Institutional Theory, Membership in Business Groups and the Internationalization of Brazilian Multinationals

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INSTITUTIONAL THEORY, MEMBERSHIP IN BUSINESS GROUPS AND THE INTERNATIONALIZATION OF BRAZILIAN MULTINATIONALS

Executive summary

This article looks at the reasons for the rapid rise of emerging country multinationals (EMNCs) in the global competitive landscape, despite their ‘late mover’ status. We identify two predominant factors in the rise of these companies: a) the influence of the institutional environment on the development of EMNCs competencies and the relevance of the economic liberalization process that occurred in emerging countries; b) the positive effects on performance of their affiliation with conglomerates or other business groups that provide resources and international experience. A further line of argument in the literature stresses that traditional theories of internationalization, notably the Uppsala model and the eclectic paradigm, have proved inadequate to explain the new expansion dynamic represented by the rise of EMNCs.

To prove the above we interviewed executives from ten Brazilian companies. The companies were chosen from the Global Challengers reports prepared by the Boston Consulting Group, which ranks the top 100 ‘challengers’ from emerging countries on the basis of their performance and/or perspectives for rapid international growth. The interviews were designed to check whether the suggestions in the literature were corroborated by the actual internationalization experience of the selected companies. Using content analysis to assess the interview results appeared to confirm some issues raised in the literature in the sense that an initial focus on the internal market and a lack of planning of internationalization initiatives had delayed international expansion by Brazilian firms.
1. INTRODUCTION

The present article seeks to improve understanding of the recent performance of emerging country\(^1\) multinationals (EMNCs), with a focus on those from Brazil. It is based on a review of the literature covering the period 1997 to 2009, and on interviews with executives from ten Brazilian multinationals. It is, thus, a qualitative research. Our search of the literature considered the six most relevant periodicals according to the Journal of Citation Reports (JCR) for 2008, published by the Institute for Scientific Information (ISI). From the sources found, we identified the main lines of thinking in the debate regarding the recent growth dynamic of EMNCs.

We posited two main lines of argument and a third issue that was frequently raised. The first posits the importance of the institutional environment, which has nurtured the development of competencies by EMNCs. It stresses the importance of the economic liberalization process that has occurred in many emerging countries, as well as the relevance of institutional theory to understand the growth pattern of these firms. The second posits the positive effects on the performance of EMNCs of their affiliation with business groups, which function as providers of resources and international experience. A third line of argument holds that traditional theories of internationalization are inadequate to explain the rapid expansion of EMNCs (Wright et al., 2005; Cuervo-Cazurra, 2008; Khanna & Rivkin, 2001; Aulakh, 2007).

The literature on the internationalization of Brazilian firms, disagrees in some points with the general literature on the subject. Based on that, we compiled a questionnaire that was answered by executives working in the international divisions of 10 of the 11 Brazilian multinationals in our initial sample. These interviews sought to measure to what extent the propositions in literature were corroborated by the actual experience of the selected firms.

This paper is organized as follows: section 2 summarizes the main lines of debate on EMNCs in the periodicals consulted, section 3 summarizes the literature regarding Brazilian MNCs and presents the results of the interviews and the paper ends with some final considerations.

2. REVIEW OF THE LITERATURE ON EMERGING MULTINATIONALS

Starting in the 1990s, an increasing number of studies of international business have appeared in academic contributions in the business strategy area (Peng, 2001; Peng et al., 2008). Of particular note is the integration of elements of the resource-based view in the area of international business to explain the way firms perform in the internationalization process (Peng, 2001). However, what differentiates studies of the internationalization of firms from emerging markets from those in the area of international business is the argument that the dynamics of EMNCs can only be fully understood when the institutional context in which these firms are embedded is considered.

The increasing importance of emerging countries in the global economy is illustrated by a number of factors such as China becoming the second biggest economy in the world and Brazil the sixth and the volume of outward direct investment by firms from these countries. Investment flows from emerging markets have experienced unprecedented growth in recent years, and the number of EMNCs has kept pace with their growing economic representation. In the 2011 Global 500 ranking of the Fortune magazine, almost one of every 4 firms comes from an emerging market. In this context, one phenomenon that has challenged researchers is the success of EMNCs in competing with long-established multinationals from developed countries. Despite the natural disadvantages\(^a\) that accrue from their status as late movers, a
characteristic of the majority of these EMNCs is that they often pose a real threat to the leadership of traditional players (Aulakh, 2007; Bartlett & Goshal, 2000).

Recent studies on internationalization with a focus on EMNCs generally indicate institutional theory as an important variable to understand the dynamic of these corporations. Based on the assumption that institutions play a central role in economic relations, research shows that in emerging countries the nature of the institutional context strongly affects firms’ strategic decisions (Hoskisson et al., 2000; Peng, 2003; Chung & Beamish, 2005; Wright et al., 2005; Lu & Ma, 2008; Dikova et al, 2007; Kostova et al., 2008).

In this respect, a common feature of emerging countries has prompted an interest in the analysis of EMNCs: the fact that over the past 20 years these countries have undergone an institutional transition characterized by a greater degree of openness to international trade and business. This liberalization process has prompted significant changes in the business climate of these countries and has strongly affected firms’ strategies (Wright et al., 2005; Khanna & Rivkin, 2001). The new business context is characterized by increasing competition, privatization, regulatory changes, the creation and improvement of institutions, more demanding consumers, and also the availability of new business opportunities in more efficient markets (Peng et al., 2008; Chittoor et al., 2007).

By facilitating the entry of foreign competitors, liberalization has restricted the competitive space of local firms while at the same time heightening competition. The challenge of stronger competition in the local market has been intensified due to the fast economic growth of emerging countries. Establishing a solid position in these markets has become a strategic objective for many multinationals from developed countries that previously shied away from them, or at most sought only a minimal local presence. This in turn has put pressure on local firms to diversify abroad (Luo & Tung, 2007). The fact that EMNCs are late globalizers has generated a set of challenges common to these firms, including the need to defend themselves against competition from foreign players, to adopt new technologies and better practices, and to expand into foreign markets (Elango & Pattnaik, 2007; Aulakh & Kotabe, 2008; Luo & Tung, 2007; Casanova, 2009).

The second theme in the literature posits the role of business groups in explaining the strong performance of EMNCs, mainly in their operations in other emerging countries. In this respect, discussions of both formal and informal business groups and their effect on the performance of EMNCs stand out. Our search revealed a growing academic interest in the study of business groups such as conglomerates given the abundance of this type of organizations in emerging economies and their growing importance in the global landscape (Cuervo-Cazurra, 2006).

According to Khanna & Yafeh (2007), a business group consists of “legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g., equity) and informal (e.g., family) ties.” In general, these ties assume the form of cross holdings, common directors or officers, or subtle manifestations of relations of trust. Depending on the country, ties may be based on ethnicity, family, religion or caste, as is common in Indian business houses (Khanna & Rivkin, 2001).

Studies of the performance of business groups in the United States, particularly conglomerates, have concluded that they are generally not efficient structures and often destroy shareholder value (Khanna & Palepu, 2000; Cuervo-Cazurra, 2006; Khanna & Yafeh, 2007). In contrast to this generally negative assessment in developed countries, studies of business groups in emerging countries often show that firms affiliated with them tend to
The explanation for this superior performance rests on the institutional characteristics of the countries in which business groups develop. The literature argues that emerging countries often have an “institutional void” as a result of regulatory deficiencies, weak intermediation structures, and weak and/or inefficient protection of property rights and enforcement of contracts. These inefficiencies, by introducing a greater degree of uncertainty, raise transaction costs. Thanks to their scale and scope and by internalizing a wide range of transactions, business groups can spread these costs among their members as a whole, allowing them to operate more efficiently than individual firms (Khanna & Rivkin, 2001). The benefits of affiliation are directly linked to a group’s size and level of diversification (Khanna & Palepu, 2000). The group’s reputation will enhance credibility among suppliers and consumers, as well as facilitating the licensing of foreign technology from firms in developed countries that otherwise would not feel secure about sharing their intellectual property rights (Lu & Ma, 2008; Khanna & Rivkin, 2001).

The superior performance of firms affiliated with some type of business grouping indicates that this is an important competitive advantage of EMNCs in the internationalization process. Any lack of knowledge of foreign markets that might negatively impact performance is offset by the appropriation of knowledge from the group. Furthermore, when international growth of EMNCs is geared towards other emerging countries, these firms are already familiar with a structure similar to that in their home countries, so they find it easier to adjust to the new setting and to form strategic partnerships with local peers (Khanna & Palepu, 2000; Khanna & Yafeh, 2007).

This brings us to a third strand of thinking that stands out in the recent literature on EMNCs, which stresses the influence of the institutional context on the competitiveness of EMNCs, notably their ability to deal with institutional inefficiencies that are characteristic of their home countries (Aulakh, 2007, Wright et al., 2005, Del Sol & Kogan, 2007; Lu & Ma, 2008). In analyzing emerging countries from the institutional standpoint, Khanna & Palepu (1997) classified regulatory deficiencies, the absence of efficient intermediation structures, weak protection of property rights and inefficient enforcement of contracts as an “institutional void”. However, one reason for EMNCs success in expanding abroad may be due to their ability to operate in unfavorable conditions – despite an environment of imperfect contracts (contractual relations based on tradition and trust rather than law), less developed market mechanisms, inefficient courts, a heavy and lethargic bureaucracy, political instability and frequent changes in government policies (Khanna et al., 2005). The greater experience of EMNCs in dealing with similar economic and political conditions in their home markets can give them a competitive advantage, as can the lower administrative overheads and advantages derived from geographic and/or cultural proximity, by reducing the cost of coordinating cross-border deals. Moreover, because EMNCs exist in an environment of weak governance, managers are better able to deal with these questions in economies with similar characteristics (Cuervo-Cazurra & Genc, 2008).

The importance of these informal rules and connections tends to decline as emerging countries advance in the institutional transition process (Hoskisson et al., 2000), as the establishment of an efficient legal and regulatory framework is not compatible with former bureaucratic structures and informal coordination. However, since this evolution tends to be gradual, informal influence networks survive for a significant period (Peng, 2003). Hence
firms that are successful in assimilating the impact of institutional transitions are better able to interact with other relevant market agents by means of informal agreements and relationships of trust.

In contrast, companies from developed companies find it hard to deal with this type of institutional setting, in which traditional forms of operation prevail. Due to their vertical structure and the need to seek guidance from the parent company, multinationals from developed countries, are often slow to reach decisions, particularly at moments of intense institutional change (Chung & Beamish, 2005).

EMNCs have traditionally resorted to strategies such as acquisitions, strategic associations and green-field investments abroad to compensate for the difficulties of being late movers in these markets, such as lack of brand recognition and technological leadership (Luo & Tung, 2007; Goldstein, 2007). In general, EMNCs strive to acquire technologies and brands through internationalization, to overcome their lack of resources. However, unlike the internationalization pattern of multinationals from developed countries, which generally leverage and exploit their competitive advantages in foreign countries, EMNCs invest to capture resources and build competitive advantage (Luo & Tung, 2007, Goldstein, 2007).

3. REVIEW OF THE LITERATURE ON BRAZILIAN MULTINATIONALS

With the aim of verifying whether the assumptions found in the section above regarding the internationalization of EMNCs apply to Brazilian companies, we undertook a review of the literature on the internationalization process of Brazilian firms. For this purpose we relied on national academic periodicals, the annals of the past five National Management Research Meetings (ENANPADs) and the academic output of research institutions with a tradition in the domain of international business, such as Fundação Dom Cabral (Minas Gerais) and COPPEAD (part of Rio de Janeiro Federal University). We also consulted the publications of the United Nations Conference on Trade and Development (UNCTAD) and the World Bank.

Despite the diversity that characterizes the group of emerging countries, some basic aspects of the success of EMNCs have been identified by researchers as common to most of these economies, including the ease of obtaining access to cheap labor, ample domestic consumer markets, and abundant natural resources (BCG, 2009). Another advantage that helps explain the rapid growth of EMNCs is the fact that they built up strength as large local producers thanks to a series of protectionist measures that limited their exposure to foreign competition (Cuervo-Cazurra, 2007). Therefore, when these local firms set out on an internationalization course, they already had experience in managing large-scale operations and exploiting the ample dimensions of the internal market.

With liberalization, a series of barriers were eliminated or loosened and the internal market became subject to stiffer competition from foreign firms. This heightened competition stimulated the quest for greater efficiency and new markets of several major Brazilian companies, which started to expand abroad (Alem & Cavalcanti, 2005), initially in other Latin American countries. This concentration on Latin America has been attributed to geographic and cultural proximity (Gouvêa & Santos, 2004) – as formulated in the Uppsala model – or the ‘natural market’ ideas (Casanova, 2009) as well as to the process of regional integration after the creation of Mercosur (Alem & Cavalcanti, 2005; Casanova, 2009).

Although the geographic scope of Brazilian firms has expanded significantly, their foreign operations still are concentrated in Latin America, as indicated by a joint study by Fundação Dom Cabral and Columbia University (FDC-CPII, 2008) of the top 20 Brazilian firms.
multinationals, which found that at least half of the companies in the ranking focused their investments on Latin America, although overall as a group they were active in 51 countries. The same study also highlighted that the internationalization of Brazilian firms intensified substantially in the preceding five years, led by companies in the natural resources segment, notably Vale and Petrobras. The analysis also revealed a high level of concentration, since Gerdau, Vale and Petrobras held over 75% of the foreign assets of the top 20 Brazilian multinationals.

While the option to exploit the vast opportunities of the Brazilian market has delayed firms’ internationalization projects, certain aspects of Brazil’s institutional environment have acted as a constraint. In a study by Cyrino & Oliveira Jr. (2003) on the most significant barriers to foreign expansion, 70% of the companies surveyed cited high taxation and lack of specific financing as hindering a greater global presence. This diagnosis is in line with the results of our review in the previous section, which underlined the importance of institutional theory to understanding the recent international insertion of firms from emerging countries and how the institutional setting influences firms’ strategic decisions. The study by Cyrino & Oliveira Jr. (2003) also points to the institutional environment as a limiting factor. Other aspects have been held responsible for holding back the internationalization process, such as a lack of planning and a focus on the internal market (Fleury et al., 2007).

Despite sharing a series of common competitive advantages with the majority of emerging countries, Brazil is less dynamic than its peers regarding the number and representation of its home-grown multinationals. In the evolution of EMNCs, firms from Asia stand out, notably China and India, as having attained a major presence in the global arena in a relatively short timeframe, in some cases displacing traditional market leaders in the target countries.

The findings of the literature on internationalization of EMNCs are summarized in Chart 1, below.

**Chart 1 – Main obstacles for Internationalization of Emerging MNCs vs Brazilian MNCs**

<table>
<thead>
<tr>
<th>Findings on EMNCs</th>
<th>Findings on Brazilian MNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Contribution of the institutional setting to the development of competencies important for the competitiveness of EMNCs</td>
<td>a) Delay of internationalization to focus instead on the internal market</td>
</tr>
<tr>
<td>b) Positive influence of political and economic liberalization for the internationalization of EMNCs</td>
<td>b) Low level of planning for internationalization</td>
</tr>
<tr>
<td>c) Positive effect of participating in a conglomerate or other business group on the process of internationalization of EMNCs</td>
<td>c) Identification of public policies (or lack of them) as barriers to internationalization</td>
</tr>
</tbody>
</table>

We then selected a sample of Brazilian firms to shed more light on their internationalization process of Brazilian firms. The idea behind the interviews was to verify to what extent the propositions identified via the literature review were valid for Brazilian companies that had decided to expand abroad. We also sought to investigate how far the internationalization
process of Brazilian firms adhered to the dynamics predicated in the traditional Uppsala model\(^2\) and the eclectic paradigm\(^3\).

The interviews were conducted with executives from Brazilian firms mentioned in all three years of the *Global Challengers* report prepared by the Boston Consulting Group (BCG) in 2006, 2008, 2009, among the 100 companies from emerging countries examined in those publications. We identified 11 Brazilian firms mentioned in all three editions of this report, of which 10 agreed to participate in the survey: Braskem, Gerdau, Embraer, Natura, Perdigão, Petrobras, Sadia, Vale, Votorantim, and WEG. The executives interviewed were in the international business.

To analyze the interview results we used the content analysis method with the categorical or thematic analysis technique (Bardin, 2004). We sought to establish categories or codification units for the responses associated with each question, seeking to identify patterns in the group of firms surveyed that ratified and/or complemented the results of the literature review. Through this analysis we grouped the answers by categories, as stipulated by the methodology, and calculated percentages to serve as the basis for comparing the results of the literature mapping with the information from the interviews. The result of this content analysis and comparison with the themes in the literature are presented below. These results should not be generalized to all Brazilian companies given the limitations imposed by the small sample size and the fact the executives were expressing their personal opinions, which were not necessarily shared by others within their organizations regarding the internationalization process.

**Business Groups:** The questions were – “Is the company part of a group? If so, are the sectors in which the group operates strongly related to a single main business? What are the synergies/complementarities among the group’s companies?” The aim was to verify the hypothesis in the literature regarding the positive effects of the affiliation of EMNCs with groups, which function as providers of resources and international experience making up for any lack in these respects and spurring their performance.

Only two of the respondents said their firms were part of a conglomerate: Braskem S.A and Votorantim S.A. Only the respondent from Braskem S.A. recognized that the firm’s link to

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\(^2\) The Uppsala model as stated by Johanson et al. (1977) explains firms first gain experience from the domestic market before they move to foreign markets; firms start their foreign operations from culturally and/or geographically close countries and move gradually to culturally and geographically more distant countries; firms start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes (sales subsidiaries etc.) both at the company and target country level.

\(^3\) The Eclectic Paradigm was evolved by John Dunning (1988) and refers to the OLI Paradigm is a mix of three theories which state that foreign direct investment should be based on Ownership or Firm and Country specific advantages and Internalization advantages.
the Odebrecht Group helped its internationalization by opening doors for the acquisition of assets, thanks to the group’s reputation and established network of relationships.

**Planning and the Internationalization Decision:** The questions were – “How was the decision to expand abroad reached? How far in advance was the process planned?” The aim here was to check an observation in the literature that the majority of Brazilian companies based their international expansion on opportunistic developments rather than a structured planning process. We grouped the responses in two categories: “since the start of internationalization” and “only in the past ten years”. Gerdau and WEG were the only two in the first category (20% of the sample), while Braskem, Embraer, Natura, Perdigão, Petrobras, Sadia, Vale and Votorantim fell into the second category. The interviews indicated that although all the companies acted as exporters for a long period before venturing abroad, the majority of them decided to structure their internationalization strategy only recently, as of 2000. This corroborates the observation identified in the literature.

**Motivation for Internationalization:** The question was – “What was the company seeking when it decided to internationalize (e.g., market, technology, brand consolidation, etc.)?” The objective was to verify the hypothesis formulated in the literature indicating that EMNCs invest abroad to capture resources and build competitive advantage, unlike firms from developed countries, which generally leverage and exploit their existing competitive advantage. We grouped the responses to this item into four categories, as shown in Chart 2. There was more than one response for some companies.

**Chart 2 – Motivation for Internationalization**

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Braskem, Gerdau, Natura, Perdigão, Sadia, Vale, Votorantim, WEG</td>
<td>80</td>
</tr>
<tr>
<td>Technology</td>
<td>WEG</td>
<td>10</td>
</tr>
<tr>
<td>Brand</td>
<td>Embraer</td>
<td>10</td>
</tr>
<tr>
<td>Raw materials</td>
<td>Braskem, Petrobras, Vale</td>
<td>30</td>
</tr>
</tbody>
</table>

It can be seen that the main motivation for internationalization is the search for new markets to acquire size. The companies aligned with this response were Braskem, Gerdau, Natura, Perdigão, Sadia, Vale, Votorantim, WEG. WEG mentioned the search for technology, but only at the start of its internationalization.

**Selection of the Target Countries for Internationalization:** The question here was – “What factors determined the selection of the countries on which the company focused (through establishment of subsidiaries, plants and/or acquisition of existing companies)?” The aim was to verify the occurrence in the sampled companies of elements of the Uppsala model or the eclectic paradigm. We divided these responses into three categories, as shown in Chart 3. One company gave more than one response.

**Chart 3 – Selection of the Target Countries for Internationalization**

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market knowledge</td>
<td>Perdigão, Petrobras, Sadia</td>
<td>30</td>
</tr>
<tr>
<td>Market size</td>
<td>Gerdau, Embraer, Natura, Perdigão, Votorantim, WEG</td>
<td>60</td>
</tr>
<tr>
<td>Factors inherent to the industry</td>
<td>Braskem, Vale</td>
<td>20</td>
</tr>
</tbody>
</table>
The market knowledge category is the one that best reflects the Uppsala vision that companies gradually increase their commitment to the internationalization process as they accumulate experience in given markets. Market size seems to be the most important reason while deciding which countries to enter instead of geographical or cultural proximity.

**Competitive Advantages of the Companies:** The question here was – “What competitive advantages held by the company influenced the choice of destination countries?” The objective was to verify the occurrence of the elements of the eclectic paradigm approach, mainly with respect to the ownership variable. We grouped these responses into four categories, as shown in Chart 4. One company gave more than one response.

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Sadia</td>
<td>10</td>
</tr>
<tr>
<td>Production scale</td>
<td>Sadia</td>
<td>10</td>
</tr>
<tr>
<td>Experience in the target market</td>
<td>Perdigão</td>
<td>10</td>
</tr>
<tr>
<td>None (factors exogenous to the company)</td>
<td>Braskem, Embraer, Gerdau, Natura, Petrobras, Vale, Votorantim, WEG</td>
<td>80</td>
</tr>
</tbody>
</table>

Most of the respondents indicated that the decision to step up the internationalization effort was based on factors exogenous to the company. This reveals the limitations of the eclectic paradigm approach in fully explaining the process.

**Barriers to Internationalization:** The question was – “What are the most significant barriers to the internationalization process – internal and/or external – faced by the company?” The aim here was to check an observation in the literature regarding the difficulties faced by Brazilian companies in intensifying their international expansion. We grouped these responses into two categories – internal and external barriers – each subdivided into the items mentioned in the interviews, as shown in Chart 5. Some companies gave more than one response. Although some interviews confirmed the existence of internal barriers, such as poor infrastructure and strong exchange rate, the emphasis was on external barriers of a cultural nature.

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External barriers</strong></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Non-tariff</td>
<td>Natura, Sadia (sanitary), WEG (technical certifications)</td>
<td></td>
</tr>
<tr>
<td>Cultural</td>
<td>Braskem, Embraer, Gerdau, Perdigão, Votorantim, WEG</td>
<td>60</td>
</tr>
<tr>
<td>Regulatory risk</td>
<td>Petrobras</td>
<td>10</td>
</tr>
<tr>
<td><strong>Internal barriers</strong></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>WEG</td>
<td></td>
</tr>
<tr>
<td>Exchange rate</td>
<td>WEG</td>
<td></td>
</tr>
<tr>
<td>Cost of capital</td>
<td>Vale</td>
<td></td>
</tr>
<tr>
<td>Lack of qualified managers</td>
<td>Braskem, Gerdau, Natura</td>
<td>30</td>
</tr>
</tbody>
</table>

10
Factors that Delay Internationalization: The question was – “What factors contributed to delaying the decision for internationalization?” The objective here was to verify an observation in the literature according to which Brazilian companies delay their internationalization process in order to exploit growth opportunities in the domestic market. We divided these answers into four categories, as shown in Chart 6. One company presented more than one response. Within the sample analyzed, no one factor predominates, but focus on internal market was mentioned by three companies.

Chart 6 – Factors that Delay Internationalization

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on the internal market</td>
<td>Natura, Perdigão, Votorantim,</td>
<td>30</td>
</tr>
<tr>
<td>Need for more international experience</td>
<td>Perdigão</td>
<td>10</td>
</tr>
<tr>
<td>Past government control</td>
<td>Embraer, Petrobras, Vale</td>
<td>30</td>
</tr>
<tr>
<td>None (no delay)</td>
<td>Braskem, Gerdau, Sadia, WEG</td>
<td>40</td>
</tr>
</tbody>
</table>

Brazil’s Institutional Environment and Internationalization: The question was – “How did the company’s experience under the influence of the Brazilian institutional environment affect its activities abroad?” The objective was to verify the hypothesis in the literature that the institutional setting is an important element for the performance of EMNCs, mainly in other emerging countries. We grouped the responses into two categories: firms that recognize this influence and those that do not. Unlike the academic discussion of the theme, most of the companies in the sample did not see the institutional setting as playing an important role in the internationalization process. Only Perdigão and Petrobras recognized this influence. The others (Braskem, Embraer, Gerdau, Natura, Sadia, Votorantim, Vale, and WEG, i.e, 80% of the sample) did not.

Easiest Foreign Markets to Enter: The question was– “What foreign markets have the company found it easiest to enter?” The aim was to check the hypothesis in the literature that EMNCs encounter more favorable entry conditions in other emerging countries. We grouped the responses in four categories, as shown in Chart 7.

Chart 7 – Easiest Foreign Markets to Enter

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging markets</td>
<td>Braskem, Gerdau, Natura, Petrobras, Votorantim</td>
<td>50</td>
</tr>
<tr>
<td>Developed markets</td>
<td>Embraer, Perdigão, Vale</td>
<td>30</td>
</tr>
<tr>
<td>Other markets</td>
<td>Sadia (Middle East, Far East),</td>
<td>10</td>
</tr>
<tr>
<td>No perceived difference</td>
<td>Votorantim, WEG</td>
<td>20</td>
</tr>
</tbody>
</table>

Process of Political and Economic Liberalization and Internationalization: The question was – “In what way did the political and economic liberalization processes that occurred in the 1980s and 90s in Latin American and other emerging countries affect the company’s internationalization process?” The objective here was to verify the hypothesis formulated in the literature that the liberalization process served as a catalyst for the international expansion of EMNCs. We grouped the responses in two categories: “favored” and “made no difference”. In conformity with the literature, most of the companies (Braskem, Embraer, Gerdau, Petrobras, Sadia, Votorantim and WEG representing 70% of the sample) recognized the influence of liberalization in their internationalization. Only Natura, Perdigão and Vale (30% of the sample) fell into the “no difference” category.
Effect of Brazilian Public Policies on Internationalization: The question was – “How have Brazilian public policies affected the company’s internationalization dynamic?” The objective was to check an observation in the literature according to which the internationalization process of Brazilian firms might have been stronger if Brazil had had a set of public policies encouraging foreign expansion. We grouped the responses into two categories, as shown in Chart 8. The companies that considered this a relevant factor indicated the areas the government should focus on more.

**Chart 8 - Effect of Brazilian Public Policies on Internationalization**

<table>
<thead>
<tr>
<th>Response</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant</td>
<td>Sadia, Perdigão</td>
<td>20</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>Braskem, Votorantim</td>
<td>20</td>
</tr>
<tr>
<td>Irrelevant</td>
<td>Embraer, Gerdau, Natura, Petrobras, Vale, WEG</td>
<td>60</td>
</tr>
</tbody>
</table>

Although there are some Brazilian multinationals such as Embraer and Vale, global leaders in their industries, the international expansion is still not widespread. The results of the questionnaires summarized in the charts above reveal that the reasons for this low dynamism are: a certain inertia among Brazilian firms to continue exploiting an ample internal market and past government control and an institutional component (and a lack of governmental mechanisms to support the internationalization process). However the executives in the survey did not believe the institutional environment had any influence in the internationalization process.

The analysis of Brazil’s competitiveness index (Mia et al. 2009) shows that the ability of Brazilian companies to compete internationally is hindered because of the structural inefficiencies of the Brazilian market for goods and labor, as well as the weak performance of institutions, especially regarding the quality of the public sector.

The study of internationalization of Brazilian companies reveals that the majority of them benefited from the high level of protection that reigned until the end of the 1980s, which not only allowed them to consolidate their leadership in the domestic market, but also to develop a strong technological base (Embraer) and assure access to natural resources (Braskem Vale, Votorantim). These circumstances show the direct or indirect influence of the institutional context on the formation and strengthening of these companies, as among many of their peers in other emerging countries.

**4. FINAL CONSIDERATIONS**

Our search of the academic literature published in the period from 1997 to 2009 on the internationalization of EMNCs indicates that traditional theories of internationalization such as the Uppsala model and eclectic paradigm are insufficient to explain the international expansion of EMNCs and their capacity to compete, sometimes on an equal footing, with established multinationals. The articles consulted indicate that the institutional environment played a decisive role in defining the strategy and trajectory of EMNCs. Unlike traditional theories, to fully understand the path followed by EMNCs requires an integration of the context of globalization with the institutional context of their countries of origin.

In line with institutional theory, thanks to their familiarity with relatively underdeveloped institutional environments, EMNCs have the ability to deal with unstable business settings where the rules of the game are not fully known and change rapidly. Besides this, EMNCs
have experience in building networks of social, political and business relationships that facilitate their operation in emerging countries. These competencies, as well as the benefits (for some firms) of being part of business groups, are important competitive advantages for successful internationalization, mainly in other emerging countries. In addition to these characteristics, the growth of EMNCs has been spurred by the processes of political and economic liberalization.

With respect to the internationalization of Brazilian companies, neither the literature review nor the interviews conducted with executives from the ten companies affirmed the importance of the main elements identified in the general literature on the subject: the role of the institutional setting in the development of competencies by EMNCs and the positive effects on their performance of their affiliation with conglomerates. Only the positive contribution of the liberalization process was confirmed.

Conversely, the interviews did confirm some questions raised in the literature in the sense that an extended focus on the internal market and the low level of planning for internationalization initiatives delayed the international expansion process. Unlike multinationals from other emerging countries, Brazilian firms have a strong current of internationalization toward developed markets. Of the 10 companies in the sample considered to be “global challengers” (BCG, 2009), eight (Embraer, Gerdau, Perdigão, Sadia, Vale, Votorantim and WEG) have a more relevant international position – in terms of commitment of resources – to developed countries.

In this respect, in light of the information obtained from the survey, Brazilian multinationals are failing to appropriate all the potential advantages that accrue from being located in an emerging country and the favorable international business climate. Future research is needed to more fully understand this question by expanding the sample and incorporating new contributions by other researchers.
REFERENCES


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1 In this article we adopt the definition of emerging countries employed by Hoskisson et al. (2000).

ii For example, not owing well-known brands, patented technologies and long international experience.
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