came to control two producers and distributors of electricity through its affiliate Energias do Brasil. It established some local alliances for the building and exploitation of

10 Acronym for Portuguese-speaking African countries. It comprises Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé and Príncipe.

hydroelectric plants, in particular as a partner of Petrobrás. A second target of EDP was Spain, where in 2001 it acquired Hidrocantábrico, a firm that ranks fourth in the Spanish energy market — representing the largest acquisition of a Portuguese firm in Spain — and Desa, a firm whose business is renewable energies. Cape Verde, Guatemala and China (Macao) have also played roles as minor targets.

Galp Energia

Galp Energia is basically a refiner and distributor of oil derivatives and natural gas, having been created in 1999 through the transformation of Petrogal (and two other companies). Petrogal was formed in 1976 after the direct nationalization of the four main firms in the energy sector in 1975. It was privatized after 1997. However, the State retained a golden share, which disappeared in 2005, although some degree of State control has been retained as part of an informal agreement[11].

In 1993, Petrogal engaged in some crossborder movements, namely in Spain, where Galp Energia España operates in the oil distribution sector. The initial aim was to exploit the location advantage deriving from the existence of two refining plants in Portugal.

Other host economies were the Portuguese-speaking African countries, Cape Verde, Guinea-Bissau and Mozambique. The firm has no refining units outside Portugal, with its business being mainly conducted through commercial affiliates.

Galp Energia represents a rare case of international vertical integration. It is now improving its position in crude oil prospection and extraction in Angola and Brazil, with its refining units in Portugal and a number of commercial affiliates outside.

The internationalization process led to the creation of a specific department — Internacional África — for the planning, control and current management of international businesses.

Sonae Indústria

Sonae Indústria is, and has always been, a private firm. It was created in 1959 and its core business is timber production and processing. It is now a sub-holding of the important conglomerate Sonae Group.

The transnationalization of Sonae Indústria started in 1975 with the creation of a first commercial affiliate in the United Kingdom (Sonae UK). The internationalization process took a step

11 Some important firms in the energy sector, such the French firm Total, Saudi Aramco and Angola Sonangol, were intended strategic partners at different moments in the privatization process with poor results. ENI is nowadays the strategic partner of Galp.

forward in 1988 with the acquisition of Spanboard in North Ireland, and was pushed even further forward in 1993 with the acquisition of Tafisa, in Spain, a rather important industrial firm (Silva, 1997). The acquisition of the German firm Glunz in 1998 significantly increased the size of Sonae Indústria, and the recent acquisition of Hornitex, in Germany, has turned Sonae Indústria into one of the most important Portuguese international firms — in 2004, about 90% of its total sales were made abroad — and a world leader in the wood industry.

Nowadays, it has over 30 plants in 11 different countries, most of them in Europe, but also in the USA, Canada, Brazil, South Africa, Zimbabwe and Japan. It is worth underlining that the main motive for Sonae Indústria entering the Japanese market, in partnership with Sumitomo Forestry, was to gain further know-how about the production of MDF (medium density fibreboard).

It is probably the only Portuguese MNE that is close to operating with a global strategy, though its management is very concentrated in the home economy. Currently, only in Brazil and Canada can separate management staff be found. Meanwhile, the firm remains under family control.

Jerónimo Martins

Jerónimo Martins is a private, family-controlled firm, created two centuries ago, whose core business has been retailing. It started its active transnationalization process in the mid-1990s, when, after a number of local acquisitions, it established affiliates in England (Lillywhites), Brazil (Supermercados Sé and Supermercados Santo António), and Poland (Eurocash and Biedronka). However, disappointing results led Jerónimo Martins in 2002 to divest in the two former host economies and to sell Eurocash in Poland. Now it remains exclusively in Poland, where, since 1997, it has exercised control over Biedronka, a supermarket chain comprising more than 800 supermarkets. It is the absolute market leader there, with a share of 35% of total sales. Recently, it entered the pharmacy business with another joint venture in Poland, Bliska Aptek.

In Portugal, besides retailing, Jerónimo Martins became involved in the wholesale business, and in the industrial production of margarines, oil milling, frozen products and ice cream. These activities were a consequence of the joint venture originally established in 1949, and frequently renewed, with the Anglo-Dutch firm Unilever (Jones, 2005b: 308). Some years later, Jerónimo Martins established other joint ventures: in 1985 with the Belgian retail chain Delhaize 'Le Lion' and, during the first half of the 1990s, with the German firm Douglas Ag (bonbonerrie), with the English firm Booker Plc (food wholesaling) and with the Dutch company Royal Ahold (food retailing).

These inward relations were crucial in enabling Jerónimo Martins to gain important knowledge advantages before significant outward investment was made (Simões, 1997).

Inapa

Inapa was created in 1965 as a paper producer and was partly integrated into a pulp production firm (Socel). The latter was nationalized in 1975 and consequently Inapa became partially (30%) a State-owned company. In 2000, Inapa abandoned its industrial activities and dedicated itself exclusively to the distribution of paper. Its main markets are in 9 developed countries of the European Union, where it sells 94.5% of its total output. It has become one of the European leaders in this business. Its mode of entry into the international market was through the acquisition of local distributors, a procedure that was started in 1992.

Inapa has autonomously gained some ownership advantages in the form of technological innovations, e.g. robotized warehouses and automatic stock management.

Relatively decentralized management was the choice adopted by Inapa. Inapa França, for instance, manages the firms located in Belgium, Italy and Luxemburg.

Modelo Continente

Just like Sonae Indústria, Modelo Continente belongs to the Sonae group, the biggest private group in Portugal. Modelo Continente was created in 1985, when the aforementioned group decided to diversify its activity by entering the retail sector and establishing a joint venture with the French firm Promodés in order to set up a supermarket chain in Portugal. This alliance proved to be important for understanding this business and acquiring new management skills, as well as for the subsequent internationalization process (Simões, 1997).

In 1995, with the acquisition of 50% of the firm CRD, this Portuguese firm crossed borders into Brazil, replicating its core business in Portugal. Three supermarket chains (BIG, Nacional and Mercadorama) began operations there.

In 2005, after a period of rapid expansion, Modelo Continente divested in the Brazilian retail market by selling its assets to the American Wal-Mart chain, thereby ceasing to be a MNE. Too high interest rates were the main reason invoked for pulling out of the market.

Like the whole Sonae group, the firm remains under family control.

Cimpor

Cimpor was created in 1976 as a result of the nationalization and reorganization of 7 firms from the cement sector, being fully and successfully privatized between 1994 and 2001.

Meanwhile, in 1992, Cimpor, still a State-owned firm, acquired Corporación Noroeste in Spain, seeking to gain greater know-how in the world of international business before undertaking any further crossborder movements. In fact, from 1994 onwards, an active transnationalization process led to the establishment of production units in consumer markets in order to reduce transport costs, which formed a large part of the final consumer cost. The fact that Cimpor had large financial resources allowed for a rapid, geographically diversified acquisition process, taking advantage of the privatization processes being carried out in several host economies. The firm set up 19 industrial plants abroad, in 9 host economies, namely Brazil, South Africa, some Maghreb countries and ex-Portuguese colonies. It is now in the top ten of the world's largest cement producers.

In terms of its organizational structure, Cimpor created a sub-holding — Cimpor Internacional — to undertake the global coordination of all its affiliates abroad, and adopted a strategy of local adaptation, which is common practice in multinational cement enterprises.

Nowadays, Cimpor is controlled by Teixeira Duarte (see below) after a process of domestic vertical integration promoted by the latter.

Mota-Engil

Mota & Companhia was a family firm created in 1946 to operate in Angola and has been involved in the construction and public works sector since 1948 as a freestanding company. In 1976, this firm centred its main activities in Portugal. Meanwhile, Mota & Companhia decided to invest in African economies, including Angola, but mainly in the Eastern European economies — a location that became the privileged host area for Mota-Engil — after its first acquisition in Poland in 1996.

Engil was also a small firm, created in 1952, with a long operating experience in South America, having been in Venezuela since 1978 and more recently in Argentina and Peru (in a joint venture with Mota & Companhia), and in African markets, namely in Angola, where it had been operating since 1978.

In 1999, Mota & Companhia launched a successful bid to take over Engil. This operation led to the formation of the Mota-Engil Group in 2000. Within a few years, it became the most important Portuguese multi-market MNE in the construction and public works sector, operating in 2004 in 17 host countries, either through acquisitions or greenfield investments. From then on, an aggressive process of internationalization led this firm to engage in further geographical diversification. It is now operating in 24 host economies (Santos, 2006: 162), although the firm has pulled out of the market in some countries in the meantime, namely Bulgaria.

Teixeira Duarte

Teixeira Duarte is a building and public works firm created in 1921. In spite of being transformed into a joint-stock company in 1987, it continues to be family-controlled. Meanwhile, it has become the most important shareholder in the abovementioned Cimpor.

A sustained internationalization process was started in Angola in 1978. Now Teixeira Duarte is organized as a group that still maintains building and public works as its core business, owning 23 affiliates, including those in Spain, Mozambique, China (Macao) and Venezuela.

Unlike the other Portuguese MNEs under consideration here, Teixeira Duarte does not have an international unit, but instead has different divisions for each geographical area. Efficient coordination and control structures are apparent in the firm's running of its business, as well as a reduced autonomy for the affiliates, especially with regard to financial matters (Bugalho, 2004: 134).

5. Portuguese multinational enterprises: some specificities

The table and the notes above concerning the top-ten Portuguese MNEs show some aspects that are worth highlighting.

The creation of these firms is a recent phenomenon. In most cases, their appearance is related with the recent post-1980 globalization phase of the world economy. They are small MNEs by international standards, as none of them is included in the Fortune Global 500. Rarely do they display a long history, however limited, of multinationalization. The process of active transnationalization initiated by Sonae Indústria in 1975 is the most precocious of them all. Before this date, only the passive transnationalization of Jerónimo Martins had started in 1949. Internationalization has therefore been a gradual process. There are no cases of 'instant multinationals': none of those ten firms was born 'global' or even became 'global', in the sense of exporting to the world market from host economies in keeping with a global strategy. With the exception of Sonae Indústria and Modelo Continente, both of which belong to the Sonae conglomerate, the other firms mentioned in this sample form part of more specialized groups, which seems to be a sign of modernity (Amsden and Hikino, 1994).

Cases of an autonomous development of ownership-specific advantages, especially technology, are rare. In the absence of any proprietary technology that could be exploited — Portugal and Portuguese firms in particular devote meagre resources to R&D — project execution skills that were generated in-house became a major source of competitiveness, as is usual with latecomers (Amsden and Hikino, 1994). The Portuguese construction industry and the public works sector enjoy worldwide recognition as a result of the skills accumulated in Portuguese civil engineering since the Second World War due to the effort displayed in the building of domestic infrastructures in the 1950s and 1960s, and again since the 1980s.

Exceptionally, access to the knowledge, namely in the form of technology, needed to gain ownership advantages seems to have been the main opportunity exploited through outward FDI, leading to cases of international cooperation. This is the case with Sonae Indústria. The need to acquire commercial and management advantages before engaging in crossborder activities was also a relevant cause for alliances in the home market, as illustrated by the case of the two firms in the retailing sector.

Collaborative arrangements also seem to have been a way of overcoming capital shortages, as happened in the case of the alliance of Portugal Telecom with the Spanish company Telefónica in Brasil.

Several of these firms started their outward movement from monopolistic or oligopolistic positions in the small home economy. So, it is not surprising that their main motivation for crossing borders was to overcome the small size of the Portuguese market, entering or consolidating their position in markets abroad in order to be able to expand their business. This is the case with most of the MNEs included in the table above, particularly Cimpor, Portugal Telecom and Energias de Portugal. The perception of market opportunities, the possible consequence of a period of sporadic international activities, was another motive for outward FDI. Mota-Engil's entry into Central and Eastern European markets is an apparent example of this.

The reduction of transport costs, which represent an important share of the final consumer cost in industries such as cement, was another reason for establishing production units abroad. The case of Cimpor again stands as an example.

The opportunity to exploit cheaper labour or specific natural resources abroad was apparently rare, but the expansion of Sonae Indústria to Canada (via Tafisa) may be an example of this. Again, there is no significant outsourcing to low-wage countries by these Portuguese MNEs.

Cultural distance seems to be the most important factor in determining the location of the investments made by Portuguese MNEs abroad, as the preference for PALOPs and Brazil suggests. Cultural and geographical distance was a major determinant behind investment in Spain. Perceived weak ownership advantages have prevented Portuguese MNEs from becoming more evidently directed towards the more sophisticated markets of the EU countries (Castro, 2000: 148).

Internalization advantages were not exploited as most of these firms adopted horizontal integration. Normally, they created replicas of the parent firm, operating with technological and management systems similar to the ones used in the home economy. Cimpor, Mota-Engil and Teixeira Duarte are examples of this strategy. In the case of Galp Energia, there was no delocalization of production, but only the creation of commercial subsidiaries. As a consequence, there has been no significant outsourcing by Portuguese MNEs.

Acquisition was the most common mode of entry into host economies, taking advantage of the privatization process occurring in several of them. Cases of greenfield investment were only significant when the home economy was an ex-Portuguese colony. Strategic alliances were not often chosen in order to cross borders. The already mentioned alliance of Telecom Portugal with Telefónica seems to be the only relevant exception to this.

In the case of those firms for which information is available, organizational changes induced by transnationalization led, in most cases, to the creation of an international department and centralized control over their affiliates, namely in terms of finance, know-how, new processes and new products. This pattern seems to fit in with the coordinated federation type (Bartlett and Ghoshal 1989). The limited supply of managers and cultural features that were detrimental to labour mobility, as well as a lack of the necessary organizational and financial capabilities, may account for this management pattern. In any case, the way the situation has evolved is far from clear.

The role of the State in transnationalization must be underlined. As a result of the nationalization process of the 1970s, most important companies were still under some kind of State control when they started to cross borders. This was the case with Portugal Telecom, EDP, Galp Energia, and Cimpor. In the other cases, even if they benefited from government incentives, transnationalization took place in firms that were under family control. This was the case with Sonae Indústria, Jerónimo Martins, Modelo Continente, Mota-Engil, and Teixeira Duarte. None of the top-10 non-financial MNEs is a foreign-controlled firm, in spite of the important participation of the Italian firm ENI in the equity of Galp Energia.

6. Concluding remarks

This brief analysis of the 10 largest Portuguese non-financial MNEs has shown the sequence in the evolution of MNEs in a latecomer economy, leading to the general conclusion that perceived location-specific advantages were the determinant factors behind their outward FDI flows.

In fact, the motivation for most of those firms engaging in crossborder activities was the need to overcome the small size of the Portuguese market, reduce transaction costs, particularly transport costs (e.g. FDI in Spain and North African countries), and profit from the low communication costs inherent in a short cultural distance — i.e. language similarity — (e.g. FDI in the Portuguese ex-colonies, including Brazil). However, it seems that these advantages were not sufficient to sustain and expand this process. When faced with relatively demanding and competitive markets, Portuguese MNEs endured financial setbacks of varying degrees of seriousness that led to situations of divestment (e.g. the two retailing firms in Brazil and England). Currently, Portugal Telecom in Brazil finds itself in a precarious situation, threatened by the very strong competition of more efficient foreign firms.

Ownership-specific advantages seem to be a weak, if not a distorted, motive for investing abroad, however essential this may be for sustainability. None of these firms show a significant trajectory of development based on R&D, and some of them actually entered into highly developed markets in order to acquire know-how and technological skills (e.g. Japan). Even when Portuguese MNEs profit from these kinds of ownership advantage, the host economies involved tend to be relatively less developed than the home economy (e.g. African countries) and the sectors in question are relatively less capital-intensive (e.g. construction and public works). Poor entrepreneurship and weak management, a general feature of the Portuguese economy, is a further handicap that seriously impedes the gaining of ownership advantages, and, unfortunately, government efforts to improve this situation seem to have been fruitless.

Internalization-incentive advantages have also been limited. Subsidiaries are basically engaged in service activities. Delocalization of the production of intermediary goods and vertical integration seem to be far too complex for the management capabilities of the great majority of the largest Portuguese MNEs.

It is not clear if Portuguese firms will succeed or if they will fail due to their lack of technological and managerial skills. In 2004, they had not yet entered into the most dynamic and competitive Asian emerging markets. Moreover, none of these firms has succeeded in creating a global brand appeal. No wonder that, in spite of explicit political support for the internationalization of domestic firms, they have not yet been able to play an important role in helping to turn Portugal into a major player on the international scene.

However, in spite of the many widely acknowledged fragilities of Portuguese firms in international business, the small size of the Portuguese economy and its relatively high level of development mean that Portugal ranks highly in terms of its outward FDI performance in the international context. In fact, if we look closely at the outward FDI performance index for 2002-2004, where Portugal ranks in 15th place, 10 out of the 14 economies ranked above Portugal are also very small economies, either highly developed European countries or emerging economies.

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