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# Internationalisation Processes in Small and Medium Enterprises of the Agrifood Sector in Portugal

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**Abstract.** During the last years we have observed in Portugal, as in the most of the European countries, an accentuated development concerning the internationalisation of the agri-food sector. As a result a better competitive capacity is expected together with the technological reconversion of Portuguese enterprises, an improved organisational capacity of their managers as well as aggressivity in the external markets. The internationalisation of enterprises, particularly of small and medium enterprises, may cause the development of their strategic capacity. The agrifood sector is analyzed using four main topics: the recent evolution of the sector, the growth of the agrifood industry, the relative importance of the internationalisation process and the entrepreneurial and governmental strategies for internationalisation. The study allows to open the discussion on the importance that foreign capital has in the Portuguese SMEs and in the exports value of the Portuguese agri-food sector, considering some sub-sectors in particular. We are able to conclude that there is a growing interest of the agrifood European industry in the portuguese SMEs, specially in those producing for the internal market. Further, conclusions could be arrived at regarding the growing capacity of a few large enterprises to export parallel to a decreasing participation of the "traditional" SMEs. They need to enter reconversion processes in order to improve specificities of the product and find niche markets.

**Keywords.** Internationalisation – Agrifood sector – Small and medium enterprise – Portugal.

**Résumé.** Au cours des dernières années, un développement accentué de l'internationalisation du secteur agro-alimentaire a eu lieu au Portugal comme dans la plupart des pays européens. On en attend un accroissement de la compétitivité, une reconversion technologique, une amélioration des capacités organisationnelles des chefs d'entreprise ainsi qu'une agressivité sur les marchés extérieurs. L'internationalisation des entreprises, en particulier des petites et moyennes, peut être à l'origine du développement de leur capacité stratégique. Nous analysons le secteur de l'industrie agro-alimentaire en nous basant sur quatre approches : l'évolution récente dans ce secteur ainsi que sa croissance, l'importance relative du phénomène d'internationalisation et les stratégies d'entreprises et gouvernementales pour cette internationalisation. Cette étude permet de montrer l'importance des capitaux étrangers dans les PME portugaises et dans la valeur des exportations agro-alimentaires. Nous sommes en mesure de conclure qu'il existe un intérêt croissant des industries agro-alimentaires européennes pour les PME portugaises, en particulier pour celles produisant pour le marché intérieur. En outre, quelques grandes entreprises augmentent leur capacité à exporter alors que la participation des PME à l'exportation diminue, entraînant leur nécessaire reconversion afin d'améliorer leurs spécificités et de trouver des créneaux porteurs.

**Mots clés.** Internationalisation – Secteur agro-alimentaire – Petites et moyennes entreprises – Portugal.

## I – Introduction

In recent years an accentuated internationalisation of the agrifood sector has been observed in Portugal as in most European countries. For Portugal, such a process is particularly important if we consider that the requirements for convergence towards the other countries of the European Union impose a rapid growth of productivity and internal production to the economic system. An increase in the competitive capacity is expected and, consequently, technological reconversion of the enterprises, improvement of the organisational capacity of their managers and aggressivity in the external markets are fundamental to the process of structural change in Portugal. The entrepreneurial network is, however, characterised by a very large number of small and medium enterprises (SME) of which the operational methods still do not indicate a strategic capacity able to create such a basis. The internationalisation of the enterprises, particularly the small and medium ones, may cause the development of such strategic capacity. Analysing it, therefore, becomes an important task.

## II – Recent evolution of the sector

### 1. Consumption patterns

In this analysis, food consumption development as a result of the changing social and economic factors in the last decades in the Portuguese society will be our departure point. In the last thirty years, the active population in Portugal has shifted from agriculture to industry and then to the services sector. The structure of the employed Portuguese population in 1993 was the following: 12% in the primary sector, 32% in the secondary sector and 56% in services. The consequences of urbanisation and income growth explain a development in the consumption pattern tending towards a loss of the characteristics of a Mediterranean traditional pattern and acquiring those of a European pattern. In this transitory phase, attention should be paid to the still existing very distinct behaviours in urban and rural areas where the autoconsumption level is generally high.

Noéme (1993) described the development process in the consumption pattern for the period 1960-1980, dividing products according to four groups:

- those whose consumption increase was big: milk (+181%); meat (+151,4%); and cheese (+96,5%);
- those with less increases: oil and fat products (+88,2%); sugar (+62,7%); eggs (+43,2%); and fish (+18,5%);
- those that suffered almost no alterations: fresh horticultural products (+8,4%); and cereals (+1,2%); and
- those whose consumption decreased: wine (-36,9%); legumes (-14,7%); and potatoes (-4,1%).

Parallel to this new consumption pattern, the structure of Portuguese agriculture and the different commodity systems seem to be unable to respond to the changing preferences of the population. Traditional and inflexible agriculture, fragile and inefficient producer groups or farmer associations, almost non-existent marketing circuits, lack of investments in technologies for research and development are responsible for this situation. At the same time, it is evident that the international concentrated big distribution firms see an opportunity in the Portuguese changing consumption pattern and have developed strategies to enter it without any concern about the existing agricultural structure that is in itself unable to meet the demanding requirements of those enterprises. Therefore, Portugal faces, among others, a disequilibrium between the production structure and the distribution system, two interrelated phases in which informational flows should play an important role. In our opinion, it is this disadjustment that contributes most to increase the already high negative trade balance of Portuguese agricultural products.

### 2. Evolution of imports of agrifood products

For the period 1988-1992, the trade balance for agricultural and food products accentuated its deficit from 199,1 (10<sup>9</sup> PTE) to 312,4 (10<sup>9</sup> PTE). *Table 1* shows the main components of this evolution during the period considered. Imports of fish, cereals and meat in 1992 accounted for about 226,215 (10<sup>9</sup> PTE), which was about 72,4% of the total negative balance. Moreover, imports of horticultural products and sugar also had accentuated increases for this four-year period.

## III – Growth of the agrifood industry

### 1. Main industries in the sector

The main subsectors of the Portuguese agrifood industry, considering the values of production for 1991 (*Boletins Mensais de Estatística*, 1988-91), are production of animal food, dairy products, processed-meat products and wine production. *Table 2* describes values of production of the eight most important branches from 1988 to 1991. A great expansion can be observed in the industries related with non-alcoholic drinks (106%), processing of fruits and other horticultural products (86,5%), dairy products (86,3%), malt and beer industry (60,8%) and processed-meat products (50,8%).



## 2. Patterns of exports

In some cases internal production increases may result from improvement in trade conditions. Some of the above referred subsectors have increased their exports for the period 1988–1992. This is the case for horticultural and fruit products, with elevated growth rates, and for industries related to fish and seafood (fresh or frozen), fish conserves, wine and animal or vegetable fats in which medium growth rates can be observed. *Table 3* gives data for the main exports of the agrifood sector during this period.

## IV – Relative importance of the internationalisation process in the sector

In recent years, most of the enterprises in the European agrifood sector modified their strategies in order to increase the export of their products. They have changed their “multinational” decision basis (the offered products, also those exported, are adequate to the consumption of the national markets) to what can be called a “global” decision strategy (productive units from international enterprises specialise in different countries on very specific products for the international markets) (Castañe, 1993).

In Portugal, it is important to distinguish that internationalisation is a new concept taking place simultaneously in two very different ways:

- the integration of Portuguese firms in the formation of European groups, which requires high levels of Portuguese investments in foreign markets or, at least, interesting export quotas of certain products (multi-national strategies); or
- the entrance of foreign investment in Portugal with the only goal of using the internal market for its consumer potential, but thereby inputting at the same time a modernisation of some commodity systems (global strategies), with potential indirect consequences in exports. The cases related to the first strategy are few; therefore, we shall focus our attention on the second one.

For an exhaustive study, we would like to follow the internationalisation processes from the production structure, passing through the processing industry and finishing in the marketing and distribution circuits. Particularly, these last ones have suffered severe internationalisation procedures in Portugal since the end of the last decade (Castañe, 1993). Again, this article will be restricted to the processing industry.

Because of their relevance for the productive structure and the trade balance, the following sectors will be analysed: dairy products, production of animal food, processed-meat products, and cereal flours with respective transformation, all “internal consumption-oriented” sectors; as well as wine, animal and vegetable (olive and soya) fats for human consumption, and horticultural products, sectors with relatively high export quotas (although not exactly “export-oriented”).

### 1. Structure of the enterprises

The well known data confidentiality problem obliged us to use representative samples of enterprises. For an appreciation of the validity of the cross-section we have examined, both sizes of the sample studied are supplied in *Table 4a*. The choice of the enterprises, and the way most of the data was worked to be used in this study, deserve our confidence having been obtained from the Portuguese Central Bank (Banco de Portugal).

Most of the Portuguese entrepreneurial tissue is composed of SMEs. This fact can be illustrated by considering that milk products and animal sectors present a percentage of about 73% of such enterprises while processed meat products, wine, animal and vegetable fats sectors are composed of an even higher percentage of SMEs: 81%, 89%, 87%, respectively (Directorio Industrial, 1992). If we exclude the tomato processing industry which has 12 large enterprises out of a total of 18 enterprises, the horticultural processed products sector presents a composition of SMEs above 80%. *Table 4a* reports the relative importance of SMEs in the production and exports of the analysed sectors. From *Table 4a*, we are able to conclude that SMEs participation does not surpass 47% of total amounts in the best case, the wine sector. For the other sectors, the large number of SMEs contribute minimally to total

production. Also, the participation in exports is so small, even in the case of wine, that we are compelled to admit the poor contribution of these enterprises to exports (independently of their importance in the entrepreneurial tissue) and consequently to fear their capability to surpass the competitive challenge of the international market.

## 2. Foreign investment in the sector

The weak financial situation of many SMEs in Portugal is well known. Not being able (sometimes due to the lack of managerial capacity) to restructure the enterprises in order to withstand the impact of the Single European Market, their owners are ready to sell them to foreign investors at rather attractive conditions.

Foreign investment data was not available from any governmental institution including the National Statistics Institute (*Instituto Nacional de Estatística*). We have used here data that was specially supplied by the Directorate of Foreign Investment (*Direcção de Investimento Estrangeiro*) concerning the "foreign direct investment intentions by countries and by some activities" (*Direcção do Investimento Estrangeiro*, 1991–93).

*Table 4b* indicates that there is a marked preference of the investors for the internal consumption-oriented sector. Dairy products, animal food and processed-meat products have very small export rates but are branches that represent significant increases in investments in 1993, particularly with the acquisition of enterprises by English and French capital.

It also becomes evident that foreign capital is also interested in acquiring SMEs in Portugal. Although substantial foreign capital is invested in the animal food and tomato-processing sectors both of which have fewer SMEs, this is not the case in other sectors also well represented by foreign investments such as flour-mills and horticultural product-processing (other than the tomato sector), and wine. Recent strategies undertaken more frequently in the horticultural sector may explain why also medium-size enterprises are becoming interesting for foreign capital. We shall deal with this subject later.

From a comparison of foreign investment with internal investment programmes, it appears that the former has little interest for export-oriented products excepting wine, which we consider as an exceptional case anyway, mainly due to the Port wine.

Since 1991, the countries that have manifested an interest in investing in Portugal were: England, France, USA, the Netherlands, the Virgin Islands, Belgium, Italy, Spain, applying significant amounts; and Germany, Switzerland, Denmark, Brazil, Panama, and Zaire with smaller investments. Most of the intentions for investments in the agrifood sector (representing at least a total amount of 22,3 [10<sup>9</sup> PTE] and an amount of about 16,6 [10<sup>9</sup> PTE] in the considered sectors) showed interest in the acquisition of new enterprises (AQ) and increases of investments in already existing ones (AC). Few cases could be related to joint-ventures (OU) or capital reintegration (OI).

New Portuguese investments occurred in spite of the penetration of foreign capital in the internal market, mainly in the wine and horticultural processed products sector: 10,75 and 19,57 (10<sup>9</sup> PTE) (Leal, 1993). They have an export participation of 37,5% and 13% in the respective total sectorial production. In these cases, SMEs have almost no participation in the process as appears from the discussion above and *Table 4a*. Indeed, the observed increases in exports and production values previously referred to may only be attributed to a growing capacity of a few big enterprises.

## V – Strategies of SME and governmental support

While most of the theoretical framework points to the tendencies of the agrifood sector to concentrate in order to be able to succeed in obtaining the best market prices and minimal production costs (King, 1992), some bibliography (Renault, 1993) draws particular attention to the fact that segmentation of processing activities and flexibility of the enterprises to quickly adapt to changes in the consumer tastes is becoming fundamental. Therefore, structures containing medium-size enterprises or special contracts with small-sized ones are developing as interesting situations.

In order to be able to simultaneously better suit the requirements of technological development (and therefore concentration tendencies) and allow a greater flexibility to new productions, the medium size of the enterprises has been seen by some marketing managers as ideal, as far as a vertical association or integration of the national enterprises with foreign groups exists. This relation is a fundamental factor in the survival of the SME, because it serves two distinct but equally important requirements:

- ❑ it is a guarantee to the efficient flow of information from marketing or distribution systems to production, indicating a recent evolution in consumer patterns or competitive price strategies, for instance;
- ❑ it allows the common use, saving enormous operational costs, of knowledge in research and development.

Capacity for flexibility has been consistently pointed out by the marketing managers as a strategic advantage of SMEs. Their reduced size creates better conditions to produce products with high specificity levels and provides a better utilisation of equipment during possible experimental phases. As a result of such an opinion, and in spite of the present difficult phase, some managers of Portuguese SMEs believe they have a market opportunity if the reconversion process is oriented in order to improve specificities of Portuguese traditional products to find *niche* markets.

The Portuguese consumer market is not a large one. Investments in the agrifood sector, when consumer market oriented, have to be done carefully and, if possible, considering the opportunities offered by different products. So, it is also observed that sometimes the same important group tries to penetrate the market "acquiring", directly or indirectly, SMEs specialised in different subsectors of the industry.

In the context of internationalisation, governmental policy mainly assumes the responsibility of creating conditions for Portuguese enterprises to compete on their own accord in the world markets. Therefore a complex of programmes have been developed since 1991 (Marques, 1992):

- ❑ the constitution, in 1991, of the *Fundo para a Cooperação Económica* (FCE), conceiving financial support for Portuguese investors in the African countries of Portuguese expression (PALOP). It has a budget of 4,0 (10<sup>9</sup>PTE);
- ❑ agreement for cooperation between the ICEP (*Instituto de Comercio Externo* de Portugal) and the CDI (*Centre pour le Développement Industriel*) has been established in 1991. It finances and technically supports joint ventures of national enterprises with African, Caribbean or Pacific countries;
- ❑ in 1992, the institution of fiscal benefits and funds for entrepreneurial restructuring and industrialisation: it has a 25,0 (10<sup>9</sup> PTE) budget but is to be used essentially by the textile and clothes industry;
- ❑ in 1992, a specific programme for the internationalisation of Portuguese enterprises (PAIEP) was established coordinating simultaneously the commercial (with supports to traditional and diversified markets and association), the fiscal (implementation of a system of contractual fiscal benefits and allowance for consolidation of accounts with affiliated foreign enterprises) and financial (reinforcement of the enterprises own capital through specific credit lines).

## VI – Conclusion

First the study allows us to open, for the first time, the discussion on the importance that foreign capital has in the Portuguese SMEs and in the value of exports of the Portuguese agrifood sector, considering some subsectors in particular. Then we are able to conclude that there is a growing interest of agrifood European industry in the Portuguese SMEs, specially in those producing for the internal market. Further, conclusions could be arrived at regarding the growing capacity of a few large enterprises to export parallel to a decreasing participation of the "traditional" SMEs.

As far as entrepreneurial strategies are concerned, SMEs related or not with foreign capital believe that increases in product specificities will develop internal or external market potentialities. In terms of internationalisation, the Portuguese government is mainly interested in supporting Portuguese enterprises to invest in less developed countries due to the easy market opportunities that these countries offer. In our opinion, given the evident entrance of foreign capital in Portugal, the advantages of the internationalisation processes should be seen as the capability to discuss a contractual association between foreign and



Portuguese enterprises in which both partners should be able to exchange ideas, information and capital or production flow. Therefore, the primary target should be to prepare Portuguese enterprises to be able to function at such a level. We consider the present support to be inadequate in the international context: Portuguese SMEs will not be able to develop their quality standards by increasing exports (if they are able to do so), will depend on very inconstant, non-mature, markets that are not interesting to other European countries and therefore available to us and, worse, will not be able to keep them the moment they become interesting for international enterprises.

## Note

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**Table 1. Evolution of imports of some agrifood products (period: 1988-1992; units: 10<sup>9</sup> PTE)**

Product	1988	1992	Growth rates
<b>Fish</b>	65.42	96.95	+ 0.48
Dried, salted, meal	47.94	50.91	+ 0.06
Frozen	10.65	22.16	+1.08
<b>Oil seed</b>	59.85	43.37	-0.28
Soya	35.37	19.74	-0.44
Sunflower	17.73	16.01	-0.10
<b>Cereals</b>	33.89	81.06	+1.39
<b>Roots or tubers</b>	28.79	29.31	+0.02
For proc. industry	15.92	10.55	-0.34
Potatoes	7.30	9.19	+0.26
<b>Meat</b>	23.21	48.21	+1.08
Beef, not frozen	10.12	20.40	+1.02
Pork	6.93	15.57	+1.25
<b>Sugar</b>	20.29	22.87	+0.13
Vegetable rests for animal food	20.85	26.94	+0.29

Source: *Estatísticas do Comércio Externo*. 1988 and 1992.

**Table 2. The main subsectors of agrifood industry (1988 -1991; units: 10<sup>9</sup> PTE)**

Subsectors	1988	1989	1990	1991
Animal food	117.45	137.16	146.90	142.20
Dairy products	77.60	90.28	105.52	144.07
Processed meat	60.52	70.85	89.60	91.25
Wine			75.16	64.03
Flour and similars	54.19	50.10	52.55	66.02
Sugar	32.16	36.58	47.27	40.57
Malt and beer	33.97	41.54	45.46	54.61
Proc. fruit and hort.	26.13	39.70	31.90	40.09
Olive oil, veg. fats	24.74	21.52	26.14	23.29
Non-alcohol. drinks	21.14	28.99	38.02	43.68

Source: *Boletins Mensais de Estatística*. 1988-89-90-91.

**Table 3. The main exports of agrifood industry (1988 and 1992; units: 10<sup>9</sup> PTE)**

Subsectors	1988	1992	Main export countries	Growth rate
Wine industry	51.41	67.82	EU, Angola, USA	+0.32
Processed tomatoes	12.89	11.78	EU, Korea, Sweden	-0.04
Seafood and fish	14.09	19.07	Spain, Germany, UK	+0.35
Fish conserves	11.53	14.71	EU, USA, Switzerland	+0.26
Olive and soya oil	5.10	5.70	Brazil	+0.12
Products from animal origin	6.27	7.56	Netherlands, rest of EU	+0.21
Fruits	2.74	5.95	Spain, rest of EU	+1.09
Horticultural prod.	2.36	5.4	Spain, rest of EU	+1.29

Source: Worked values from *Estatísticas do Comércio Externo*. 1988 and 1992.

**Table 4a. Participation of SMEs in some sectorial productions and exports (units: number of enterprises and %)**

	Dairy prod	Animal food	Meat proc.	Flour der.	Wine	Animal. veg. fats	Hort. proc.
Enterprises	90	80	96	94	170	77	80
SMEs	66	59	77	67	143	58	57
Sample	46	40	69		65	41	15
Exp/Prod (all enterp.)	2%	≈ 0%	4%	3%	38.5%	5%	13%
Exports (% SMEs)	2%	2%	20%	51%	32%	13%	not available
Prod. SMEs/Total prod.	11%	14%	30%	28%	47%	25%	not available

Source: Calculated from data in *Quadros de Situação Sectorial* (1992).

**Table 4b. Foreign investment in agrifood industry (units: number of enterprises)**

	Animal food	Dairy prod.	Meat proc.	Flour and der.	Wine	Anim. veg. fats	Hort. proc.
(a)	n.a.	3,113	6,977	8,033	10,752	2,931	19,574
(b 91)	3,610	290	458	2,203	87	≈ 0%	240
(b 92)	978	568	62	≈ 0%	1,019	≈ 0%	26
(b 93)	2,235	5,300	3,278	≈ 0%	291	≈ 0%	514
(c 91)	USA	Spain	Virgin Islands	Virgin Islands	France	-	Belgium
(c 92)	USA	Italy	Cameroon	-	Belgium	-	Italy
(c 93)	Netherlands	UK	France	-	Netherlands	-	UK
(d 91)	99.8% AC	89.6% OU	81.5% AQ	44.5% CS	92.4% AC	-	91.7% AQ
(d 92)	62.9% OI	99.7% AC	60.7% AQ	-	62.3% OI	-	75.1% AQ
(d 93)	97.8% OU	94.3% AC	97.4% AQ	-	60.1% AQ	-	89.3% AC+AQ
(e)	> 70%	198%	54%	27%	13%	≈ 0%	4%

(a) Total national approved investment; (b) Intentions for foreign direct investment for 1991-1992-1993; (c) Countries with higher values of (b); (d) Percentage of (c) in (b); (e) Foreign investment intentions as a percentage of total national investment. Calculated from data in *Direcção do Investimento Estrangeiro, 1991-92-93* and Leal. M. C. (1993).