

# DECENTRALIZATION OF PUBLIC POLICIES FOR THE PROMOTION OF SMES' INTERNATIONALIZATION. A THEORETICAL ACCOUNT\*

## A DESCENTRALIZAÇÃO DAS POLÍTICAS PÚBLICAS PARA A PROMOÇÃO DA INTERNACIONALIZAÇÃO DAS PME. UMA EXPLICAÇÃO TEÓRICA

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### ABSTRACT/RESUMO

SMEs face several obstacles in their internationalization process that they cannot overcome alone, forcing them to remain domestic and, therefore, at a disadvantage in relation to competitors which adopt a more global business perspective. Government action can help SMEs to overcome their limitations, having come to play an increasingly more important role in export promotion, a field where it is normally an aggressive actor. This has led to the view that export promotion programs and agencies are today crucial instruments in supporting SMEs. For these reasons, the formulation of a national strategy of export promotion has been on the agenda of countries throughout the world. Policy decentralization is today a reality, as a reform of the public sector's model and as a development strategy. From the perspective of decentralization, it has been acknowledged that initiatives should be based on the territory and managed locally, and that the decentralization of power and responsibility to the local level is an important factor in local and regional development. Despite extensive research regarding decentralization, the role of local governments in promoting the internationalization of firms seems to have been rather neglected in the literature, whether in the area of regional science or that of international business. This paper intends to fill this gap, establishing a bridge in the review of the literature on promotion policies for the internationalization, decentralization and internationalization of firms.

As PME enfrentam vários obstáculos no seu processo de internacionalização que não podem superar sozinhas, forçando-as a permanecer domésticas e, portanto, em desvantagem em relação a concorrentes que adotam uma perspectiva de negócios mais global. A ação do governo pode ajudar as PME a superar as suas limitações e tem vindo a desempenhar um papel cada vez mais importante na promoção das exportações, uma área onde o Governo é normalmente um ator muito ativo. Isso contribuiu para a ideia de que os programas e agências de promoção de exportação são hoje instrumentos fundamentais no apoio às PME. Por estas razões, a formulação de uma estratégia nacional de promoção das exportações tem estado na agenda dos países em todo o mundo. A política de descentralização é hoje uma realidade enquanto reforma do modelo do setor público e estratégia de desenvolvimento. Do ponto de vista da descentralização, é reconhecido que as iniciativas se devem basear no território e ser geridas localmente, sendo a descentralização do poder e a responsabilidade para o nível local um fator importante no desenvolvimento local e regional. Apesar de extensa investigação sobre a descentralização, o papel dos governos locais na promoção da internacionalização das empresas tem sido bastante negligenciado na literatura, quer na área da ciência regional, quer na dos negócios internacionais. Este artigo procura preencher esta lacuna fornecendo uma sistematização da literatura que liga as políticas de promoção da

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internacionalização, da descentralização e da internacionalização das empresas.

Palavras-chave: Descentralização; Políticas Locais; Exportações; PME

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## 1. INTRODUCTION

The internationalization of small-medium enterprises (SMEs) has been one of the most researched topics in the international business literature in the past three decades (Kamakura *et al.*, 2012; Ketkar and Acs, 2013).

The internationalization process is a rather complex phenomenon, regarded by some (following the Uppsala model - Johanson and Vahlne, 1977) as an incremental process wherein firms initially move toward psychologically close markets and only later expand to others in a gradual, stepwise fashion, and by others as a very rapid route, occurring since firms' inception (Oviatt and McDougall, 1994) or resulting from critical events, such as changes in ownership and management, or a takeover by another company possessing international networks, leading to sudden internationalization (Bell *et al.*, 2001).

Internationalization involves distinct patterns, that is, choices of international markets and of entry mode. Non-equity modes include export and contractual agreements (e.g., Licensing, Franchising, Turnkey projects), whereas equity modes include joint venture and wholly owned subsidiaries (Grande and Teixeira, 2012). Compared with larger multinational enterprises, SMEs tend to favor exporting as their primary entry mode because of the high degree of international business opportunities and strategic flexibility it offers (Kamakura *et al.*, 2012).

Drawing on theories of social exchange and resource dependency, several recent contributions (e.g., Antoldi *et al.*, 2013; Blind and Mangelsdorf, 2013; Eberhard and Craig, 2013) argue that internationalization happens as a consequence of the externalities arising from the firm's network of relationships with, among others (e.g., customers, suppliers, competitors), government and private support agencies, which expand the boundaries of the firm's relationships. Indeed, governments play an increasingly more active role in supporting SMEs to export through public policies that promote their internationalization, most notably export promotion (Gil *et al.*, 2008; Lederman *et al.*, 2010; Wright, 2011; Vijil and Wagner, 2012). Interpreting globalization as a process of internationalization of production and markets encompassing increasing international trade or increasing foreign direct investments, Capello and Dentinho (2012) underline the likely advent of a 'regionalized' globalization where local government might

perform a critical role not only in promoting trade but also in attracting Foreign Direct Investment (FDI), which ultimately would enhance local SMEs internationalization through network effects.

Trade and FDI support by local government raises the issue of decentralization of public policies, which Faguet (2014: 2) calls "one of the most important reforms of the past generation". Many processes of decentralizations aim to achieve a more participatory and cooperative system of nested, accountable and transparent self-governments. However, from intentions to practical implementation goes a great distance. In fact, some authors (e.g., Ardanaz *et al.*, 2014; Faguet, 2014), albeit recognizing the merits of decentralization, also underline the perils of it, arguing that the performance of the system, both at the local and the central level, is highly dependent on the structure of incentives that determine the behavior of political actors.

Bearing in mind the growing process of decentralization (Taylor, 2007; Wang, 2013; Faguet, 2014) and the appearance, in the last thirty years, of studies that focus on local economic development (DeFilippis, 1999; Cox, 2004; Barberia *et al.*, 2010; Negoita and Block, 2012), it becomes important to assess to what extent the local space, through municipalities, can and/or should also seek affirmation as a fundamental scale of action for a policy that promotes local enterprises in the global market.

Notwithstanding the important and fairly wide-spread scientific production on the promotion of exports and public policies and programs in this area, namely as to their results (Wilkinson and Brouters, 2006; Shamsuddoha *et al.*, 2009; Vijil and Wagner, 2012), and the degree of satisfaction on the part of beneficiary firms (Gillespie and Riddle, 2004; Calderón *et al.*, 2005; Cassey, 2010), to the best of our knowledge, there are no studies that deal with the local perspective or examine the decentralization of the promotion of firms' internationalization, more specifically of SMEs' export promotion.

In this context, this study aims to provide a theoretical account on three interrelated topics – SMEs' internationalization efforts, policy decentralization and role of local government structures to support/enhance SMEs internationalization – trying to rationalize the scope for and relevance of internationalization policies, in general, and export promotion policies in particular, at a territorial/local scale.

The present work is organized as follows: Section 2 examines the obstacles that SMEs face in their internationalization process. Afterwards, Section 3 describes the entities and policies that support this process. Section 4 details the decentralization of public policies and, finally, Section 5 concludes by discussing the relevance of municipalities in devising and implementing export promotion policies/measures targeting local SMEs.

## 2. THE INTERNATIONALIZATION PROCESS SMEs: WHAT ARE THE OBSTACLES?

One of the biggest trends in the entrepreneurial sphere of the 21<sup>st</sup> century is the extraordinary growth of globalization (Pinho and Martins, 2010; Capelli and Dentinho, 2012). In fact, the market has never been so globalized and interdependent as it is today, opening the range and scale of opportunities to firms (Stoian et al., 2012; Kahiya, 2013). Favored by significant and continuous improvements in production, transport, information technologies, financial systems, regulating environments and business networks, regardless of their dimension, firms have increasingly broadened their operations to the international market, as a way to gain, support and improve their competitive advantages (Aulakh et al., 2000; Rodriguez et al., 2013) and diminish their costs (Özler et al., 2009; Peiris et al., 2012). Similarly, operating in cross-border markets may enable firms to benefit from international competition and to increase their involvement in foreign markets, thus becoming important actors in their own domestic market (Czinkota, 1996; Kamakura et al., 2012).

According to several studies, internationalization in general, and exporting in particular, enable firms to: increase their probability of survival and to diminish their rate of failure (Czinkota, 1996; Love and Ganotakis, 2013); attain gains of scale (Czinkota, 1996; Czinkota, 2002; Rocha et al., 2008); provide access to new technologies and new products (Mallick and Yang, 2013), or even have the opportunity to anticipate strategic movements from future rivals (Rocha et al., 2008); distribute business risks across different markets and projects (Czinkota, 1996; Czinkota, 2002); improve technology, quality, processes and services patterns in the organization (Terpstra and Sarathy, 2000; Czinkota, 1996; Smith et al., 2006); explore wasted operational capacity and improve production efficiency through a more efficient allocation of resources (Smith et al., 2006); learn from competition and gain greater awareness of different search structures and cultural dimensions (Czinkota, 1996); and attract and reward stakeholders and employees by means of creating a better revenue base.

Additionally, exporting is the most common and most attractive entry mode in international market for firms and for their products to gain visibility abroad (Kamakura et al., 2012), as exporting implies a smaller commitment of financial and human resources and smaller risks in comparison to other entry modes in foreign markets, such as joint ven-

tures or subsidiaries (Pinho and Martins, 2010; Stoian et al., 2012), while at the same time affording great flexibility of movements (Pinho and Martins, 2010; Kahiya, 2013).

However, many managers see only the risk involved in internationalization and not the opportunities that international markets can provide (Czinkota, 1996). Many firms do not dare to cross their national borders to sell products and services, which means they are at a disadvantage in relation to competitors that chose to follow a more global business perspective (Acs et al., 1997; Wilkinson and Brouthers, 2006; Kahiya, 2013). Effectively, the path to internationalization presents several obstacles that firms cannot overcome alone and that hinder truly achieving an internationalization strategy (Stoian et al., 2012), thus restricting their international expansion (Calderón et al., 2005). These obstacles, whether real and/or perceived, can appear so extreme to firms that they may even regard exporting with skepticism and refuse to get involved in activities abroad, inhibiting their entry in foreign markets (Czinkota, 1996; Stoian et al., 2012). In the case of recent exporters, they develop a negative attitude towards exports, restricting the development of international activities and causing their premature retreat from external operations (Stoian et al., 2012; Mallick and Yang, 2013; Kahiya, 2013). These obstacles tend also to affect experienced exporters that see their performance deteriorated, threatening likewise their survival in foreign markets (Miesenböck, 1988; Rocha et al., 2008). It is, in fact, largely recognized that such barriers may exist at any stage of the internationalization process, even though their nature tends to differ at every step (Stoian et al., 2012; Kahiya, 2013).

It may be argued that the competitiveness of a firm depends on its desire to compete and its position regarding competitors. To succeed in international commerce, a firm has to 'enter the game', that is, to compete. As obviously only participants can expect to win, participating on their own does not guarantee victory – this depends on the competitors (Álvarez and Vergara, 2013).

For several reasons, SMEs are more vulnerable to the effects of export barriers than large enterprises (Acs et al., 1997; Kahiya, 2013). If the latter possess the resources to minimize the risks of internationalization by several means (diversifying operations, having departments of domestic and/or international commerce and creating economies of scale, among other factors), the first tend to have limited resources and less capacity to absorb risks, especially when operating in highly competitive markets. In this context, when facing export barriers, SMEs may have to avoid a market completely, wasting an opportunity to make their business grow. They may also have difficulty in changing production as a response to fixing costs barriers, suffer variable additional costs that decrease their competitiveness, and may be incapable of benefiting from their participation in global value networks (Fliess and Busquets, 2006).

As a way to efficiently motivate enterprises, particularly SMEs, to enter foreign markets, it is not only necessary to understand the factors that stimulate SMEs to export (Pinho,

2013) but also the barriers they have to overcome so as to succeed in entering and operating sustainably and efficiently in foreign markets (Stoian et al., 2012; Kahiya, 2013). Specifically, as Rocha et al. (2008) state, understanding export barriers may help to adopt government policies that stimulate domestic enterprises to export, by eliminating or minimizing the main impediments to international expansion.

Export barriers can be portrayed as attitudinal, structural, operational and other constraints (Pinho and Martins, 2010; Stoian et al., 2012) that hinder the firm's ability to initiate, develop or sustain international operations (Kahiya, 2013). Generally speaking, export obstacles can be classified as internal, associated with organizational resources/capabilities and the company's approach to exports, and external, derived from the domestic and foreign environments where the firm operates (Stoian et al., 2012; Hessels and Parker, 2013; Kahiya, 2013). Besides this classification, internal barriers can also be characterized as strategic or functional, informational and operational or related to mar-

keting (Stoian et al., 2012), while external barriers can be described as procedural, governmental and environmental (Kahiya, 2013) (cf. Table 1).

The difficulty in overcoming these barriers, although important, is not sufficient reason to prevent a firm's involvement or progress in the internationalization process (Kahiya, 2013). Several other factors, normally associated to the idiosyncratic characteristics of the firm's manager – competence, degree of openness, experience in foreign markets, cultural orientation and propensity to take risks (Aulakh et al., 2000; Hessels and Parker, 2013); the firm's organization – maturity, dimension, international experience and sector (Aulakh et al., 2000; Kuivalainen et al., 2010); and the environment in which the firm operates – infrastructures, logistic system, economic, political and socio-cultural factors (Naudé and Matthee, 2011); are responsible for amplifying these obstacles and are, therefore, key factors in explaining export initiation and performance.

**TABLE 1. EXPORT BARRIERS**

Type of Barriers	Framework	Factors	Conditions
Internal	Informational	Problems in identifying, selecting and contacting international markets due to inefficiencies of information	Locating/analyzing foreign markets, finding data on foreign markets, identifying international business opportunities and contacting foreign clients
	Strategic or functional	Inefficiencies in several of the firm's functions, such as human resources, production and finance	Limitations in managerial time, inadequacies in export staff, unavailable production capacity, and shortages of working capital
	Operational or related to marketing	Firm's marketing mix	Product, price, distribution, logistics and promotion
External	Procedural	Operating aspects of transactions with foreign customers and interaction with other organizations (public and private)	Unfamiliarity with techniques/procedures, communication failures, and slow collection of payments
	Governmental	Actions or inaction by the home government in relation to its exporting companies	Limited interest in supporting and providing incentives to real and potential exporters and restrictive role of the regulatory framework on export management practices
	Environmental	Economic, political-legal, and socio-cultural environment of the foreign market(s) within which the company operates or is planning to operate	Poor/deteriorating economic conditions abroad, foreign currency exchange risks, political instability in foreign markets, strict foreign country rules and regulations, high tariff and nontariff barriers, unfamiliar foreign business practices, different socio-cultural traits and verbal/nonverbal language differences

Source: Authors' synthesis.

Focusing on informational and strategic (or functional) aspects at the internal level, the internationalization of SMEs and their success in the international market is influenced by and depends on elements connected to human capital, which determine the performance of the firms' international activities and influence potential export opportunities (Shamsuddoha et al., 2009; Pobleto and Amorós, 2013). Among these, we find the managers' attitude to and perception of the risks and rewards of international markets, their

experience, their commitment and their strategy (Wilkinson and Brouthers, 2006; Beleska-Spasova et al., 2012).

Internal resources of this kind, as well as knowledge and information about foreign markets, is generally lacking in most SMEs (Acs et al., 1997; Alvarez, 2004; Wilkinson and Brouthers, 2006; Santos and García, 2011), which increases the perceived risk of exporting and causes these enterprises to avoid the uncertainties of the international market (Acs et al., 1997; Wilkinson and Brouthers, 2006).

In effect, in terms of empirical proof, the literature shows that the most critical aspect in the enterprises' export performance is the managers' attitudes towards this activity and, therefore, the main reason why many enterprises do not export is because managers are not motivated or determined to do so (Wilkinson and Brouthers, 2006; Rocha et al., 2008; Sommer, 2010). Thus, a majority of SMEs has been left behind in terms of exporting, despite representing significant potential that should be boosted so as to achieve larger export sales.

Thus, understanding how managers perceive export barriers is particularly important, since their attitudes and preferences are at the core of internationalization activities (Santos-Álvarez and García-Merino, 2012). Based on the idea that the managers' perception of the macro-environment is more important than facts when it comes to determining internationalization strategies (Briggs, 2013), it can be argued that their perception of export barriers will influence their decisions, not only to enter foreign markets, but also which markets and the level of international involvement (Kahiya, 2013).

The general consensus among researchers is that understanding export obstacles and their impact on enterprises' performance is crucial, both at the micro and at the macroeconomic level (Chung, 2003; Julian and Ahmed, 2005; Poblete and Amorós, 2013). Besides helping to determine why some exporters are incapable of exploring their full potential and what makes many enterprises fail or suffer financial losses in their international activities (Chung, 2003; Julian and Ahmed, 2005), understanding export obstacles provides governments with strategic guidelines and knowledge to prepare their policies (Julian and Ahmed, 2005; Vida and Obadia, 2008), as well as help minimizing negative effects and improving exporting performance, both for individual enterprises and the countries themselves (Julian and Ahmed, 2005).

### **3. ENTITIES AND POLICIES THAT SUPPORT THE SME INTERNATIONALIZATION PROCESS: WHAT LEVEL OF ACTION?**

As countries become increasingly more involved in the world economy, it is critical that states, in their economic development endeavors, explore their economies' structure of foreign commerce to obtain a better understanding of their industrial competitive advantages (Vijil and Wagner, 2012). With this knowledge, the states will be able to maximize the benefits of commerce, directing their limited resources at economic development more efficiently (Wright, 2011).

From a regional point of view, exporting to a foreign country or exporting to other regions inside the same country also represents a means of creating wealth (Stagg, 1990), that is, both activities bring additional incomes that would otherwise not be possible if that region only served the local market. Nonetheless, depending on the domes-

tic market to generate wealth may lead to the profit of a region at the expense of others. Exporting to foreign markets can solve this potential problem, because by reaching new markets, regions (at the local or national scale) can enhance their economic potential instead of simply compete with each other in the existing markets (Stagg, 1990; Ha and Swales, 2012). This fact underlines that a healthy export sector is of extreme importance to nations, states and communities, thus nowadays developing a strong and diversified export base has become a major public policy concern (Cadot et al., 2013).

From a general perspective, it has been amply acknowledged that the Government plays a vital role in establishing, developing and maintaining export activities, as a stimulating factor (Sullivan and Bauerschmidt, 1988; O'Gorman and Evers, 2011) or as an impediment (Rabino, 1980; Sullivan and Bauerschmidt, 1989) to the internationalization process (Julian and Ahmed, 2012).

Notwithstanding the obstacles enterprises have to face in their internationalization process (cf. Section 2), external operations can be a necessary step for many firms in their struggle for survival, as globalization pressures increase (Rocha et al., 2008; Senik et al., 2011). Thus, and bearing in mind the export obstacles SMEs face, presented previously, public organizations create policies to promote exports with the aim of collaborating in the process of these firms' international expansion (Calderón et al., 2005; Cassey, 2010; Wright, 2011). In this way, governmental programs to promote exports help SMEs to develop their organizational abilities and competences to explore internationalization opportunities (Francis and Collins-Dodd, 2004; Shamsuddoha et al., 2009; Vijil and Wagner, 2012).

Facing global competition and the need to overcome obstacles associated to asymmetric information and other market failures (Gil et al., 2008; Lederman et al., 2010), public organizations formulate policies to promote exports with the aim of helping firms to develop their internationalization process (Calderón *et al.*, 2005; Durmuşoğlu *et al.*, 2012). This has led the number of national export promotion agencies to experience a huge growth in number (Lederman et al., 2010; Ilias et al., 2013) and dynamism even outside their country of origin with the creation of regional representation networks abroad so as to support enterprises which want to trade and invest in foreign markets (Gil et al., 2008). In this context, government services, normally the 'aggressive' player in the field of export promotion (Wilkinson and Brouthers, 2006), tend to be beneficial to SMEs in overcoming their limitations (Mah, 2010). This consideration has been translated into the general recognition of the importance of export promotion programs (Shamsuddoha et al., 2009; Wright, 2011) and into the notion that agencies dedicated to this activity are a crucial instrument to support SMEs (Gillespie and Riddle, 2004; Gil et al., 2008; Vijil and Wagner, 2012).

As such, measuring and improving national strategies of export promotion are relevant although scarcely explored issues in international business research (Czinkota,

2002; O’Gorman and Evers, 2011) and governments have taken a progressively more important role in export promotion (Ilias et al., 2013). In fact, although export promotion programs can differ in their structure or magnitude, all states have recognized the need to contribute to the success of their business sectors (Codet et al., 2013).

Even though the literature presents ambiguous results (e.g., Seringhaus, 1986; Wilkinson and Brouthers, 2006; Wright, 2011), the existing studies indicate that government-led export promotion organizations and agencies, although not being the ‘perfect recipe’, are not a complete waste of resources (Gillespie and Riddle, 2004; Ilias et al., 2013) and may even be advantageous (Wilkinson and Brouthers, 2006; Mah, 2010). In fact, a study by Shamsuddoha et al. (2009) indicates that government programs to support SMEs influence internationalization in a direct and indirect manner and play an important role in their internationalization process, by contributing to the already mentioned factors that determine a firm’s international performance. This corroborates the findings of Wilkinson and Brouthers (2006) that the level of results depends on the activities included in these programs and in the ability and/or will of these firms to gather and organize the appropriate resources and take advantage of the services provided by public export promotion agencies. Furthermore, these services can complement the enterprises’ internal resources and enable them to become effective in international markets (Wilkinson and Brouthers, 2006). The study by Lederman et al. (2010) also demonstrates that national export promotion agencies have, on average, a positive and statistically significant effect on national exports and seem to be particularly effective when most needed, as when there are trade barriers and asymmetric information. More recently, Kang (2011) demonstrated that the network of export promotion agencies offices abroad has been a critical factor in the success of Korea’s exports.

There are, however, indications that national government agencies dealing with export promotion give little attention to the adequacy of their export promotion programs with regard to the exporters’ various needs (Martincus et al., 2010; Ferreira and Teixeira, 2012). The states normally use a universal strategy rather than a more effectively targeted strategy, and thus a major deficiency of export promotion programs has been the lack of information on which services are needed and by whom (Chyckalo-Kondratska and Radchenko, 2013; Saraswati, 2013).

Thus, government and public organizations should be aware to the different needs of the various potential users and should develop or change their activities accordingly (Seringhaus and Botschen, 1991; Martincus et al., 2010; Abdul-Aziz et al., 2011). Based on this argumentation, export promotion policies should be differentiated according to the groups of enterprises that share common features, regardless of whether they belong to the same sector (Calderón et al., 2005).

The study by Lederman et al. (2010) suggests that ideally national export promotion agencies should be managed

by the private sector and financed by the public sector. They further advocate that positive effect on exports is also higher if there is a single, strong national export promotion agency, rather than the proliferation of small agencies within countries (Lederman et al., 2010), since the efficiency of public organizations dedicated to this activity seems to diminish with the lack of coordination between them (Calderón et al., 2005). In an earlier study Elvey (1990) compared eight countries (Canada, France, Italy, Japan, Singapore, South Korea, the United Kingdom, and West Germany) and found that the form of export assistance (public versus private) and coordination (centralized versus decentralized) varied greatly among them being unrelated to their performance; their common feature was that most assistance and promotion efforts were directed at SMEs.

Although there are studies on the impact of national and state trade missions (in the American case) on national and state exports (Cassey, 2010), respectively, and although it has been measured whether Spanish regional representations abroad contributed more strongly to an increase in exports than Spanish Embassies or Consulates (Gil *et al.*, 2008), there is no research, to the best of the authors’ knowledge, on the possibility of it being more effective and efficient to carry out export promotion activities on a decentralized basis, that is, at the municipal or local authority level.

It is therefore at this stage on demand a theoretical discussion on the extent to which the support to the internationalization of SMEs could be envisaged by decentralized public policies. In other words, to discuss the role and relevance of local governments in supporting SMEs’ export endeavors. Thus, before laying some argumentation on this particular subject, it is useful to analyze some of the relevant literature on the decentralization of public policies and its relation with local economic development.

#### 4. DECENTRALIZATION OF PUBLIC POLICIES AND LOCAL ECONOMIC DEVELOPMENT

Global events show that decentralization is nowadays a reality, as a reconstruction of the public sector model and as a development strategy (Wang, 2013; Faguet, 2014).

Political decentralization can be vertical (authority is transferred from the central government to the local government) or horizontal (authority is shared between the executive, judicial and legislative systems) (Taylor, 2007). This process can be understood as “an increase in both the number and equality of centers of political power and policy making” (Taylor, 2007: 233) and is reflected in the idea that “[t]he state, although not impotent, is now dependent upon a vast array of state and non-state policy actors. The state is regarded as the first among equals; it is one of many centers” (Marinetti, 2003: 599).

Decentralization can be understood as transference of functions, where politics, finances and administration are under the direct and exclusive control of sub-national governments (Faguet, 2014). However, this transference

always has its difficulties, which are, according to Azfar et al. (2001: 13), “not only (...) local constraints such as budgetary resources and provincial charters, but also (...) central disciplines embodied in national constitutions and oversight jurisdiction”. This means that the local government units may lack the administrative power to adjust their services and budgets to respond to preferences, direct and sanction employees to improve their performance or respond to criticism and change (Azfar et al., 2001).

According to Litvack and Seddon (1999: V), “[s]imply put, with decentralization, as with many complicated policy issues, the ‘devil is in the details’”. The matter depends on several factors, among which policies and institutions, as well as their interaction within a given country (Litvack and Seddon, 1999). Networks have, according to Savini (2013), great potential for generating strategic capacity and ensuring the interaction between agiler national government policies and governable local public policies. The challenges involve the mobilization of the relevant stakeholders into such a system to allow for effective public policy development and deployment (Kimbu and Ngoasong, 2013).

In this context, the debate on decentralization has evolved from theoretical arguments to empirical demonstration and from the general to specifics (Azfar et al., 2001), having emerged, in the last thirty years, a current of studies that investigates the development and impact of local economic development initiatives, giving major importance to the role of institutions (and specifically local governments) and participatory networks in local economic development (DeFilippis, 1999; Barberia and Biderman, 2010; Negoita and Block, 2012). In fact, in the last few years, economists and politicians have paid increasingly more attention to models of local development and to policies of local intervention (Camarero Izquierdo et al., 2008) and “[l]ocal economic development has become one of the major public policies emphasized in many countries during the past several decades” (Liou, 2009: 29).

As part of this trend, the perspective of endogenous development is based on the assumption that every region possesses an intrinsic set of resources (economic, human, environmental, institutional and cultural) which constitute the potential for a region's development (Qian et al., 2013). Hence, investing in them, in a sufficient and adequately coordinated manner, can make the region more attractive to the actors of economic growth (Camarero Izquierdo et al., 2008). According to this perspective, the entities responsible for territorial development should first detect the endogenous resources of their region, invest in their development, and finally communicate their existence to the potentially interested actors (internal and external) (Camarero Izquierdo et al., 2008).

One of the objectives of a territorial policy is to increase a region's level of economic development and it is possible to identify two dimensions in this process of economic growth and structural change (Baumgartner et al., 2013): economic, where the local entrepreneur, using his/her ability to organize local resources, reaches a sufficient

level of productivity to be competitive on markets; and socio-cultural, where values and local institutions serve as a basis for a process of development. A strategy of local development should consider a further third dimension, the political-administrative, where territorial policies enable the creation of a local economic climate, encourage the development of the local potential and protect the entire process of external control (Camarero Izquierdo et al., 2008).

Local development should be framed in a broader political framework that includes supra-local considerations and objectives, as well as links with supra-national actors (Nicholson et al., 2013). Such development requires coordination of policies at several organizational levels, cooperation between regions and minimal patterns which prevent destructive competition (Negoita and Block, 2012).

According to DeFilippis (1999, 976), “[l]ocalities are (...) continuously being constructed and reconstructed, both by their relationships with the rest of the world, and by the struggles that take place within them”. In fact, the local is constituted and produced by local government actions (and its policies) and by the actions of structures and actors at wider scales, that is, localities are defined by their positioning in the relations they establish with the external world and by the relations that exist within them. Still within this line of studies, Barberia and Biderman (2010, 4) confirm that “[t]he LED [local economic development] policies that emerged in recent decades are rooted in the recognition that initiatives must be territorially based and locally managed.” These authors sustain that the number of actors involved in local development initiatives has grown significantly, including entities as different as the different levels of government (local, regional and national), the private sector, non-profitable organizations and even community development organizations.

This recognition is in conformity with tendencies that, in the words of Cox (2004: 179), show that “an important element of a local and regional development policy appropriate to the times and circumstances would be one that decentralizes powers and responsibilities to very local levels.”

## 5. CONCLUDING REMARKS: DECENTRALIZATION OF PUBLIC POLICIES AND THE ROLE OF LOCAL GOVERNMENTS IN THE PROMOTION OF THE INTERNATIONALIZATION OF FIRMS

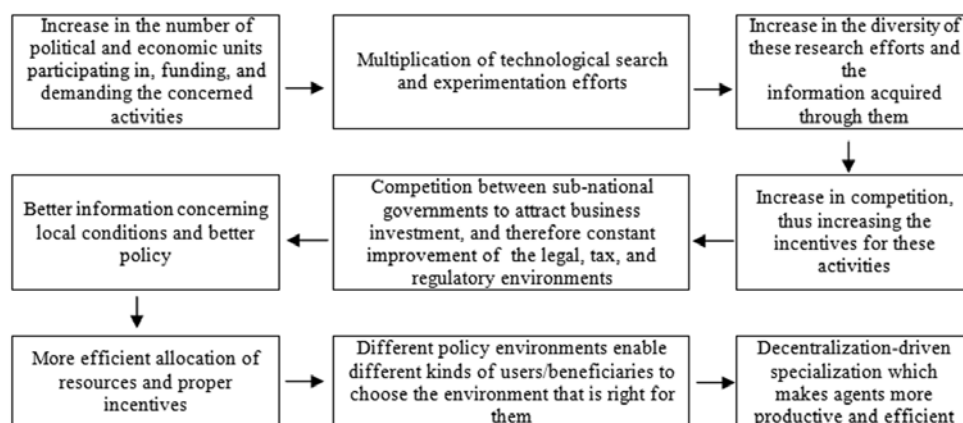
Based on the idea that decentralization is a valid development strategy (cf. Section 4), exploring whether export promotion would benefit from being managed and implemented from a decentralized point of view, for example, by local governments/municipalities, is a matter that is perfectly framed in the current economic and political context. Although there is no literature analyzing this perspective, the present paper attempts to infer the results obtained in other already decentralized areas to possible impacts in this specific field.

Taylor's (2007) contribution is of extreme interest, since he tested the advantages that political decentralization brings to technological innovation. By systematizing the opinions of several authors, Taylor (2007) mentions that there is no consensus on the potential contribution of decentralization to technological innovation. Some researchers (e.g., Rosenberg and Birdzell, 1985; Taylor, 2007) argue that, because decentralization is necessary for competition and promotes variety, it can, in the long run, be one of the main factors for technological change to occur. Other authors (e.g., Drezner, 2001; Taylor, 2005) sustain that decentralization is necessary, but not enough, to boost innovation and, despite observing the usefulness of governmental decentralization, they also highlight "conditional variables such as factor endowments, level of development, size, and just plain luck, in order to explain outlier cases" (Taylor, 2005: 236). Additionally, it is also stated that

decentralization is neither necessary nor sufficient to innovation, since a big fragmentation can lead to a complete absence of cooperation, violent competition and conflicts, which, in the long term, hinders innovation (Taylor, 2007). Indeed, relentless competition between local governments to attract businesses and higher-income residents can be achieved to the detriment of other more beneficial activities for citizens (Lobao and Kraybill, 2009; Ardanaz et al., 2014; Faguet, 2014). Ultimately, a thoughtful position posits that some measure of decentralization is required (Ne-goita and Block, 2012).

Despite the results obtained by Taylor (2007) indicating that it is not possible to identify a direct positive relationship between political decentralization and technological innovation, the author establishes a possible sequence derived from a process of decentralization that may also be extrapolated to export promotion (cf. Figure 1).

**FIGURE 1. POSSIBLE SEQUENCE DERIVING FROM A PROCESS OF DECENTRALIZATION**



Source: Authors' compilation, based on Taylor (2007).

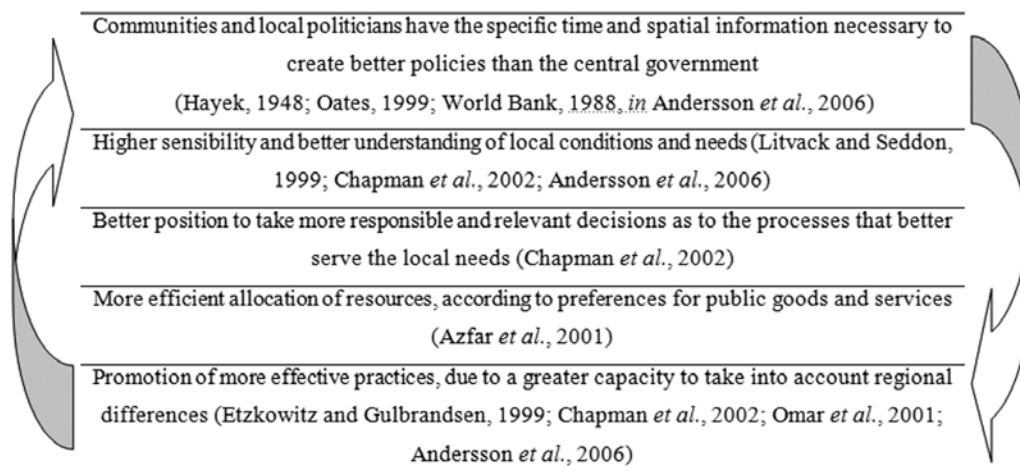
Returning to the idea of Barberia and Biderman (2010) on the execution and management of initiatives at the territorial and local level, several authors recognize that the main benefits of decentralization are more agility, competitiveness and flexibility to adapt to changes (Taylor, 2007; Lobao and Kraybill, 2009); creation of a geographical focus at the local level, coordinating national, state, district and local programs more effectively (Litvack and Seddon, 1999); and formulation of more creative, innovative and appropriate programs that enable local experimentation (Litvack and Seddon, 1999). It can therefore be assumed that decentralizing export promotion to a local scale, specifically, local municipalities, could result in a continuing process whose ultimate impact would be the higher efficiency and higher effectiveness of these policies and, consequently, a higher degree of benefit for the targeted local enterprises (cf. Figure 2).

A closer scrutiny shows that the benefits attributed to decentralization reside mostly in greater accountability of governments to local needs (Oates, 1999; Lobao and Kraybill, 2009; Faguet, 2014), adapting policies to the prefer-

ences of smaller and more homogeneous groups (Wallis and Oates, 1988; Lobao and Kraybill, 2009; Balaguer-Coll et al., 2010), or in the best ability of governments to accommodate differences in tastes for public goods and services (Balaguer-Coll et al., 2010), factors that justify decentralization from the economic efficiency point of view.

Another positive effect of decentralization in terms of efficiency is that, in a centralized system, politicians make decisions with the aim of reflecting the country's interests (Balaguer-Coll et al., 2010). Nonetheless, this practice would be inefficient if interests were different among regions, since some regions would not benefit from national policies. If the preferences change from one region to another, it would be more efficient to geographically alter the provision of public services. In these circumstances, the provision of public services by the public sector could be more efficient in a structure of decentralized government (He et al., 2013). That is the case of export promotion policies, since local municipalities may have as competitive advantages branches of economic activities that vary between regions.



**FIGURE 2. DECENTRALIZATION AND HIGHER EFFICIENCY AND EFFECTIVENESS OF POLICIES**

Source: Authors' synthesis.

That said, the efficiency considerations on which the discourses of decentralization are based (Balaguer-Coll *et al.*, 2010; He *et al.*, 2013) also constitute the main argument defended in the present study, as the main factor in favor of the decentralization of export promotion policies to local municipalities.

Conversely, from the viewpoint of the possible losses caused by decentralization, the arguments presented are directly linked to the local scale itself, such as: lack of administrative or technical capacity, or even the transference of authority to individuals who have limited experience in management and, in some cases, little interest in taking on those responsibilities (Chapman *et al.*, 2002; Andersson *et al.*, 2006; Faguet, 2014); it can lead to less efficient and effective services (Agrawal and Ribot, 1999; Litvack and Seddon, 1999; Azfar *et al.*, 2001; Andersson *et al.*, 2006); transference of responsibilities to the local level without the adequate financial resources can make the equitable distribution and provision of services more difficult (Agrawal and Ribot, 1999; Litvack and Seddon, 1999; Cox, 2004; Andersson *et al.*, 2006; Balaguer-Coll *et al.*, 2010); and agents can back away from new strategies that they do not fully understand, perpetuating the conservatism of the communities and the strangulation of improvement efforts (Chapman *et al.*, 2002; Ardanaz *et al.*, 2014).

These arguments are in line with Litvack and Seddon (1999) and Faguet (2014) with regard to the importance of the institutions' details and characteristics, implying that there should be a basic knowledge of the strengths and weaknesses of organizations in the performance of various types of functions, since the success of decentralization depends on these characteristics and also on an appropriate preparation of the agents of decentralized administration (Litvack and Seddon, 1999; Savini, 2013). Furthermore, Rodden (2003), Kimbu and Ngoasong (2013) and He *et al.* (2013) present an emergent generation of studies on decentralization that focus not only on the scale of provision and the type of service, but also on the fundamental nature

of policies and institutions. This emergent literature shows that it is the complex mixture of institutions that generates receptive local agents.

What will define the final result of decentralization is, besides specific factors, the interaction between the type of decentralization and the conditions under which it takes place. To simplify, the conditions that influence the success of a decentralization process can be grouped in two areas (Pacheco, 2004; Wang, 2013): the attributes of the local government (at what point are local authorities motivated to support the process and the availability of financial and technical resources) and the structural variables such as the kind and magnitude of the concerned resources, the relationships of local power and the local economy.

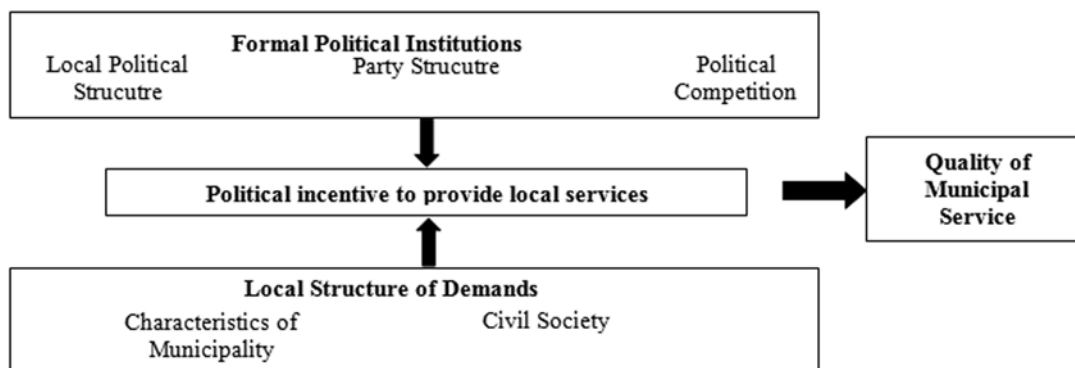
Following this idea, several authors agree that decentralization works differently depending on the kind of powers which are decentralized (Litvack *et al.*, 1998; Andersson *et al.*, 2006; Faguet, 2014). Others, still, sustain that decentralization can work, but only in the context of specific institutions which include mechanisms of accountability, supervision and transference of resources (Agrawal and Ribot, 1999; Andersson *et al.*, 2006; Ardanaz *et al.*, 2014).

It is increasingly recognized that for decentralization to reach the potential benefits of an efficient and equitable provision of public goods, it is necessary for citizens to be able to send appropriate information to the local actors, so that local politicians can respond appropriately or, when this does not happen, be held accountable. It is claimed that for these conditions to exist, several institutional and social characteristics have to be gathered. More specifically, the incentives for a local politician to respond to the demand of the constituents are understood as being conditioned by institutional incentives within the framework of national policy, by constraints of the local political system, and by the formal representation and articulation of the citizens' preferences in the political structure (Manos *et al.*, 2014). In the model by Kauneckis and Andersson (2009), formal political institutions and the local society's structure

generate several incentives and constraints to the action of municipalities. Thus, the structure of local political action is conceptualized as being composed by two levels: the im-

pact of local political institutions at the national level and the influence of the local governments/municipalities' specific institutional and socioeconomic features (cf. Figure 3).

**FIGURA 3. INTERACTION OF NATIONAL POLITICAL INSTITUTIONS AND LOCAL INCENTIVE STRUCTURE**



Source: Adapted from Kauneckis and Andersson (2009).

In this context, analyzing under which circumstances decentralization is more effective places emphasis not on the merits of decentralization (as opposed to centralization), but on the manner and conditions in which it is undertaken (Ardanaz et al., 2014). Theoretical provisions suggest that decentralization depends on institutional regulations and their interaction with social practices, influencing the achievement of decentralized governance (Faguet, 2014). These factors, according to Azfar et al. (2001), include the distribution of power among levels of government (central government supervision towards local government operations), the disciplines operating from within and outside government (management of the involved elements) and the principal-agent information flows (ability for all agents to participate in the decision-making process). In other words, the relationship between decentralization and its results can be better understood if it is analyzed in terms of actors, powers and accountability, which makes it relevant to analyze the relationships between the central government and local governments and between these and local populations (Agrawal and Ribot, 1999).

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