

## The Strategy of De-Internationalization of the SMES of the Footwear in the Area Metropolitana de Guadalajara

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**Abstract:** The aim of this paper is to analyze the exogenous and endogenous factors that determine the strategy of de-internationalization of SMEs in the sector of the footwear in the Metropolitan Zone of Guadalajara (ZMG). A model is proposed that explains the adoption of the strategy of de-internationalization from studies of comparative case in SMEs in the footwear sector of the ZMG. In-depth interviews were applied to managers and staff involved during the time that the company was exporting. Analysis points out that lack of strategic planning and the instability in the foreign currency exchange rate are major factors that determine the strategy of de-internationalization in SMEs in the ZMG. Also, it is evident that the strategic imbalance during the de-internationalization strategy is not considered as a failure, but rather as an opportunity to redirect it and thus grow in the local market.

**Keywords:** De-internationalization; strategy; exogenous and endogenous factors; SMEs

### 1. Introduction

Interest in studying the strategy of internationalization of small and medium-sized enterprises (SMEs) (Andersen, 1993; Bell et al., 2004; Mr. de Clercq et al., 2005; Fillis, 2006; Johanson & Vahlne, 1977) and the factors that determine, is extensive (Andersson et al., 2005; Karedeniz & Göcer, 2007). However, there are few studies that address the strategy of de-internationalization and the withdrawal of export.

The de-internationalization, in agreement with Mellahi, 2003 (quoted by Reiljan, 2005), is considered as a strategic response of the organization to reduce the participation in international and/or domestic operations in order to improve the profitability of the business as a result its external environment or its domestic

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context. The retirement of the export is defined by Pauwels and Matthyssens (1999, p.10) as “an enterprise’s firm decision to reduce activity in a market and a product abroad”, either as a decrease in the international market share or as a complete abandonment of the same (Crick, 2002; Pauwels & Matthyssens, 1999; Reiljan, 2005).

Research on the internationalization emphasizes incentives and obstacles/barriers that a company faces in order to internationalize (Bell & Crick, 2002; Clercq et al., 2005; Cavusgil, 1984; Fillis, 2001; Johanson, Wiedersheim-Paul & Vahlne, 1977; Leonidou & Katsikeas, 1996). Among the key points considered as the dominant theories of the internationalization of enterprises some factors are directly influencing the adoption to this strategy, such as experience, management vision, and rapid changes in the competitive environment (Andersson et al., 2004; Baldauf et al., 2000; Jimenez, 2007). However, research has not considered those factors that determine the output of the international markets. The adoption of the strategy of de-internationalization is a subject hardly considered and even forgotten (Benito, 2003; Pauwels & Mathyssens, 1999; Reiljan, 2005; Turner & Gardiner, 2007).

There are contributions focused on analyzing such a strategy, particularly the importance of certain factors such as experience in the markets, the costs involved, the information you have on them, the characteristics of the entrepreneur, as well as the implementation of strategic planning to break into the international environment (Benito, 2003; Crick, 2002; Pauwels & Mathyssens, 1999, 2002, 2004; Reiljan, 2005; Turner & Gardiner, 2007). In the long term, these factors may lead some companies to leave the markets or to redirect its strategy towards new opportunities, as a result of the external environment or the changing domestic context.

Knowing the causes that determine the behavior and the factors that determine the presence of small and medium-sized enterprises (SME) of the footwear in external markets is of great importance, because they contribute to the generation of employment and economic development of the country. However, given their characteristics, SMEs present certain problems that shorten their stay in the market.

The Ministry of economy (2009) argues that the general problem of SMEs is associated with the following:

- (a) Limited participation in trade;
- (b) limited access to sources of financing;

- (c) delinking the most dynamic sectors;
- (d) deficient training in human resources;
- (e) lack of engagement with the academic sector;
- (f) lacking culture of innovation processes and development technology.

These constraints have an impact on the performance and permanence of the SMEs, with its consequent effect on employment and income of the nation. The majority of the footwear SME positioned in a given market, as part of their problem, they do not have expectations of growth that go beyond any plan. Despite the importance of the number of companies contributing to the economy and job creation, only a small percentage of SMEs export.

According to a survey of the industrial situation of the footwear in Jalisco, the system state of Jalisco information (SEIJAL) and the Chamber of the industry of footwear of the State of Jalisco (CICEJ), there are 806 companies dedicated to this activity within the state as of 2008. Moreover, according to the same survey in 2008, which interviewed a sample size of 170 footwear companies, only 13 percent are engaged in export performance.

This research aims at the analysis of the strategy of de-internationalization of small and medium enterprises (SME) in the footwear sector in the Metropolitan Zone of Guadalajara (ZMG) and the factors that determine the strategy. This study is limited to the export of the production of small and medium enterprises (SMEs) in the sector of the footwear for several reasons.

First, the export is considered the primary means of entry to international markets for SMEs (Pauwels & Matthyssens, 1999; Crick, 2002; Leonidou, 2004). In addition, some studies show that withdrawals occur to a greater extent during export in comparison to other mechanisms of entry such as for example the direct foreign investment (Pauwels & Matthyssens, 1999; Reiljan, 2005). Another reason is that the footwear SME that settle in a given market, do not have expectations of growth beyond the expected. Despite the contribution to the economy and employment generation, only a small percentage of SMEs export. Of these, only few manage to stay on the international markets.

During the implementation of a prior questionnaire for the selection of cases for the study, a sample of 40 manufacturers of footwear in the State found that 10 companies had ceased to export. Of the small percentage that manage to survive, the footwear SMEs have to face constraints that prevent their expansion of

activities abroad, mainly illegal imports, informal trade in much of the country, the difficult economic environment, but above all the open trade with the Asian bloc.

For example, given the importance in exports and only to measure the problem, according to the Chamber of Footwear Industry of the State of Guanajuato and based on a study carried out by the Center for Economic Study of the Private Sector (CEESP), the damage that smuggling causes on the Mexican economy amounts to 30 billion dollars. The fiscal authorities no longer receive them, just because of the added tax value (not including the payment of duties and countervailing duties, a total of about 50 billion pesos.)

An additional problem stemmed from the periods of most recent economic crisis in the years 1995, 2001 and 2007, which have affected the economic growth of the country and the main sectors that make up the production environment. These economic crises led to a slowdown in the growth of certain sectors, particularly the manufacturing sector (Salinas, Tavera, 2007; Mendoza, 2010; Dussel, 2004 and 2009). In addition, the manufacturers of footwear, “are suffering the consequences of the opening up of trade which favored the importation of Chinese products, whose lower prices have led to the departure of many companies”, says Rendón Trejo (2009, p. 2).

The existence of factors such as the lack of experience and knowledge of international markets, the increase in costs, as well as a limited production capacity that is unable to cope with the overwhelming demand abroad, has resulted in the loss of competitiveness in the industry. According to an interview of the Director of the Chamber of Footwear Industry of the State of Jalisco (CICEJ), there is no specific data of the companies that are affiliated with the chamber, how many exported and how many have ceased to do so. However, the decrease in the number of undertakings established in a formal way is clear. This has an impact on the uptake of tax revenue, not to mention the great unfair competition affecting the internal market, which harms the national productive plant, generates closing companies, and as a result, the loss of thousands of jobs. All this has been at a disadvantage to most of the footwear producers in the country including Jalisco.

With this issue, the questions of this study are: what are the factors which determine the de-internationalization strategy in the footwear industry of the ZMG? What factors determine the strategies of de-internationalization of the footwear SMEs in the ZMG?

## 2. Theoretical or Referential Framework

Literature on internationalization, draws attention to the growing participation of small and medium-sized enterprises (SME) in international trade as a result of the intense globalization of markets, which during the first decade of the 21st century has shown dramatic and rapid changes (Leonidou, 2004).

According to the report on the world trade by the World Trade Organization in 2008 "Trade in a globalizing world", even though there is no universal definition of *globalization*, economists use the term to refer to "the international integration of markets for primary commodities, capital and labor" (Mauve et al., 2003).

The internationalization strategy has been widely studied, mainly to get to know the behavior of SMEs in the international market (Wolff & Pett, 2000; Lu, Beamish, 2001; Fillis, 2001; Chetty & Campbell-Hunt, 2003; Bell et al., 2003; Anderson et al, 2004; Bell, Crick, Young, 2004; Moen et al, 2004; Clercq, Sapienza & Crijns, 2005) and the factors that determine it (Andersson et al, 2004; Karedeniz & Göcer, 2007).

It is conceived as a way of participation and expansion in the activities of the companies in international markets. However some authors point out that some companies do not experience such growth (Penrose, 1959 cited by Turcan, 2003) and decide to reduce the commitment in the international markets or retire altogether (Pauwels & Matthyssens, 1999; Crick, 2002).

### A. The De-internationalization as Strategy

The de-internationalization concept was introduced by Welch & Loustarinen (1988, p. 37) who point out that "once the company moves into the process of internationalization it does not ensures its continuity" (quoted by Turcan, 2003, p. 211). Benito & Welch (1997, p. 9) define it as "*those voluntary or forced actions that reduce the commitment to participation or exposure to current activities abroad*". Also, they recognize the importance of differentiating between total or partial de-internationalization.

Some studies have analyzed the de-internationalization from various theoretical perspectives. From the economic field, the enterprise could consider de-internationalization in response to economic circumstances. From the perspective

of strategic management, the company considers the de-internationalization in relation to the product portfolio and life cycle of the business, and from the perspective of internationalization management, it is seen as a barrier to the de-internationalization (Benito & Welch, 1997; Crick, 2002; Pauwels & Mathyssens, 1999, 2002, 2004; Turcan, 2003 and 2011; Reiljan, 2005; Turner & Gardiner, 2007).

For its part Turcan (2003) points out that the de-internationalization considered more as a process in the cross-border activity, is a consequence of the cause-effect relationship between internationalization and de-internationalization. The model proposes a conceptual framework that frames three constructs or variables:

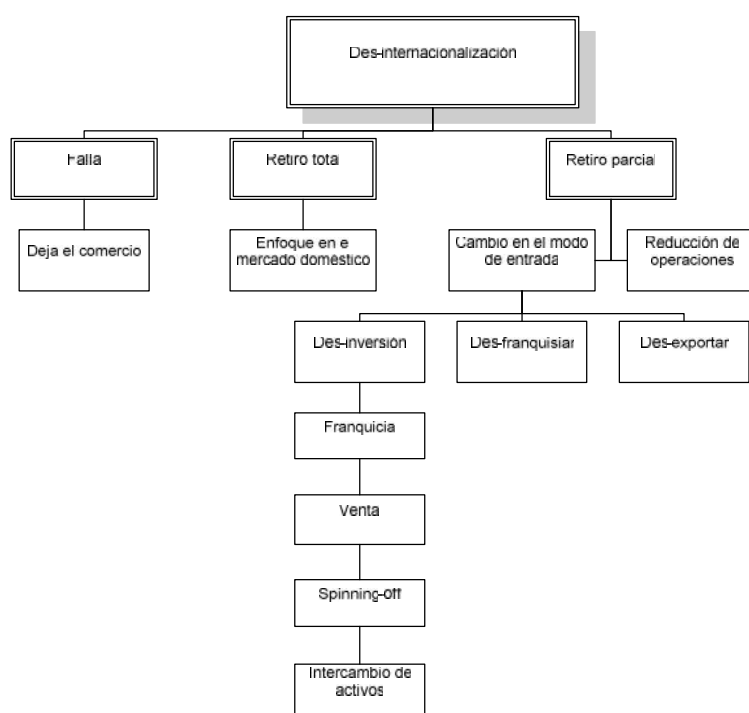
- (a) Commitment of employers influenced by psychological, social, and structural factors;
- (b) Change in the dual networks that are triggered by a critical event and are dependent on the actions and intentions of both partners; and
- (c) Time perceived by the entrepreneurs through the relationship of codes and memoirs (past) and the congruence and horizons (future).

Additionally, his model considers the importance of the total or partial withdrawal through the construction of a matrix where the positions of companies are located into quadrants as shown in Figure 1. In Figure 1, the location of the four quadrants is shown for the companies that are in the process de-internationalization. Quadrant I is formed by the companies that have fully withdrawn from international markets and instead focus on serving the local market. Quadrant IV also represents companies that withdrew completely from the market but with the difference that these companies could have ceased to operate during or before they started the process de-internationalization. Enterprises that are in quadrant II remain active on the international markets but partially de-internationalized, and finally quadrant III represents those cases not existing or known as “cells not empirical” (Non-empirical cell).

The former is more likely to happen during the early stages, and it will decrease as the commitment and knowledge in foreign markets increases. This is in opposite to partial de-internationalization which tends to occur during the later stages of internationalization.

Figure 2 shows that enterprises adopt modes of entry depending on the strategies that can be considered a failure, i.e. a total withdrawal from the markets, with a shift in strategy or as a partial retreat where they opt for change in input mode, de-

*franchising* or *de-exporting*, and a reduction in operations. This behavior matches the research developed by Pauwels & Mathysens (1999, 2004). In this sense, the company may choose to retire partially or completely. In other words, they try to reorient their strategy, be it focusing on the domestic market or changing the input mode.



**Figure 2. De-internationalization modes<sup>1</sup>**

On the other hand Pauwels and Mathysens (1999: 10), from the perspective of *export withdrawal*, develop a study about the process of a market withdrawal strategy defined as “the strategic decision of a firm to rule the combination of a product/market out of its international portfolio.” In other words, they are all actions taken by the company to reduce its commitments in the export market, which can be both internal (new strategic priorities) and external (dramatic changes

<sup>1</sup> Source: Own generation based on Turcan (2003).

in the competitive environment). His approach is basically based on the cognitive processes and behavior of decision-making and implementation processes. In this sense, export withdrawal is considered more as a strategy whereby an organization carries out an adjustment between domestic resources and skills, and the opportunities and risks created by the external environment in which it unfolds (quoted by Pauwels & Mathysens, 1999).

So the strategy for current research is understood as a process whose main characteristic lies in the decision-making process which involves processes of learning, planning, and engagement in the activities of the organization. Six phases are identified in the process of decision-making during the retreat of export. Thus, this process is developed in the model of export withdrawal as a process:

- (a) Start and accumulation of commitments on the market;
- (b) Increase in stress;
- (c) Two contrary reactions;
- (d) Game of power;
- (e) Vacuum vs. fait accompli; and
- (f) Beyond the withdrawal.

Figure 3 explains the strategic process for withdrawing from the international market. The authors proposed a model of six phases conditioned by certain factors and behaviors induced by the threat of the learning environment and the dynamics of the political context.

The first phase consists of the company's gradual accumulation of both financial resources and physical and material resources (infrastructure, equipment). The second phase is when there is an increase in stress that comes with a mismatch between the objectives initially set by management and the achievement or the company's current situation. There is uncertainty among the staff, and they seek solutions to improve the situation. The third stage presents reactions in conflict that arise due to the stress of the situation. The company seeks alternatives that enable them to make strategic decisions to resolve the conflict. Management adopts tactical measures. Two reactions arise thereby: passive and reactive. In the fourth stage there is a game of power between staff and managers.

Finally, in the last phase, two types of retirement are identified: on one hand, the tactical withdrawal which arises as a result of the threat-rigidity and management's learning of exploitation. On the other, the strategic withdrawal is characterized by



being considered a “failure” that is induced by the exploratory learning of lower managers.

### **B. Factors in the Strategy of De-internationalization**

Some authors note the factors involved in the strategy of de-internationalization (Reiljan, 2005; Turner & Gardiner, 2007). One of the causes for which export withdrawal could be started, as indicated by Pauwels & Mathysens (1999), is the ambiguity of the information. The majority of managers perceive symptoms of weakness in the performance in particular markets, and they tend to make their own inferences regarding the main problems that cause the weak performance as well as probable solutions to those problems.

This process of de-internationalization coincides with Leonidou (2004) who pointed out that inefficiency in information, competitiveness in pricing, habits of consumers overseas, and obstacles and political-economic, are factors that hinder exporter behavior. From another perspective, Crick (2002) considered the lack of strategic planning, including the mobilization of domestic resources as well as a large number of environmental issues arising from the weakness of the currency and the imposition of trade tariffs, as one of the reasons that might influence the decision to discontinue international activities. However, she argues that discontinuing exports can be a strategic advantage for the company if concentrating on the domestic market is more profitable.

In this sense, Reiljan (2003) also agrees in the argument that the factors intended as additional sources of knowledge tend to decrease the effect of a lack in international experience that creates changes in the strategy, with which it can increase or decrease the possibility of de-internationalization at the same time. As a result, the influence of this factor decreases as the company gradually fills its own knowledge base with the knowledge based on experience. During the time when companies think about internationalizing, they look to new markets for their product, internationalizing thus becomes one of their primary motives, and as their commitment to these markets increases, their field of activities increasingly becomes more widespread.

In a study conducted for a group of manufacturing companies in Estonia, Reiljan (2005) identifies four groups that frame the reasons for the de-internationalization, and their significance depends on the stage of globalization in which the company

is located. One of the factors identified to be crucial for de-internationalization is the increase in costs, which tend to occur during a longer period of time and which also have a greater influence during the intermediate process of internationalization. This event is contrary to the change in strategy that tends to occur during the later stages of internationalization.

On the other hand, as the company increases its international experience, it looks for ways to minimize the costs arising from the partial or total dissolution of operations that are abroad. Its effect will depend on the level of commitment and experience. Nonetheless, it will have a major influence during the intermediate process of internationalization. In the study's findings, it is concluded that export withdrawals could have been caused mainly by the increase in costs and a poor performance. Moreover, the strategy of foreign owners could have played an important role in the des-investment in some of the foreign operations.

Three determining factors are proposed in this research for the adoption of the de-internationalization strategy by the footwear SMEs of footwear in the ZMG: Management's characteristics and skills increase in costs and economic conditions.

### **3. Method of Research: Multiple Case Studies**

For this investigation the method of case studies is realized based on the approach developed by Yin (2003, p. 13) which is defined as "an empirical inquiry that examines a contemporary phenomenon within its real context, when the boundaries between phenomenon and context are not evident, and which uses multiple sources of evidence". A model that shows the relationship between the strategy of de-internationalization by the footwear SMEs and the exogenous and endogenous factors is proposed. De-internationalization strategy is conditioned by a range of factors. Based on the literature, some key variables are defined for the framework of the proposed analysis which will make it possible to consider and compare the previously mentioned scenarios. In short, the explanatory hypothetical model proposes that the strategy of de-internationalization (ED) is conditioned by the skills/characteristics of the management (HD); the increase in costs (IC); and by the economic conditions (CE). The proposed model is as follows:

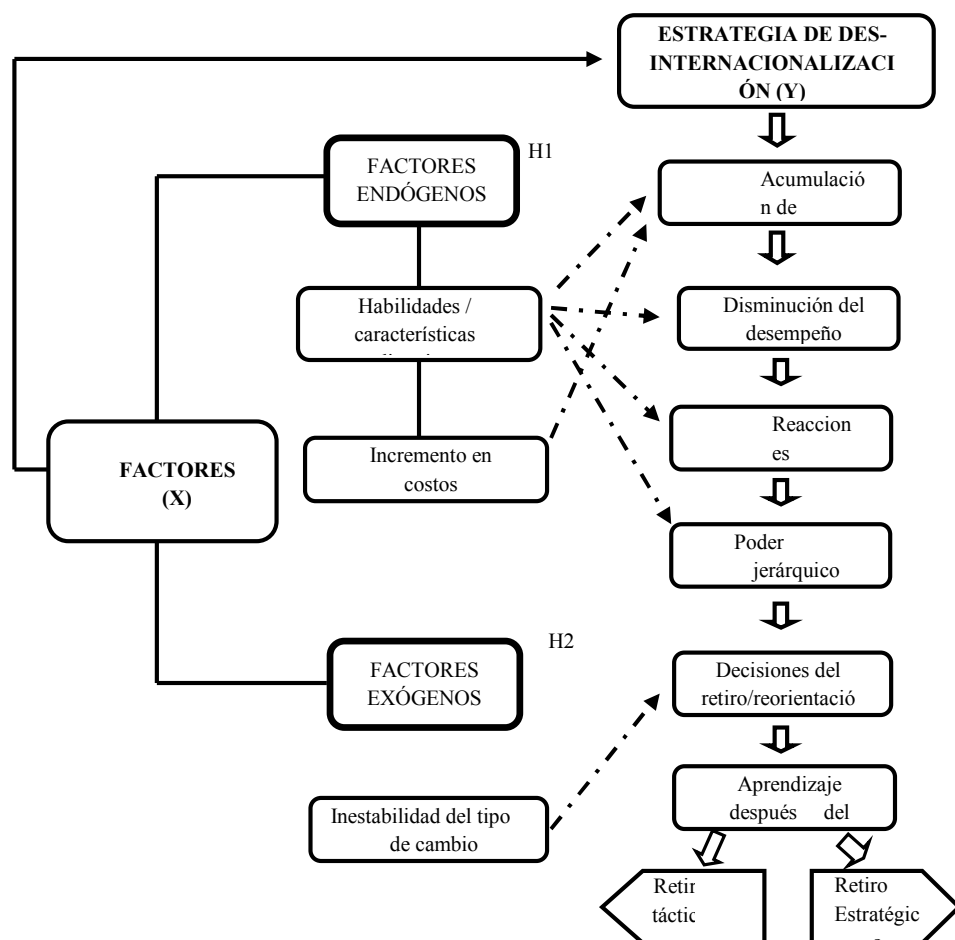


Figure 4. Explanatory hypothetical model<sup>1</sup>

As can be seen in Figure 4, two types of factors are identified: endogenous and exogenous. The endogenous factors refer to all that which is associated to the resources, capabilities and difficulties of the company. The features/abilities of the management and the increase in costs (for export) are primarily considered. The factors considered for a manager's capabilities/skills are the age of the entrepreneur, their experience in the sector (years), and whether or not they made

<sup>1</sup> Source: Prepared by the authors.

any strategic planning. The increase in costs considers the expenses incurred for exports as a proportion in the total sales during the period in which it was exported.

The exogenous factors relate to the difficulties of the economic/political context in which the company operates. In this sense, economic conditions are considered, primarily those that are conditioned by the changes in the foreign currency risk: instability in exchange rates resulting from fluctuations in the prices of export abroad, and evaluation of the currency of the exporting that causes non-competitive prices for the final buyer in the foreign country.

Both external and internal factors determine the adoption of the de-internationalization strategy, which is characterized by the transition of various stages that culminates in the reorientation of the company's strategy, whether through a tactical withdrawal seen as a failure, or a strategic seen as an opportunity for growth. The dotted lines of the figure show a relationship that will not be studied for the moment. It only describes the behavior for each company during the transition between each stage that helps identify the withdrawal adopted by each one.

Data was collected through in-depth interviews. In case A, five key informants were interviewed. They were selected according to the experience and the level of participation during the time that the company was exporting. Selected respondents were the President of the Council (formerly CEO), the Sales Director, Sales Manager, the person in charge of the Office of Foreign Trade (whom was previously working as a direct person in charge of the Department of Imports and Exports when he was in the company). The interviews had duration of 40 minutes to an hour. An interview script was written for the interviews.

In case B, the selected key informants were the general manager (owner of the company), the person in charge of the sales area (supported for a while in the export), the person in charge of the collection area (who previously handled export operations) and the administrator (wife of the CEO). Interviews lasted approximately 40 minutes to 1 hour. For case B, some additional data for the triangulation of information was limited mainly due to the fact that the contacts were no longer available and the ones available were not able to provide the data. The characteristics of the case studies are set out in table 1 (see annex), for the analysis of the results of conducted a categorization of variables.

**Table 2. Operationalization of variables<sup>1</sup>****ENDOGENOUS FACTORS**

<b>Factors</b>	<b>Variables</b>
<b>Skills / characteristics of the directors (CD)</b>	Level of school
	Experience in the sector
	Knowledge of the foreign market
	Importance in the strategic planning
	Vision of long-term growth
<b>Increase in costs (IC)</b>	% transportation on level of export costs.
	% expenditure on export on total sales to the export.
	% costs of production on the level of the export.
<b>EXOGENOUS FACTORS</b>	
<b>Economic conditions (EC)</b>	Revaluation of the currency of the exporting
	Instability in foreign exchange rates

**4. Analysis and Findings of the Results**

Companies show a homogeneous behavior during the adoption of the de-internationalization strategy. As noted in the theory, the companies carried out an adjustment between domestic resources and the opportunities and risks caused by the environment in which these operate (Pauwels and Matthyssens, 1999). From the first phase characterized by a gradual accumulation of resources the last phase which culminates in the withdrawal of the international markets, there is a shift in strategy that allowed them to take advantage of the opportunity for growth in the domestic market. The results indicate that the answers of the respondents all agree in recognizing that the lack of strategic planning and the economic conditions prevailing in the market, prompted the decision to withdraw from international markets. In one case (case A), the importance of the costs involved in export are considered, particularly the costs of logistics which occasionally increase the final price of the product.

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<sup>1</sup> Source: Prepared by the authors.

Some people thus also considered other factors, even when they were not decisive in the adoption of the de-internationalization strategy, if they had an influence during the export process. In general terms they consider that the knowledge of foreign markets and that having the appropriate intermediary is essential to achieve success in international markets.

## 5. Conclusions and Final Reflections

The above results suggest two important conclusions for the study: The factors affecting the adoption of the de-internationalization strategy for both case A and case B, and that are considered of utmost importance by the personnel involved in the export process, are mainly the importance of strategic planning and the instability of the exchange rate caused by the economic crisis. The de-internationalization represents a choice strategy that allows them to refocus their strategy. It also represents an opportunity to grow in other markets, particularly the domestic market. This study presents some limitations. The first is the limited access of information in primary or direct sources. The second is the bias of the information because the results come from the perceptions of managers and staff whom are engaged on the analyzed variables.

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## ANNEX 1

Table 1. Characteristics of the case studies<sup>1</sup>

FEATURES	IF COMPANY "A"	IF COMPANY "B"
	<b>Constant exporter</b>	<b>Sporadic exporter</b>
<b>Foundation</b>	1979	1944
<b>Company size</b>	Small	Medium
<b>Number of workers</b>	50 workers at the factory	150 workers
<b>Market goal</b>	Children's footwear and Lady of synthetic material (range justifiably)	footwear of leather woman of medium to high range, as well as leather handbags and accessories
<b>Current markets served</b>	20 States of the Republic (2 stores outlet own brand)	22 boutiques throughout the Republic and sale
<b>Channel of distribution at the national level</b>	Shoe shops, Department stores and sales catalogue (without own brand) and 2 shops outlet own brand	Specialty stores, Department stores and boutiques mark itself, under the schema store-in store
<b>Current export markets</b>	None	None
<b>Time in which exported</b>	1994-1998	Background the years 80s, store located in Houston Texas. Export to E.U. 2007-2009
<b>Served markets</b>	Latin America (Colombia, Chile, Costa Rica, Panama)	United States, Spain and Chile
<b>Channel of distribution during export</b>	Intermediary (sales agent) (promotion and direct marketing)	Broker (agent) (through trade shows and direct sales)

<sup>1</sup> Source: Own generation based on the data gathered during field work