Emerging Global Players: Evidences from the Internationalization Processes of Brazilian Firms

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Abstract

Exploratory and quantitative study carried out on a sample of 109 of the 1,000 largest Brazilian companies presents revealing results relative to several studied variables. Most of the large Brazilian companies operate only in the internal market (27%) or are still in the simple exporting phase (51%). The main barriers to internationalization come from the Brazilian competitive environment (high tax load for 77.1% of respondents and lack of financing lines for 74.5%), followed by internal/organizational barriers (especially the size of the country's market, as long as companies objectives are fulfilled, for 49.5%) and barriers interposed by foreign countries. Formal internationalization and capacity-development strategies are the main identified actions and internationalization results pointed by companies include gains of scale and scope, smaller dependence on fluctuations in the domestic market and better balance in financial results. About 77.4% of the large companies consider themselves ready for competition and regard AFTA as an opportunity. However, great challenges are still to be overcome until the number of Brazilian Global Players becomes compatible with the size and importance of our economy.

Introduction

The Brazilian economy is one of the nine largest of the planet, according to data released by The World Competitiveness Report (IMD, 2001). Although in prominent position in terms of GNP, the country plays a secondary role when evaluated in terms of competitiveness and volume of international business, being behind thirty other countries, at least. Data appearing on the IMD and World Economic Forum study show that the country occupies the 31st place in the overall national competitiveness rank, behind Malaysia, Chile, Ireland, Estonia, Greece and New Zealand, among others.

The Brazilian international insertion is still extremely modest when compared to other developed and developing countries. Compared with other countries, in terms of international trade, Brazil appears on the 47th position, among 49 surveyed countries (According to the formula *Total Exports + Total Imports/ 2x GNP* - Exposition Index of 11.9, compared to Singapore's 160.21, Czech Republic's 63.11 and Chile's 28.39 figures). Other relevant data refer to growing efforts aiming at the creation of a more dynamic and competitive environment in the country, materialized by increasing deregulation, opening of the market, privatization and control of the inflation rate, along the nineties. From the standpoint of internationalization, we exerted strong attraction on international capital. IMD data point that, in 1999, Brazil was the second largest receptor of Foreign Direct Investments – FDI among developing countries, second only to China, and the eighth largest receptor of such investments, when all countries are considered. In the analysis of FDIs made by Brazilian companies, the asymmetry becomes evident: the country occupies a modest 28th place, behind countries like China, Russia, Chile, Korea, Singapore and Mexico, among others. The impact of international investments in the country was, therefore, strong, a process called outside-inside internationalization of the Brazilian economy, but a modest effort in the reverse direction can also be perceived in the above mentioned figures.

Following the conclusions previously presented, some of the issues addressed by the research naturally raise, such as:

- Why do Brazilian companies present such a modest operation in international markets?
- What motivators do Brazilian companies identify in order to operate in international markets?
- What barriers have to be overcome (entrepreneurial, systemic and inside other countries) to enable the development of Brazilian Global Players?
- What actions are actually being developed by Brazilian companies to overcome said barriers?
- What entrepreneurial results are being achieved by Brazilian companies that ventured international markets?
- What are the impacts of AFTA predicted by Brazilian companies?
- What can we learn from internationally-successful Brazilian companies?

In order to answer these questions, a research was conducted along 2001. The research objective was a better understanding of both the context and the strategies adopted by Brazilian-capital companies that are internationalizing their operations and the reasons why many Brazilian companies do not consider the possibility of internationalizing their operations. Internationalization means here the partial or total generation of revenue through international operations, be it by means of exportation, licensing, strategic alliances, acquisition of companies in other countries or establishment of subsidiaries.

This paper is structured as follows: The first section presents the theory that guided the research. Next the research method is discussed. Results are shown and discussed from the third section on. Finally, conclusions are presented.

Internationalization of Companies

Several theoretical approaches try to explain why a company internationalizes its activities. From the standpoint of developing countries, this is a theme that will play an increasingly more relevant role in the business environment, since there seems to be a great unrealized internationalization potential in companies coming from important emergent economies such as India, Mexico and Brazil (Ghoshal, Piramal and Bartlett, 2000; Bartlett and Ghoshal, 2000).

Among the approaches that attempt to explain the internationalization process of companies, two are prominent. From the economic standpoint, the main approach is the eclectic paradigm of internationalization, that applies the concept of transaction costs to companies' decisions regarding internationalization (Williamson, 1975), trying to explain what companies and markets characteristics stimulate internationalization via foreign direct investment, differentiating this process in terms of product and market characteristics. This theory explains the decision of direct investment in foreign lands as a choice between markets or hierarchy (Dunning, 1980, 1988; Bucley and Casson, 1976); works developed in Brazil are using this approach to explain the internationalization process of Brazilian companies (Iglesias and Veiga, 2002).

From the point of view of business administration, the main approaches are the so-called behavioral models, that try to go beyond the limitations of economic aspects to understand the decision making processes associated with the internationalization of companies. This approach includes among factors to be considered psychological aspects of the company's main executives (psychic distance relative to other markets), the environment external to the company and also its characteristics. The central hypothesis is that, in internationalization processes, companies gradually increase their international commitment as they expand their knowledge on operations in international markets. This gradual perspective tries to explain why companies start their international business operations through entry alternatives that require lower resource commitment (for instance, exportation through third parties and direct exportation) and gradually assume higher risks, committing great resources in their international operations (for instance, own offices and productive units) as they expand their knowledge on international markets. The Uppsala Model suggests companies' knowledge is accumulated through conduction of international operations. The module focuses on acquisition, integration and gradual use of knowledge on international operations and markets (Johansson and Vahlne, 1977; Eriksson et al., 1997). This accumulated knowledge guides internationalization (Eriksson et al., 2000; Simpson and Kujawa, 1974). The longer the operation in international markets, the greater the accumulated knowledge. A greater accumulated knowledge implies a higher level of competence in international operations (Yip, Biscarri and Monti, 2000) and, therefore, the selection of entry alternatives in international markets (Root, 1987) that require greater commitment of resources.

Arruda, Goulart and Brasil (1996) discussed theoretically and presented relevant results on the subject internationalization of companies. The authors suggest four different approaches to the internationalization process of companies: (1) Internationalization as an evolution of the export capacity; (2) Internationalization as a search for technological competitiveness; (3) Internationalization as a consequence of the ability to aggregate partners; (4) Internationalization as a consequence of international exposure.

The present study was prepared based on the premises pointed by behavioral models because, incorporating cultural, psychological and competitive aspects, they provide better help in explaining the challenges faced by Brazilian companies during the earlier stages of their internationalization processes

Research Method

Data were obtained via a questionnaire divided in six sections: the first characterized the respondent company, the second unfolded the reasons for the internationalization of the company's operations, the third listed the main difficulties faced (within the company and in national and international competitive environments), the fourth identified the main actions necessary to overcome internationalization difficulties, the fifth surveyed the main results of internationalization for well-succeeded companies and the sixth questioned the position of entrepreneurs relative to AFTA. Variables relative to each of these dimensions were ranked in six categories (1 meaning 'strong disagreement' and 6 'strong agreement'). Difference tests between t (Student) means for paired data were carried out, all for $\alpha = 0.05$ significance, to detect significant differences in the position of companies regarding matters related to the internationalization process, both in the past (5 years or more) and in the present (2001).

The investigated universe encompassed the largest national-capital companies, that is, companies controlled by Brazilian natural persons or legal entities, because these are companies possessing bigger financial resources, managerial competence and interest in participating in international businesses. A universe was defined including the largest 1,000 national-capital companies, according to data obtained from Gazeta Mercantil. Questionnaires were sent by mail to the main executive of each company in the investigation universe. Data were collected between May and July 2001. Of the 125 questionnaires received, 109 were selected as valid. The revenues of the investigated companies ranged from R$60 million to R$9.5 billion, the number of employees from 25 to 22,000 and the results varied between 0 and 100% of the revenue generated by international operations. Statistical handling and validation tests were carried out to confirm if sample was representative both in terms of number of respondents and similarity relative to the universe. The graphs detail the characteristics of the companies that constitute the sample of respondents. The results obtained configure an encompassing picture of the strategies, difficulties and perceptions of the largest Brazilian companies in face of the challenge of internationalizing their activities. Along the next sections of this article, the research results will be presented and analyzed.

Sample Characterization

Companies considered for the research came from several different industries, a certain predominance of the agro-industrial and food sectors being observed. Companies that produce final goods represent 33% of the sample, service providers 21% and intermediate and capital goods producers 20%.

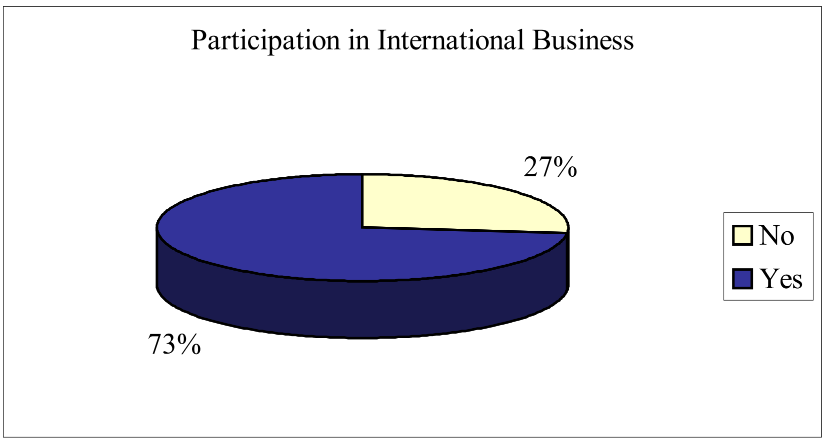
Table 1 – Primary Line of Business

Primary Line of Business	%
Producer of final goods	33,90
Service provider	21,10
Intermediate producer	20,20
Combination	11,90
Distribuitor	7,30
Total	100,00

Source: The authors

Alternatives to Enter International Markets

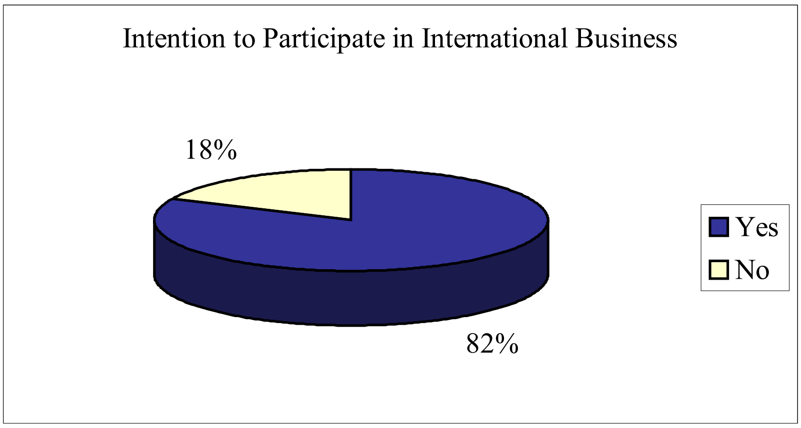
Figure 1 – Participation in International Business



Source: The authors

Although 29 companies (27% of the sample) operate exclusively in the domestic market, 73% of the investigated companies are already operating internationally, 82% of which showed a want to increase their level of internationalization in the future. The most frequent insertion alternative chosen is, as expected, through exportation. Thus, about 51.4% of the companies use direct exportation as a way for internationalization and 45.9% use exportation through third parties as a means to respond to international demand.

Figure 2. Intention to Participate in International Business



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Researches conducted in other countries show that the alternative traditionally chosen by companies to enter international markets is exportation. Companies opt for exportation as an entry way because it is a low-risk alternative, since there is no need to allocate resources to invest in assets in international markets. They concomitantly check the acceptability of their products and services by the chosen markets. In Brazil, things are not different. The entry alternatives to international markets chosen by the largest Brazilian companies are, in order of precedence:

- Direct exportation;
- Exportation through third parties;
- Own commercialization offices;
- Strategic alliances with foreign companies (more than 20% of companies in all segments investigated).

As well as with direct or through third parties exportation, entry by means of own commercialization offices also requires low investment and allocation of resources. The increase in the number of strategic alliances with foreign companies as the entry alternative to international markets is remarkable. There are some reasons for this fact:

1. **Strategic alliances with foreign companies** are an entry alternative that, contrariwise to exportation, requires direct investment in international markets; on the other hand sharing risks with the international partner is a clear objective. Companies that choose that entry alternative have already used or still use exportation (direct or indirect) as well. It occurs more intensely with large-size companies, indicating that this practice is more associated with companies whose size and dealing power enable them to negotiate under privileged conditions to obtain access to foreign markets through alliances; 47.7% of the companies intend to use strategic alliances as the entry alternative to international markets in the next five years, a fairly high figure compared to the current 25%. This is the highest growing potential among all alternatives studied.
2. The establishment of **own subsidiaries or production units** is the entry alternative with the second largest increase potential (10.7% currently and 17.10% in the near future). This study considers as global companies those having investments in several different countries and that are able to obtain economies of scale and scope, by means of know-how and product exchange between production units located in different countries. Currently, only 10.7% of the companies seem to be willing to face the challenge of becoming a global company, a percentage that will increase to 17.10% along the next five years.

Motivations for Internationalization

Between the two periods, the main motivations for internationalization have become significantly stronger, except for governmental programs to support internationalization, reflecting, therefore, the opening of the Brazilian economy and the pressures of a globalized dispute. They also reflect the low relevance perceived by companies in official programs to support exportation.

It seems that greater importance is being given to the search for economies of scale, learning and competence development to operate in new international markets and to internationally explore the advantages resulting from the geographic position occupied by Brazil. In both research moments, all reasons for internationalization remained in the same precedence position, except for the entry/threat of international companies to the domestic market, that showed the highest variation between past and present.

The main reasons that lead large Brazilian companies to the internationalization of their operations are:

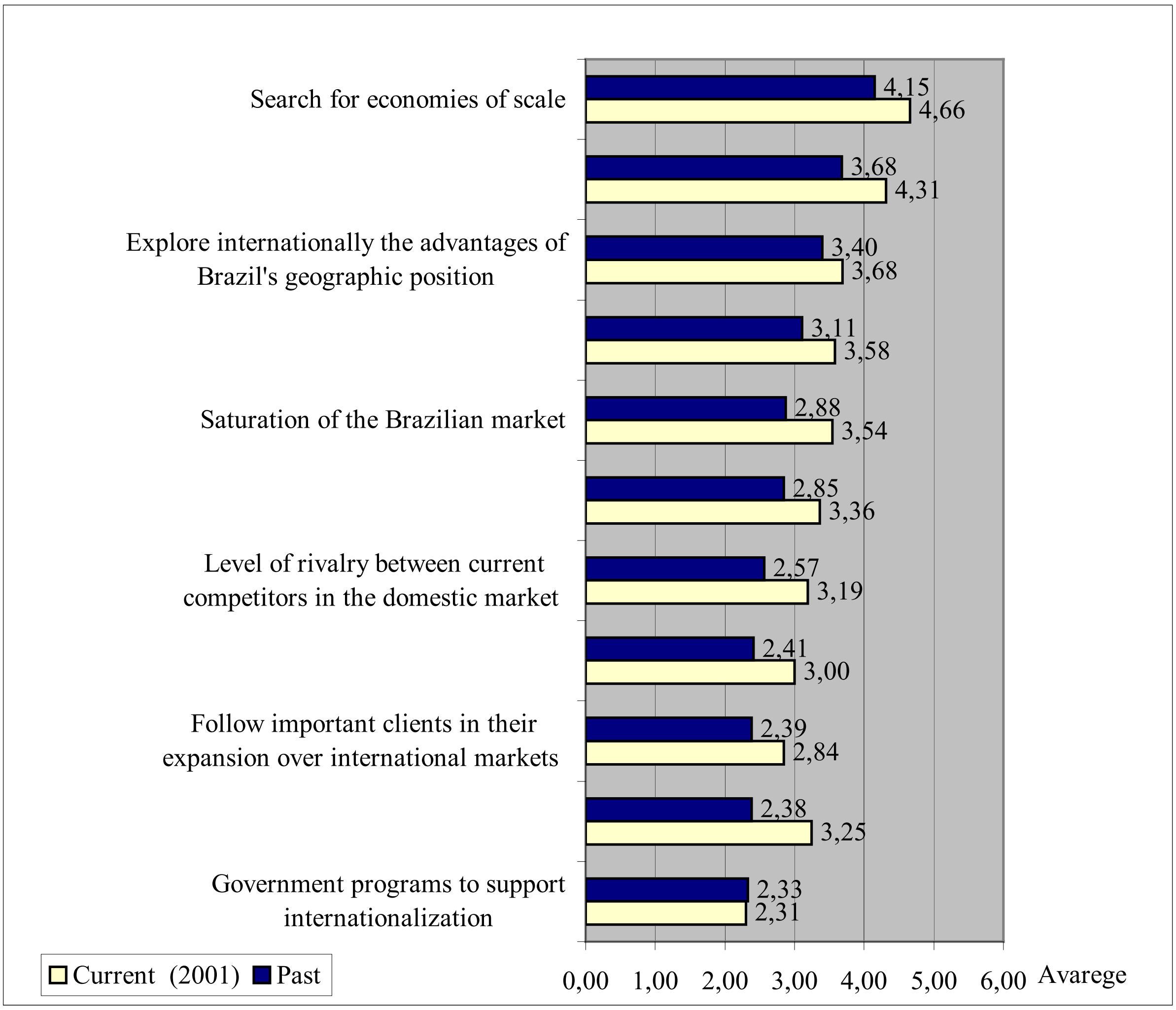
- The search for economies of scale (remarkable among intermediate and final goods producers; varies according to company size)
- Development of competencies to operate in international markets (the smaller the company the more necessary competencies are).
- Explore internationally the advantages of Brazil's geographic location.

Table 2 – Reasons for the Internationalization of Companies

	Past	Present
Search for economies of scale	70.1%	77.5%
Learning and competence development to operate in new international markets	56.8%	75.3%

Source: The authors

Figure 3 - Reasons for the Internationalization of Companies



Source: The authors

Although economies of scale are considered the most important drives, paradoxically it is among the largest companies that it can be more clearly noticed. Brazilian companies have already started to see signs of saturation in the domestic market, regarding international markets as consistent opportunities for growth. The opportunity presented by international markets is perceived more intensely by final goods producers and by smaller-size companies than by producers of intermediate goods and large-size companies.

Companies are the opinion that governmental programs to support internationalization do not satisfy their objectives of stimulating the operation of Brazilian companies in international markets.

Barriers to Internationalization

Difficulties and obstacles to internationalization of companies were grouped in three large categories:

- Internal/Organizational barriers related to the adequacy of the company's resources and capabilities to operate in international markets;
- Barriers in the Brazilian competitive environment related to the adequacy of the economic and institutional (including fiscal and tariff barriers) infrastructure, to the offer of factors and to cultural characteristics.
- Barriers in the target markets, including those of economic, politic, institutional and cultural nature.

The most significant barriers identified by the companies lie in the Brazilian competitive environment and are associated with macroeconomic variables and governmental policies – outside, therefore, the immediate reach of companies' leaders.

Next, the most significant barriers of each group will be analyzed.

Internal/Organizational Barriers

Brazilian companies believe that all such barriers were reduced relative to the past, in consequence of corrective actions and of the know-how accumulated by them along previous years. Aspects associated with technological, market and managerial knowledge do not constitute barriers to internationalization. The lack of competencies to operate in international markets, important in the past, is being overcome by companies as they learn and accumulate competencies through past experiences.

Table 3 – Internal/Organizational Barriers

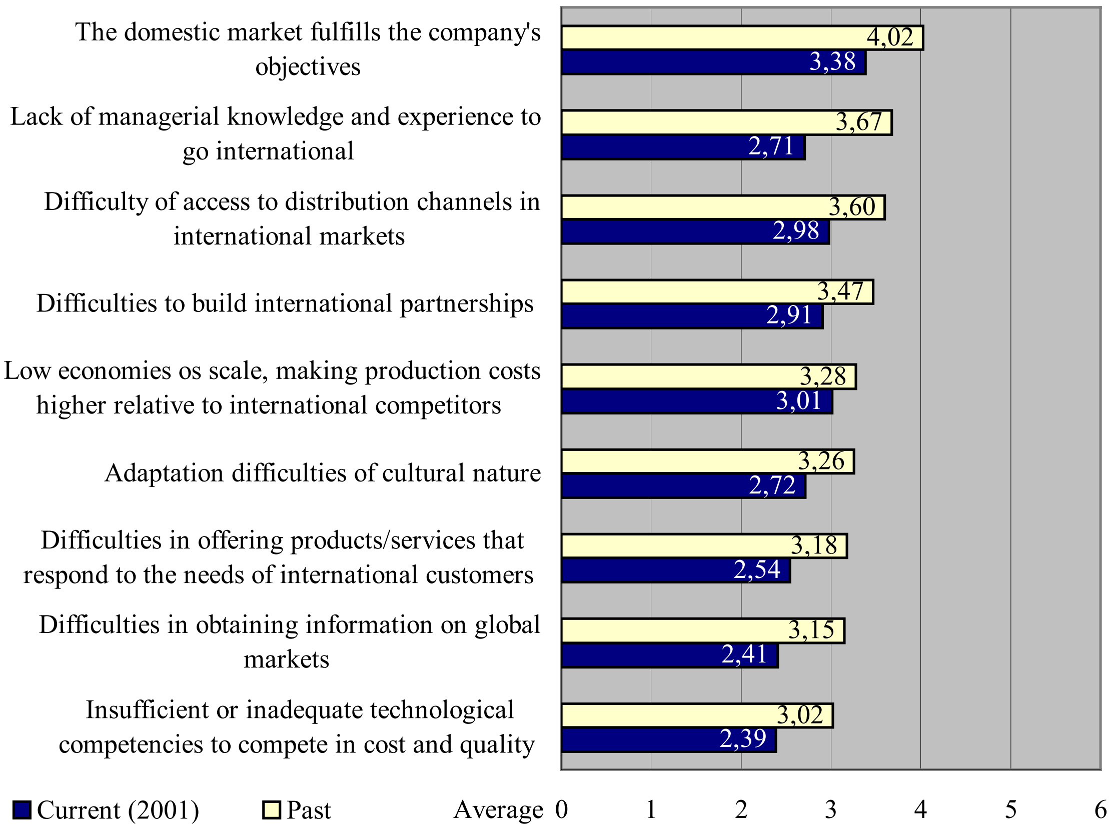
	Past	Present
The domestic market satisfies the company's objectives	63.6%	49.5%
Lack of managerial knowledge and experience to go international	56.8%	30.1%

Source: The authors

Brazilian companies identify internal/organizational barriers to their international operations and emphasize:

- The size of the national market, as long as it 'fulfills the company's objectives' (stronger for smaller companies). Although the greater enemy of the internationalization of companies is the size of the Brazilian market, a comparison between past and present shows that this barrier is decreasing along the last few years, partly because, after the commercial opening, the Brazilian market is attracting the interest of large international players, whose presence in Brazil is increasing in many industries.
- Insufficient scale to compete evenly with international players.
- Difficulties to access distribution channels (stronger among service providers and final goods producers; stronger also among smaller companies).

Figure 4 – Internal/Organizational Barriers



Source: The authors

Barriers Related to the Brazilian Competitive Environment

According to the Brazilian companies' perceptions, the most significant barriers are those associated with the Brazilian competitive environment. Although presenting a slight drop relative to the past, this kind of obstacle shows the highest persistence, that is, its decrease is slower when compared to other kinds of obstacles. A positive aspect is that access to modern product and process technologies is not regarded as a barrier, becoming such opinion more intense as company's size increases.

Table 4 - Barriers Related to the Brazilian Competitive Environment

	Past	Present
High tax load	73%	77.1%
Lack of financing lines and high financial costs	73.6%	74.5%

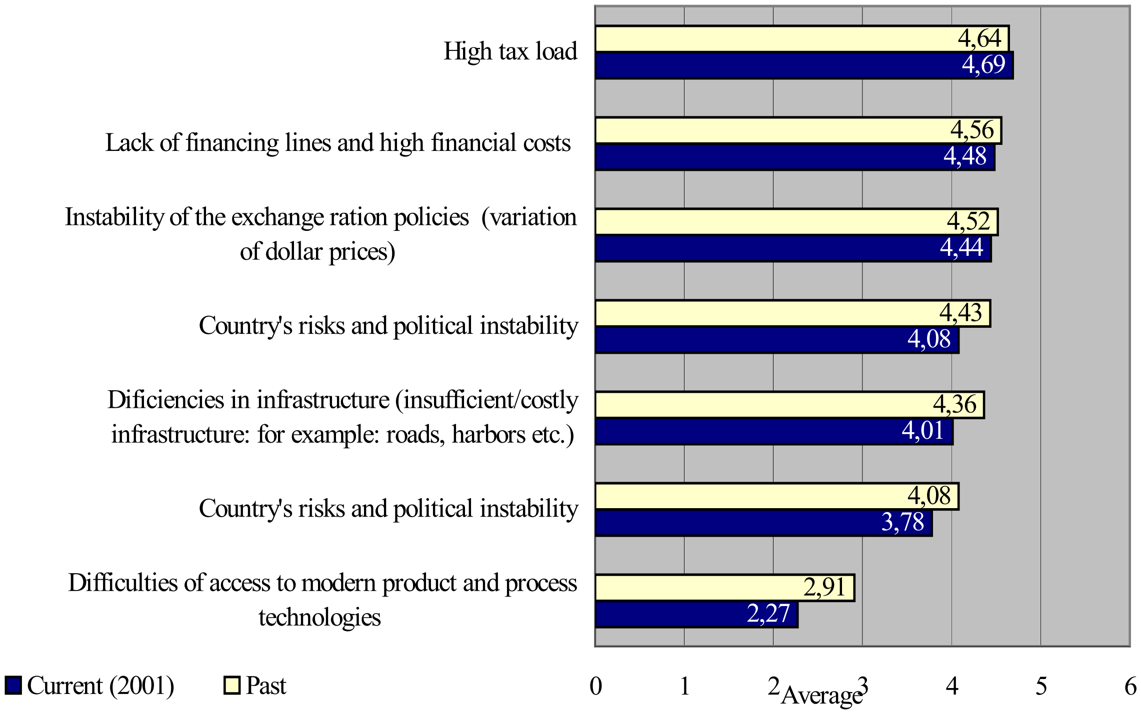
Source: The authors

Highlights in this group:

- High tax load (stronger for producers of final goods);
- Lack of financing lines (the strongest opinion among companies with revenues above 3 billion Reais; stronger for producers of final goods);
- Exchange rate instability (stronger for producers of final goods and service providers and among companies with lower revenue)

- Country's risks and economic instability (stronger for producers of final goods)
- Deficiencies in infrastructure (stronger for producers of final goods).

Figure 5 – Barriers Related to the Brazilian Competitive Environment



Source: The authors

Barriers to Internationalization, in Other Countries

Among the three kinds of barriers analyzed (organizational, in Brazil and abroad), this is the less problematic for the internationalization, according to the companies themselves.

Table 5 – External Barriers, in Other Countries, to the Internationalization of Operations through Exportation

	Past	Present
Tariff Barriers	48.8%	48.3%
Bureaucratic Barriers	44.4%	44%

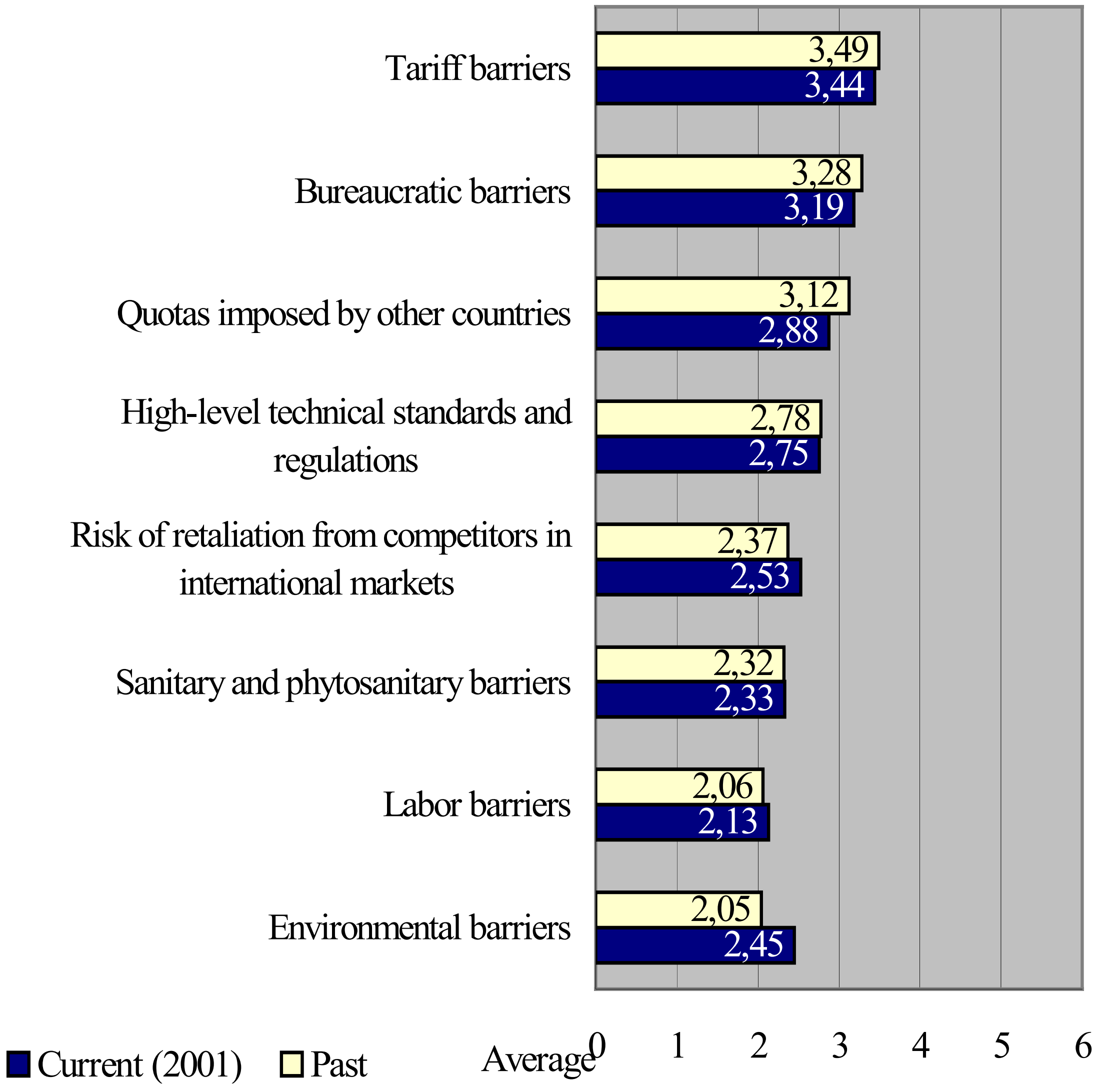
Source: The authors

The most important barriers to Brazilian exports to other countries are:

- Tariff barriers
- Bureaucratic barriers
- Importation quotas

Such exportation barriers are decreasingly relevant as the company's size increases.

Figure 6 – External Barriers, in Other Countries, to the Internationalization of Operations through Exportation



Source: The authors

Actions towards Adaptation to the International Competitive Environment

A structured and lasting operation in international markets is the main objective of the surveyed companies. The need to integrate the international perspective to all business phases is more urgent now than in the past.

Table 6 – Priorities in the Internal/Organizational Environment

	Past	Present
Development of a formalized strategy for internationalization	60%	75.3%
Programs to develop capabilities on international management and commercialization	53.5%	74.7%

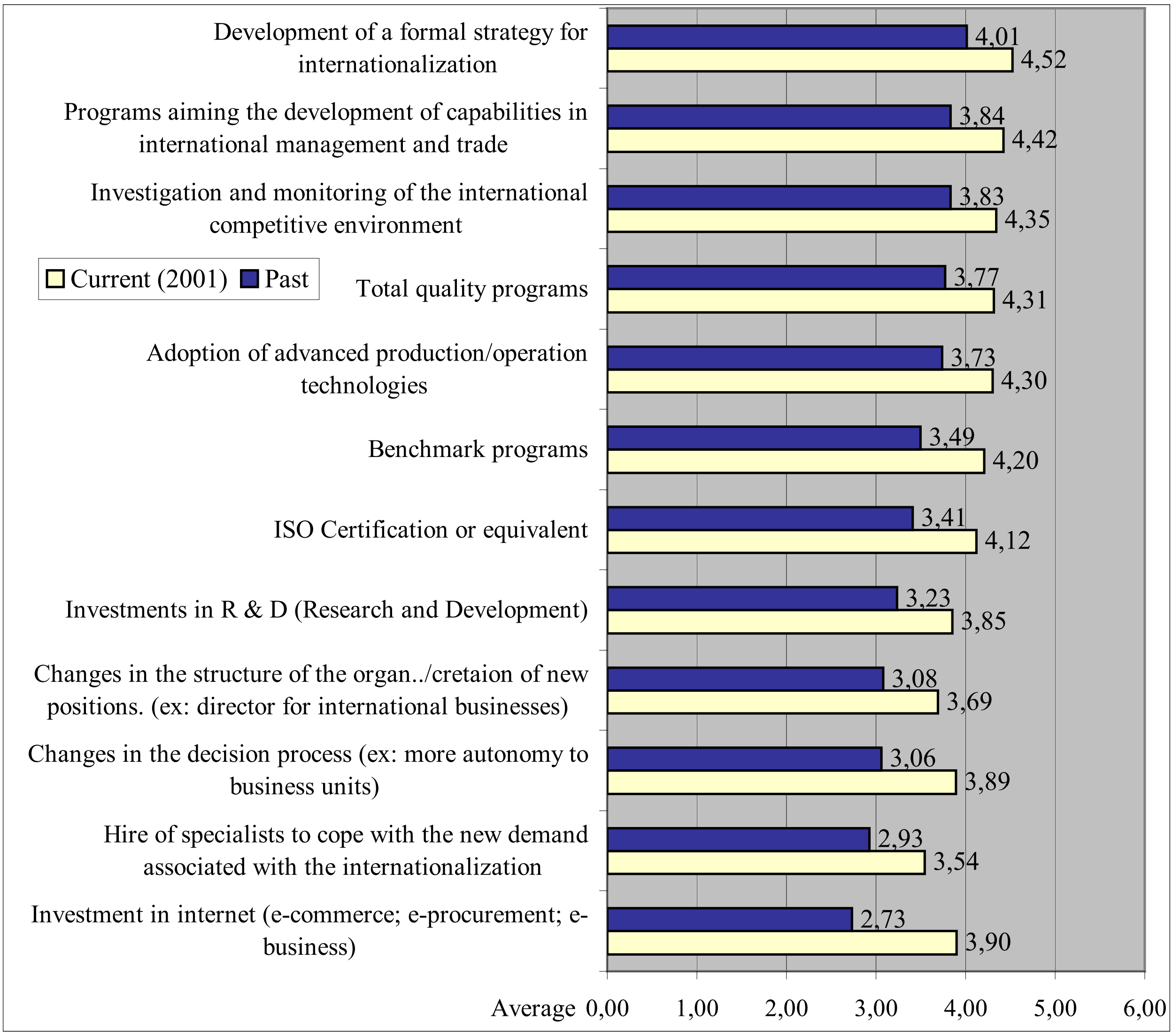
Source: The authors

The most important actions associated with the internal environment are:

- Development of a formalized strategy for internationalization (there is a certain level of consensus among all groups of companies relative to this aspect)
- Development of competencies in international business
- Monitoring of the international competitive environment

The most significant evolution up to the present is the companies' need to increase activities and actions associated with electronic commerce. Little emphasis was given to the need of developing technological competencies and to an adequate internal structure.

Figure 7 – Actions to Adapt to the International Competitive Environment



Source: The authors

In the external environment, actions are being intensified and focused on:

- International partnerships (more recent in small-sized companies);
- Long-term relationships with suppliers, allowing the company to focus on its business

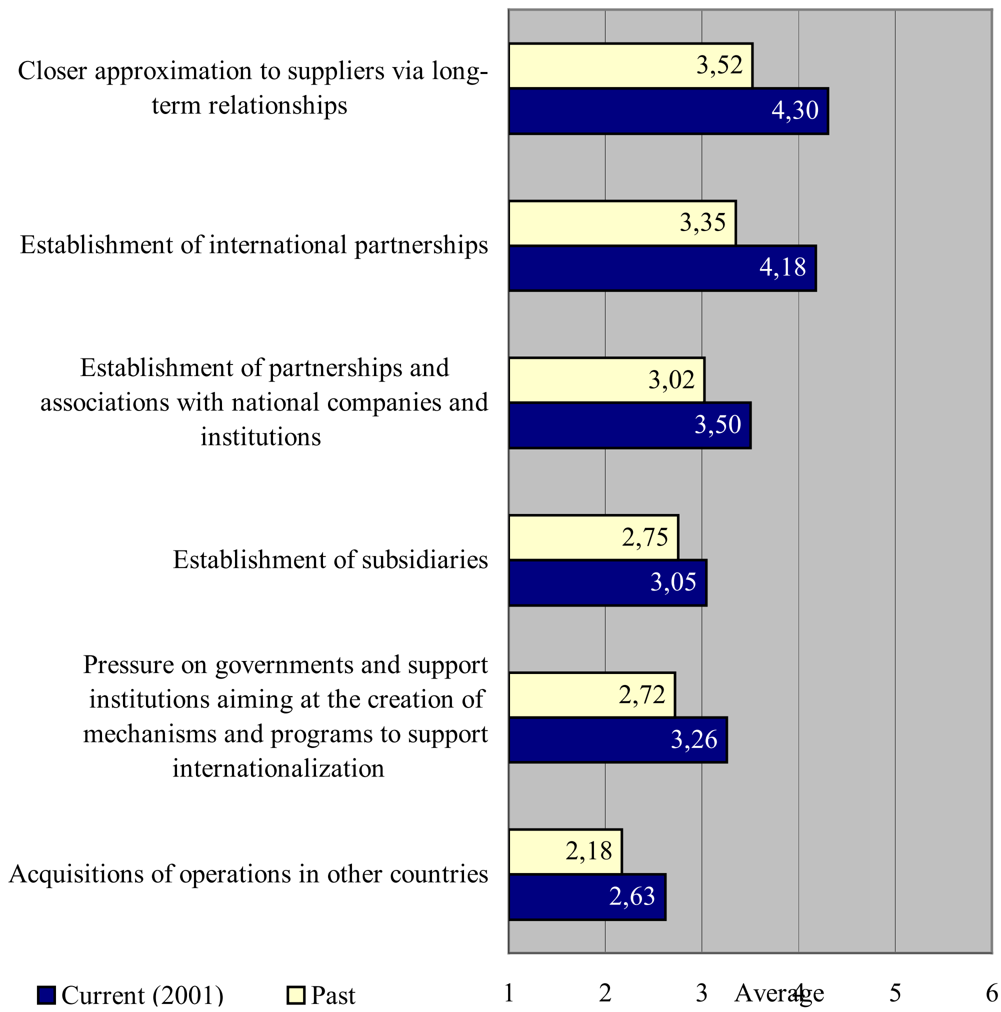
All priorities relative to the external environment increased significantly up to the present. However, higher emphasis is given to the approximation to suppliers via long-term relationships and the establishment of international partnerships, the latter registering also the largest variation between past and present data

Table 7 – Priorities Related to the External Environment

	Past	Present
Closer proximity with suppliers through long-term relationships	46.5%	71.1%
Establishment of international partnerships	45.%	71.3%

Source: The authors

Figure 8 – Priorities Relative to the External Environment



Source: The authors

Main Results of the Internationalization Process

Results effectively achieved by companies indicate the following advantages of internationalization:

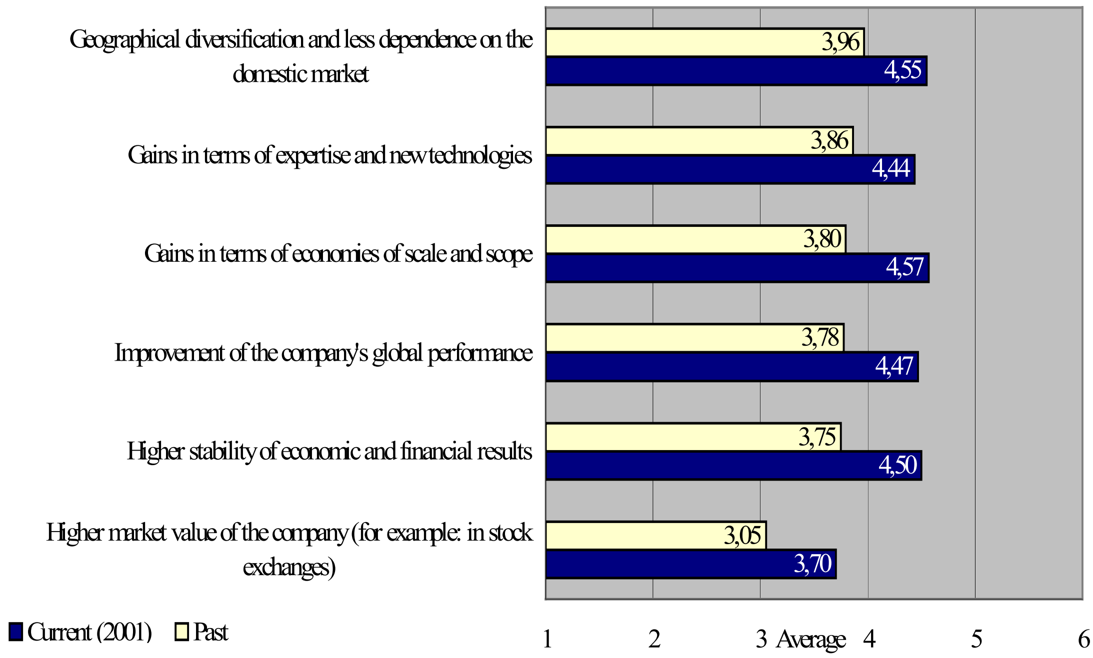
- Improvement of the global company's performance (stronger for producers of final goods);
- Higher stability of financial and economic results (stronger among companies with revenue in excess of 3 billion);
- Gains in terms of economies of scale and scope (a function of the size and stronger among producers of intermediate goods);
- Less dependence on the domestic market (stronger for producers of final goods);
- Gains in terms of expertise and technology (well distributed);
- The larger the size the better are results in terms of market value of the company (for example, in stock exchanges).

Table 8 - Main Results of the Internationalization Process

	Past	Present
Geographical diversification and less dependence on the domestic market	60.7%	76.4%
Gains in terms of expertise and new technologies	56.8%	75.3%

Source: The authors

Figure 9 - Main Results of the Internationalization Process



Source: The authors

AFTA – Americas Free-Trade Association

As for AFTA, results are revealing:

• More than 70% of the respondents regard AFTA as an opportunity;
• 77.4% of the respondents consider their companies prepared to compete within AFTA and 75% regard their direct competitors as prepared too;
• The two above statements are stronger among large-size companies. All (100%) companies with revenues in excess of 1 billion consider themselves prepared to compete within AFTA;
• Is spite of that, 61.3% believe that AFTA will benefit especially companies of the USA and other countries. A possible interpretation of this figure is that large Brazilian companies

consider themselves apt to an intensification of the dispute, but this is not necessarily true for smaller companies.

Conclusions:

Results obtained demonstrate that large Brazilian companies are still in the initial stages of their internationalization processes. Despite 27% of them operate only in the domestic market, of the remaining 73% who operate in international markets 51.4% operate via exportations, a stage that requires fewer resources and involves less risk.

Very important is that 25% of the companies already adopt strategic alliances with foreign companies as an alternative to enter new international markets and 47% intend to do the same, in the future. Investments peculiar of Global Players such as subsidiaries and production units completely owned are part of the reality of only 10.7% of the companies and only 17.1% intend to make investments of this kind, in the future, which means that there is still a lot to be made until we have real Brazilian Global Players.

Systemic barriers, popularly known as 'Brazil Cost', are the most important for the largest companies, especially the high tax load (77.1%) and the lack of financing lines (74.5%). The objective of growing in the Brazilian market was and still is considered the main growth drive for Brazilian companies and therefore is the main barrier to the internationalization of Brazilian companies (49.5%). Brazilian companies are formalizing their strategies (75.3%) and promoting programs for the development of international trade and management capabilities (74.7%).

Revealing results relative to AFTA were found; 77.4% of the companies consider themselves prepared to compete within AFTA and more than 70% consider AFTA an opportunity rather than a threat.

Brazilian companies adopt a gradualist posture regarding their internationalization processes, relying on the size of the domestic market, due to the lack of financing lines to support external operations via direct investments. Great challenges are still to be overcome until we have Brazilian Global Players compatible with the size and importance of our economy.

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