

The relationship between internationalization and innovation capability: A comparative study of Brazilian and Mexican companies

Abstract

Innovation is considered by many researchers the inevitable outcome for the very survival of the firm. Considering the capability approach, the innovation of the firm is better understood as a combination of certain capabilities. In that sense, the purpose of this paper is to analyze the firm's innovation through four capabilities that can be found in any firm: development, operations, management, transaction (Zawislak et al., 2012; 2013) and its relationship with its internationalization in emerging economies. It consists in a cross-country comparative study among companies that have international operations. We used three Brazilian and five Mexican companies that belong to a footwear industry. The companies selected represent different cases of internationalization and belong to clusters of each country. The results indicated that the internationalization process affects the companies of both countries in different ways. In Brazilian companies, internationalization affected the innovation capability; however, in Mexican, innovation was not desired.

Resumen

La innovación es considerada por muchos investigadores el resultado inevitable para la sobrevivencia propia de la empresa. Considerando el abordaje de capacidad, la innovación de la empresa es entendida como una combinación de ciertas capacidades. En este sentido, el objetivo del presente trabajo es analizar la innovación de la empresa a través de las cuatro capacidades que pueden ser encontradas en cualquier empresa: desarrollo, producción, gestión y transacción (Zawislak et al, 2012; 2013), y su relación existente con la internalización en economías emergentes. El artículo consiste en un estudio cross-cultural alrededor de compañías que cuentan con operaciones internacionales. Fueron utilizadas tres empresas brasileñas y cinco mexicanas pertenecientes a una industria representativa: el sector cuero-calzado. Las compañías seleccionadas representan diferentes casos de internacionalización. Los resultados indicaron que el proceso de internacionalización afecta las empresas en diferentes formas de acuerdo al país. En el caso brasileño, la internacionalización afectó la capacidad de innovación, sin embargo, en el caso mexicano, la innovación no era deseada.

1. Introduction

Scholars of economic development theory, following the Schumpeter's (1988) tradition, have proposed that innovation has a positive impact on company performance. Therefore, increasing investments in innovation led to develop and license new technologies, adopt more

efficient production techniques, introduce new products and new processes thus it makes the company more competitive and increase its economic performance (Kafouros et al., 2008).

The increase in company's economic performance is also related to the growing involvement of companies in the international market (Johanson; Vahlne, 1977; 2009; Dunning, 1988; Kafouros et al., 2008), especially in emerging countries, since internationalization expands the scope of the company's operations and enhances the benefits of economy of scale. It is observed that this movement has been accompanied by a concern with the expansion of innovation activities. To become international, companies are exposed to higher competitive pressure than in local markets which results in the search of new solutions.

According to Kafouros et al. (2008), the greatest innovation performance can be explained by a larger interface with external sources of information which depends on how the company is internationalized. It also depends on the psychic distance among local and foreign markets, the relationship in networks (Johanson; Vahlne, 1977; 2009) and the technological distance between those countries (Dunning, 1988), so some companies are more benefited by the internationalization than others.

When considering these variables, it is clear that internationalization promotes innovation and we would have to study this relationship in companies. Therefore, this study aims to analyze the relationship between internationalization and innovation capability in emerging economies. Mexico and Brazil are countries that share several similarities either in economic and social context. They are the two biggest economies of Latin-America, both countries got their independences around the same age (1810 and 1822, respectively), moreover they were colonized by European nations.

The present paper consists in a cross-country comparative study among companies that have international operations, at least exports, in Brazil and Mexico. To fulfill the research objective, next section presents a theoretical background on internationalization and innovation; section three describes the methodology; footwear sector is showed in section four. In section five, results are shown and discussed. Finally, we present our final remarks, implications and further research.

2. Innovation from Internationalization: the sources of new knowledge

Following a Schumpeterian tradition, the capabilities approach describes what the firm can do and how it seeks changing and innovation in order to guarantee its continuity over time (Richardson, 1972; Nelson and Winter, 1982; Schumpeter, 1988; Lall, 1992; Bell and Pavitt, 1995). In this view, the firm is a result of multiple sources of knowledge responsible for carrying out specific routines in order to deliver goods and services. The greatest outcome in terms of innovation can be explained by a larger interface with external sources of information which, according to Kafouros et al. (2008), depends on how the company is internationalized.

2.1 Internationalization Process

Generally, internationalization refers to the development of commercial activities with other markets outside the country of origin (Deresky, 1994). Recently, Kafouros et al. (2008) define internationalization as the expansion outside the geographical boundaries of the country and that are new for the firm. This broader definition includes, for example, firms that internationalize its production headquarters in one country, but not necessarily sell their products in this country.

Internationalization is not a recent issue, studies based on strategic perspective were developed mainly at the end of the 70's. These studies led to two major theoretical approaches: the behavioral, represented mainly by the Uppsala Approach, and the economic, represented by the Eclectic Theory.

The company's market expansion is a strategic decision that may involve several aspects. The decision to internationalize depends on the firm's specific or complementary assets (Dunning, 1988). In economic view, risks and costs have been analyzed to decide which market and what kind of investment increases firm's economic performance.

Following the economic approach, many scholars related the increase in the company's economic performance to the growing involvement in international markets (Johanson; Vahlne, 1977; 2009; Dunning, 1988; Kafouros et al., 2008) since internationalization expands the scope of the company's operation and enhances the benefits of economy of scale.

According to Kafouros et al. (2008), the greatest innovation performance can be explained not only by the market expansion but by a larger interface with external sources of information which depends on how the company is internationalized and in which degree (Sullivan, 1994). In that sense, Johanson and Vahlne (1977; 2009) constructed a model of the internationalization firm's process, its gradual acquisition, its integration and its knowledge use about external markets. According to the authors from Uppsala's School, internationalization is a gradual process in which firm's decisions to export, starts establishing sales subsidiaries in external markets, and then goes on in the same way with its production process.

Besides studying new markets, it is also important to focus on the process of learning firm's entry mode; it's in this sense that development and production of new knowledge from the internationalization process are important for innovation. By incorporating new knowledge, firms must be understood as a collection of resources and capabilities that can learn, share, disseminate and create knowledge through interactions (Caloughirou; Kastelli and Tsakanikas, 2004). These interactions generate a flow of knowledge from outside to inside the firm and changes the firm's know how (Howells, 1996). The ability to exploit external knowledge is a critical component of innovation capabilities (Fosfuri and Tribó, 2008).

2.2 Innovation Capability

Innovation capability has been discussed since the 80's. According to Dosi (1988), the innovation capability is related to different degrees of technological accumulation and

different efficiencies in innovative search process. For Lall (1992), the ability to innovate encompasses the skills and knowledge required to absorb, master and effectively improve existing technologies and create new ones; Cohen (1990) describes innovation capability as a critical function of the firm that has the ability to recognize the value of new external information, assimilate it and apply it to commercial ends labeling firm's absorptive capacity. Recently, Rush, Bessant and Hobday (2007) and Cetindamar, Phaal and Probert (2009) have related innovation capability with the technological learning process outcome.

In sum, innovation capability is a combination of resources and abilities of the firm to transform new knowledge and existing knowledge into new routines, new products and new technologies in order to achieve Schumpeterian profits.

The Schumpeterian profits are the return of innovation to the company based on its sales. In order to achieve a great performance on market, it is necessary to transact besides to manufacture. Production and transaction depends on two drivers: a technological driver and a business driver (Lefebvre and Lefebvre, 2001). The integration between two drivers on capabilities approach creates competitive advantage.

Lefebvre (2005) refers to technological driver as the firm's ability and its future potential to apply specific technology, solve their technical problems and enhance the technical functioning of its production process and its finished products. This driver is supported by the development capability and the operations capability. Firms that have further developed these capabilities are technological leaders, as their performance will depend mainly on the technological vector (Zawislak et al., 2013).

In addition to technological driver, the business driver of the firm performs two important functions, first, to integrate the different areas of the firm, which Guan (2003) defines as the capacity to constitute a well-established organizational structure for coordinating the work of all activities towards shared objectives in order to influence the speed of innovational processes through the infrastructure for developmental projects; while Zawislak et al.(2013) argue the integration of different areas of the firms is realized through the management capability.

The second function will be to take its goods and services all the way to the market to be transacted. Guan (2003) refer to the function as a marketing driver which defines as the capacity to publicize and sell the products on the basis or understanding consumer's current and future needs, customer acceses approaches, and competitors knowledge. In this context Zawislak et al. (2013) define the function as transaction capability, that is, the activities related to the way the firm interacts with the market, either customers or suppliers.

Summing up the firm's innovation capability is understood through four capabilities that can be found in any company: development, operations, management and transaction (Guan, 2003; Lefebvre 2005; Zawislak et al., 2012; 2013).

2.3 Analytical Framework

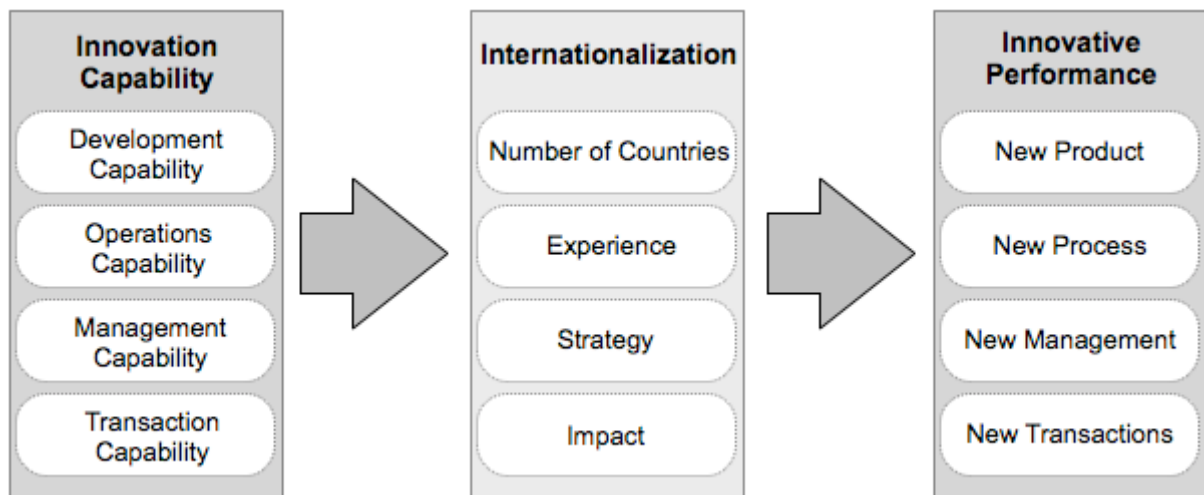
The firm is a connecting link between available knowledge and market needs. In this sense, new value solutions for market ideas, are embodied in, through firms' capabilities. As argue earlier, this embodiment occurs through the four capabilities of the firm: development, operations, management and transaction (Zawislak et al., 2012; 2013).

Company's internationalization contributes to innovation by the possibility of using available globally resources combined with those existing in domestic market (Kafouros et al., 2008). Diversification, according to this author, provides access to new resources, new ideas and new technologies, fostering innovation by using specific advantages of different countries.

Meanwhile, becoming an innovator is not a matter of luck, it is necessary that the company adopts internally innovation as part of its strategy; in this sense, accessing to a new world can improve or change innovation's capability through varying opportunities to promotes firms' creativity and efficiency. Furthermore, Hitt et al. (1997) argue that the improvements in knowledge accumulation and increase of organizational learning, that occurs due the internationalization process, advances in terms of innovation capability.

To understand how internationalization relates to innovation, it is necessary to focus on the factors that first caused return of the second. Therefore we created an analytical framework (Figure 1), factors are grouped into three categories. The first category lists the factors that are involved in the innovation capability of the firm (Zawislak et al., 2012; 2013). The second, it relates internationalization evidences. The third shows the result of innovation, which we named innovative performance.

Figure 1 - Analytical Framework: internationalization and innovation relationship



Then, from the analytical framework, it is possible to see that innovative performance of firms is the result achieved by their capabilities through internationalization. In addition, Kafouros et al. (2008) and Hitt et al. (1997) assert that companies that more expansion international markets, achieve superior returns based on innovation.

3. Methodological Proceedings

The present paper consists in a cross-country comparative study among companies that have at least international exports operations in Brazil and Mexico. We used eight companies to compare that the firm's innovation capabilities is affected by its internationalization. The companies belong to a representative industry, the footwear sector. Industry sector from both countries, are clustered by region. We used three footwear companies in the Vale dos Sinos region (southern Brazil) and five in León (Guanajuato - Mexico). The companies selected represent different grades of internationalization. The data was collected on visits, interviews, reports and documents.

It is an exploratory study and the first stage of a research project. This phase carries out the following activities: secondary data survey and in-depth interviews. The in-depth interviews were carried out with people who have extensive knowledge in their business, such as the owner himself/herself, directors and/or managers. We structured the interview as shown in 'Appendix A - Research Instrument'. The questions have been translated and validated either in Portuguese and Spanish. Moreover, interviews were recorded and transcribed. Besides the data collected on visits and interviews, we looked for additional information on reports and documents in order to complete the study.

The companies selected in Brazil were chosen based on information provided by the government institution CAMEX (Chamber of international commerce) which is responsible for registering exportations of Brazilian's firms. They were contacted directly by telephone and e-mail. Finally there were three companies, one small and two large, which accepted to proceed with the meeting. The data were collected during the months of February and March on 2013.

The companies selected in Mexico were chose based on information provided by the government institution COFOCE (Coordinadora al Fomento y Comercio Exterior) which is responsible for promoting exportations in Guanajuato's Mexico state. The list was composed of 222 enterprises belonging to the footwear and leather industry. From the list, they were randomly contacted 30 firms by telephone and finally five accepted to proceed with the meeting. Four of the companies were small and one medium. In a general aspect it was perceived that as larger the firm as easier to proceed with the interviews; smaller firms were so restrictive about their information. As a part of the interview it was also mentioned that all the information will be anonymous. The collection of the data was made during January and February on 2013. The approximately time among each interview was 50 minutes.

3.1 Data Analysis

The analysis of the data was made considering the dimensions from the Analytical Framework show in figure 1: Innovation Capability, Internationalization and Innovative Performance. The results were analyzed using the methodology of content analysis from the information that was collected among the interviews.

4. The Footwear in Brazil and Mexico: the context

Beyond a social issue, democracy in Brazil became a transcendental economic event since their markets were opened to foreign competition on 1989 when Fernando Collor de Melo became the first democratic elected president after 24 years of military regimen. This was a transcendental period for Brazilian companies since they begin facing against foreign competitive pressure that used to be higher than local markets. At the time, technology transference was made from other countries because its bases were just made from traditional processes. In this sense, industrials of the time did not became aware about the needs that were occurring, it was in this context that the government perceived the phenomena that resulted in the promotion of public policies for technological development.

Brazil is the third largest worldwide footwear manufacture only behind China and India. Its footwear industry is one of the best organized around the world represented by Abicalçados (Brazilian Footwear Industries Association). This association works as an advocacy office that faces for policies that best favor the sector.

Currently, Brazilian footwear industry has around 8 thousand enterprises that belongs to the sector and employs around 340 thousand workers. The division of the sector is made into clusters, that is, enterprises of the same category in the same geographic location. This strategic location not only efficient logistic processes, it also encourages knowledge agents, suppliers, consumers and institutions that relates each to other (Abicalçados, 2012).

The three clusters are: Vale dos Sinos region in Rio Grande do Sul that concentrates the production of women shoes, Southeast Region in Sao Paulo that manufactures men shoes and the last one refers to the northeast region specifically in the city of Ceara. Table 1 shows the information of each region:

Table 1: Production and Exportation per Brazilian Region

Production (in pairs of shoes)	Brazilian Region	Exportation (in pairs of shoes)
399.2 mi (45%)	Northeast	102.1 mi (71%)
302 mi (34%)	South	31.6 mi (22%)
188.5 mi (21%)	Southeast	8.7 mi (6%)
3.6 mi (0.4%)	Middle-western	0.465 mi (0.3%)
0.475 mi (0.1%)	North	0.012 mi (0.1%)

Source: Abicalçados/2012

Regarding to exports, data shows that Brazilian footwear industry have exported to more than 150 countries, representing around US\$ 1.5 billion. Its main destinations are South America (37%), North America (24%) and Europa (23%) (Abicalçados, 2012).

In the same sense as Brazil, Mexico was a protected market till 1986 when the economy was opened to foreign competition with its entrance into the GATT agreement. This issue is clearly reflected with the quantity of imports that increased from \$13,7 million in 1987 to \$142,8 million in 1991 (INEGI, 2013). At the time, it was representing a threat for the industry but some years later (1994) an opportunity arises with the entrance of Mexico into the NAFTA trade agreement. These years represented a big transition for Mexican firms that usually used to sell relatively easy their goods in local markets.

Sector in Mexico is mainly composed of small producers. In 1989 industrial census counted 2332 manufacturing firms, 87% which employed fewer than 50 workers; on the retail side, in 1994, commercial census totalized 32,000 establishments. Most of the production is sell to local markets 96%, and only 4% is exported mainly to the United States (Woodruff C., 2002).

Its production is concentrated into three clusters around the states of Guanajuato with 50%, Jalisco and state of Mexico that have respectively 23% and 13% (Woodruff, 1998). Historically Guanajuato is the state with the longest tradition shoe industry. Most of the shoe factories are assembled by firms, that is, they buy all the components and manufacture only the product while some of the largest go further with a vertical integration mainly with the process of leather tanning.

Sector in Guanajuato is represented by two main associations CICEG (Chamber of the Footwear Industry from Guanajuato State) for the shoe industry and ANPIC (National Association of Suppliers for the Footwear Industry) for the suppliers sector. These two organizations are responsible for organizing the two main events that occur around the year in the area, the first one called SAPICA (Leather and Shoe Showroom) that is the major shoe fair in the country and the fourth biggest around the world, and the second for the supply manufacturers called ANPIC. The first one occurs twice a year with the spring-summer and autumn-fall collections while ANPIC happens only once a year. They both represent important events for the sector since they are the threshold for the tendencies that are coming up for next years.

5. Cases and Results

The next section shows results obtained from the study. In first place there is mention a short description about Brazilian firms and the findings about the capabilities proposed: Product Development, Operations, Management and Transaction; in second place there is presented in the same sequence the results that were found among Mexican companies. At the end, the results are summarized.

5.1 The Brazilian Footwear Companies

As it was already mentioned there were apply three in-depth interviews to footwear firms in the state of Rio Grande do Sul (Brazil). The two largest companies are familiar owned, founded 60 years ago. Although the small company is the newest one, his owner has been worked in the industry for more than 40 years. The firms export to more than 40 countries. Currently, they are looking for information about foreign markets, considering the economic

aspect as the main priority regardless the country to decide which are the most suitable for them. In Brazilian case, export companies are commonly large or belong to a group. Although these companies belong to a female footwear cluster, one of the large companies produces footwear for kids as well.

5.1.1 Product Development

All of the companies consider each collection launched as new products. These collections pass through small adaptations to foreign markets for aligning them to international trends. The main concepts of their products are comfort, design and creativity.

The kids' footwear company seems to be the only which most develops its new products, based on scientific knowledge. In this case, the development process passes through discussion with physicians and pediatricians. Other of the companies develops its products by using university-enterprise relationships. In last case, the owner takes the decision of new designs as he holds the knowledge and external information.

5.1.2 Operations

One of the three firms focus only in design and outsources the production, the other two divides it into the three regions already mentioned. The company that belongs to a group, produces in Northeast; the kids company has two manufacture units, Rio Grande do Sul and Northest. For the international market all of the companies promote minor changes in manufacturing process, they just make product small adjustments.

5.1.3 Management

All of the companies have strategic planning. This is a formal document that a group of key people built. However, the decision maker is the owner. Due to the internationalization process, all of the companies change their business model. They created or improved the franchise system.

5.1.4 Transaction

Large companies started selling by multi brand stores. The smallest one began creating female shoes for others brands. These companies have focused on client relationship (both franchisee and customer). In the kids company, the mother is the most important client.

Brazilian footwear industry use to be a manufacturer of luxury brands till the 2000 when the global crisis aimed Brazilian industry to start having its own design; this process also produce that Brazilian citizens became linked for its national brands. Moreover, two of the three companies have international franchise system.

5.1.5 Internationalization experience

Some years ago all of the companies worked to worldwide luxury known brands that let them to have international experience. This process was performed attending international fairs as well as manufacturing on request for the called "line builders". By this sense, the process of internationalization began as a reactive action; when they were manufacturing for line

builders, they received several information on international trends; so, as time elapses and started producing their own labels, their products were already aligned to international trends allowing them to make just small adjustments to be accepted in these markets.

5.1.6 Strategy

All of the companies have been going in national and international fairs through government incentives. Their strategies do not differ from local to international markets. The process for introducing new collections consists in launching the products and wait for feedbacks. The company which produces footwear for kids listens from local market feedbacks in different moments before and after launching, distinctively to foreign market as it is listened just after the collection has been launched; the shoe kids company also focus its strategy on local market.

The interviewers talk about the strategy of working with design instead of production. All of them are stores owned and franchisers. They recall the importance of placing a store into a mall as they can experiment the process of purchase as well as the store concepts.

5.2 The Mexican Footwear Companies

There were applied five in-depth interviews to SME's footwear firms in the state of Guanajuato (Mexico), four small and one medium. One of the small firms exports 100% of their products. All of them were familiar owned and founded in an average 25 years ago, the oldest started in 1942 and the newest in 1999. Footwear companies in Mexico are historically familiar enterprises that were established mainly by workers who started manufacturing by themselves and which gradually started growing. Even though some of them became big companies, owners continue involved among operations, usually under the management till other generation of his family gets the control.

Most of the manufacture processes continue to be manual making and the majority of the factories are mainly composed by workers who inherited the tradition from their parents. It can be perceived that the sector continues with some religious traditions as stop working at 12:00 for praying or having a procession once a year. The profile corroborated Woodruff (1998) findings in the sense that most of the SMEs Mexican exporters manufacture Western Boots. In this study four of the five firms belong to the segment of western boots, the other one manufactures shoes for kids.

5.2.1 Product Development

All interviewers agree that the product development process is a critical stage but only the 100% exporter firm has an specific department for do it. The medium firm expressed that decisions about new products is made among national and international sellers who decide which new collections are going to be produced during next season. They refer that its source of knowledge comes from empirical experience, showrooms and magazines. They explain that they visit two European fairs per year because tendencies are two seasons in advance from

local market. Products developed for international market differs only in color. After samples are produced they are shown at fairs, and the models that were requested during these events stay for its final production.

Small firms mentioned that develop of new models are a direct responsibility of the owner. One of them refers that decisions about colors come from the association of SAPICA and that only in one occasion it was designed a special western boot for the international market. The other expressed that they almost copy new tendencies from local fairs. The 100% exporter company mentioned that information of new styles come from different sources: clients, fairs, magazines, market research and that all their products are oriented to the international market.

5.2.2 Operations

Facilities of the small enterprises were houses adapted as factories located in traditional old neighborhoods mainly situated close to downtown. This situation lead to some problems among their manufacture process since the electric power transmission and the infrastructure were initially just build for home purposes. Other disadvantage refers to the logistics since the roads of the streets are so narrow that they are not capable of receiving big trucks. Inside the facilities, it can be appreciated that production process has to struggle against some difficulties of the buildings that were not adapted for production purposes as having many stairs or narrow corridors.

Three of the four small firms buy all components and assembly them in-house; the 100% exporter firm focuses only in the design and outsources the manufacture process because, as it was already mentioned, its strategy is emphasized in design; the medium enterprise is the only one that in addition to the assembly process, manufactures some of its components (boxes, leather tanning). All they mention that the shoe manufacture is a process that does not have many improves in machinery, but when this occur, they are directly noticed in the ANPIC fair.

5.2.3 Management

Decisions of all the firms except the medium one reside in the owner. This was supposed as they are familiar owned with a central planning; the small firms also said that they do not have a specific management mechanism that they only make a sales review at the end of the year and try to improve for the next one.

5.2.4 Transaction

They do not have direct contact with final users since all their supply chain are made through wholesalers, but they usually receive feedbacks from buyers who usually gives a guideline about what the market is wanting. The medium company mentioned that the reason why people buy their products resides in the brand as it is one of the oldest from the country. The western factories coincide with the comfort and quality as their main advantages. Regarding to the suppliers, they all said that they tray usually to maintain the same suppliers with the objective of keeping the same quality.

5.2.5 Internationalization experience

All of them export to USA corroborating the findings of how geographic proximity is a variable that encourages the process of internationalization. Only the medium company exports to 8 countries but most of its exports are also made to USA. The high economic and cultural dependence that the country has with USA, has limited that other markets were explored. Only one of the interviewers said they have the intention for selling to Europe but, anybody mentioned neither Brazil nor South America as a possible option. Moreover they coincide that exports use to be better in other years and at the time they prefer selling to national customers, they do not consider an advantage selling to other countries as Mexican rate exchange is not stable.

5.2.6 Strategy

One of the companies (the newest) focuses its strategy to international operations, so 100% of its production is exported; the shoe kids firm differentiates its international from national strategy with payment conditions since international sales are pay in advance. The other three do not differentiate their national from international strategies. All of them coincide that they do not have a specific process for monitoring the business environment but in fairs they get an idea of how the industry is going.

5.3 Innovation from Internationalization: Cross-country comparative study

Both, Brazilian and Mexican footwear industry has three main clusters. The main difference among them is its vocation. Although the Brazilian cluster in Vale dos Sinos produces mainly female footwear, Mexican cluster in Leon produces western boots as well as men shoes. These aspects and main findings in comparative study are summarized in Figure 2.

Following the developed countries literature (Freeman, Nelson, Soete, 1988; Dosi, 1988) technology is one of the most important factors to increase the competitiveness of companies within and outside the country. However, in Brazilian case, its commercial expansion has represented a huge effort; although companies have contact with several information, they have not been focusing on technological changes. Brazilian products are most based in design, comfort and creativity.

Products are more traditional in Mexican than Brazilian cluster, since most of their buyers are Mexican consumers that live in USA. Western factories mentioned that their export production is sold to people that used to wear the same kind of products when they lived in Mexico. In the case of the shoe kids manufacture it can be seen that not all of the products they manufacture works in the international market but they can work in USA with Mexican residents.

In terms of internationalization, all companies in each country export reactively even in Brazil several programs and policies are designed to encourage companies to export (MDIC, 2011). Brazilian cases began their internationalization process by selling in fairs, while in Mexican cases they started to sell by Mexican people who used to buy them when living in Mexico and then migrate to USA. Other of the aspects perceived is that programs and policies are unknown or not well use by Mexican small firms.

Figure 2 - Brazilian and Mexican Cases summarized

	Brazilian Cases	Mexican Cases
Number of Cases	3	5
Product Size	Female Footwear 2 large/1 small	Western footwear 4 small/ 1 medium
Innovation Capability		
Product Development	develop products according to international current trends, doing just small adaptations in collection for international market. visit international fairs around the world. receive a lots of information (owners manage it) main concepts are comfort, design and creativity. "Brazilian way" allows the Brazilian footwear is admired worldwide.	development does not have a specific area copy new tendencies from the local fairs visit 2 European fairs per year (local market is late 2 seasons) In medium company, the national and international sellers decide the new collections for the next season (its sources of knowledge come from experience, showrooms and magazines).
Operations	outsource the production (focus in Design) produce in other manufacturing unit (Northeast of Brazil). promote minor changes in production process.	houses adapted as factories located near to downtown more level of organization under the production processes than companies do not export assembly products and their components (medium company)
Management	decision maker is the owner strategic planning and management tools look for the best arrange to sell their products (own stores, franchise system or multibrand stores)	decision maker is the owner familiar business with a central planning do not have a specific management mechanism make a sales review (once a year) and try to improve for the next one.
Transaction	large companies started to sell in multibrand stores smaller one began creating shoes for others brands focus on client relationship (franchisee or customer) mother is the most important client (kids footwear)	do not have contact with the final user (customer). show the samples produced in fairs (and produce after) usually receive feedbacks from the buyers. advantage of the products: the brand, comfort and quality
Internationalization		
Number of Countries	from 40 to 65	Mainly USA 8 different countries (but through USA - medium company)
Experience	All of them had international experience. The process of internationalization began as a reactive action. Starting in fairs or producing on request from the "line builders".	High dependency between Mexico and USA has created unexplored markets by the industry. They do not consider an advantage selling to other countries as the Mexican rate exchange is not stable.
Strategy	local and international market strategies are the same. show products in international fairs through government incentives. work with footwear design instead production. the purchase experimentation within store (important) All of them have own store and franchise system.	local and international market strategies are the same. the fairs get an idea of how the industry is going. work with footwear production and keep the western design All of them do not have a specific process for monitoring the business environment.
Impact	Every company makes small adjustments in product for the international market.	The traditional western product is the advantage for the international market.
Innovative Performance		
Results	new Products and new process new Business Model - in international franchise	towards to a minimum improvements to keep the traditional product

Among Mexican enterprises it was perceived that their exports were just product of coincidence more than a strategy, comments as: *"We just start exporting because a national customer, who migrates to the United States, buy some pairs of boots during his vacations in Mexico for sell them among his relatives in USA"* where heart around interviewers.

Results show that, innovation capability in Brazil is affected by its internationalization in terms of changes in business and sales model. All of Brazilian companies have improved their franchises system while the product development and the production are affected by internationalization just by improvements to the foreign market.

Other of the interesting findings refers to the design, the newest Mexican company that is the one that most export from the interviewers, focuses exclusively in the design, as most of the Brazilian companies interviewed do. From these results it could be supposed that the Mexican business model is having a transformation from manufacturing to design.

Referring to the clusters of small shoe Mexican firms, it was perceived that basic issues as infrastructure to produce and logistics would be a better start, priority to innovation in product or markets; even though this limitations, it was perceived that small companies that exports are better organized that the ones that doesn't.

Innovation capability in Mexico is not affected by its internationalization. This case is a particular situation, in which a nostalgic market, from the Mexican community living in USA continues consuming traditional products that they used to buy before migrating to USA. The product that more specifically was consumed, are the western boots. By this way, we can affirm that the main goal of the internationalization process into Mexican factories shoes is to continue maintaining a homeland link through commercialization to Mexican people who migrate to USA.

6. Final Remarks

The purpose of this paper was to analyze the firm's innovation through four capabilities that can be found in any firm: development, operations, management, transaction (Zawislak et al., 2012; 2013), and its relationship with its internationalization in emerging economies. The results indicated that internationalization process affects companies of both countries in different ways.

In Brazilian cluster, internationalization affected the innovation capability. This outcome is in according to Kafouros et al. (2008), that found the innovation depends on how the company is internationalized. However, in Mexican cluster, innovation was not desired even thought, internationalization requires efforts of companies, whether in commercialization or demand supply. The interesting issue is that internationalization does not or minor affected manufacture process development.

The cross-country comparative study among companies in Brazil and Mexico (footwear industry) showed that the number of international countries is relevante for company's performance, when we compare Brazilian and Mexican clusters. This result is in according to Johanson and Vahlne (1977; 2009), Dunning (1988) and Kafouros et al. (2008) that said the performance is related to the growing involvement of companies in the international market. However, this study is the first stage seeking the establishment of the relationship among internationalization and innovation.

Implications

From the findings it can be concluded how firms' managers can use different strategies depending on the country, the market and the origin of the product they wish to export. In the case of Brazilian companies, it is important they focus on design as a strategy while Mexican firms most take advantage of the nostalgic market among the migrants who used to live in Mexico. It is also suggested that product innovation among Mexican firms for selling to people in the USA will not be a fundamental piece of the business as products that are sold are traditional designed.

Public Policy implications differ from each country, in the Brazilian cases policies were used among the analyzed firms; while in the Mexican companies, policies were not working among the SMEs analyzed, so a better diffusion is suggested.

Further Research

Further research could investigate deeper the moderate factors of internationalization and innovation relationship in different sectors. Why Mexican companies do not explore other markets different from the USA and if this will imply to innovate their products. We also suggest a survey in Latin America to expand the results.

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Appendix A

Research Instrument	
The Company	Make a brief historical description of the company
<i>Innovation Capability</i>	
Product Development	Make a brief description of the new product development process. Is there a responsible sector for that? How this sector is made up? What are the company's sources of knowledge? Considering the developing new products, where the new knowledge comes from? Has the company developed some innovation to the external market?
Operations	Make a brief description of the company's productive process How are developed and implemented changes in the production process?
Management	How the company monitors the business environment Make a brief description of the company's decision-making What are the management mechanisms used by company? (e.g. Strategic Planning; BSC) What are the management information systems used by company?
Transaction	Make a brief description of the relationship with customers and suppliers. What makes costumers buy from you?
<i>Internationalization</i>	
Number of Countries	How many countries the company operates?
Experience	When the company started its activities in the international market? How this process occurs? What were the main reasons? How the company operates in the international market? What were the mode of entry? What were the barriers for internationalization of the company? How these barriers were overcome? How the company evaluates its performance in the process of internationalization?
Strategy	Make a brief description of the company's strategy on local market and on international market (ask if there is differences between these strategies)
Impact	What was the impact of internationalization on business? Has any significant change occurred? What were they? Considering the different types of innovation, what was the impact of the company's internationalization in terms of innovation? Has the company used any public or private support/incentives to internationalize? If so, what would? If not, why?
<i>Innovative Performance</i>	
Give four examples of innovation in the company (product, process, management and market) What kind of outcomes do the innovations generate for the company? How many products the company launched in the last three years? What is the percentage of sales from new products? What is the international market share in the revenue?	