

How do entry barriers affect SMEs' entry decisions? An empirical assessment of Portuguese firms' perceptions

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There is a noteworthy lack of empirical studies on the importance of barriers to entry, even though a vast theoretical literature investigates this topic. Previous theoretical studies identify several barriers to entry that can actually play an important role on competition intensity and should raise attention from competition authorities. So, the aim of this study is to identify the barriers to entry that have been most frequently use by Portuguese firms to inhibit the entry of new firms and which of them affect more the decision to enter in a market.

Based on a questionnaire, Portuguese firms' perceptions were surveyed using a sample of 168 firms from a variety of industries (construction, manufacturing, wholesale and retail). The results show that the most important barriers are related to sunk costs, capital requirements, capital costs and cost disadvantages, suggesting that authorities should give special attention to the functioning of financial markets. The barriers that seem to have minor importance to Portuguese firms are strategic agreements, access to R&D, switching costs and securing the input/control over strategic resources.

Applying a factor analysis, six underlying dimensions of entry barriers – investment in R&D, strategic behavior, investment risk, advertising, cost disadvantages, and capacity – were identified.. Despite some minor differences, theses results are quite consistent across industries and firm's sizes. Still, micro firms have lower perceptions regarding barriers to entry than SMEs and large firms.

Although the data indicates that barriers to entry are not a phenomenon with high severity in the Portuguese economy, they can create restrictions on competitive forces in certain markets. Moreover, firms' perceptions on entry barriers suggest that both structural and strategic barriers are important and that the effectiveness of strategic barriers depends on the structural characteristics of the market.

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