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"This brilliant book provides one of the best analyses of Brazil's emerging multinationals. The Fleurys give the reader an outstanding historical and comparative view of how Brazil spawned global champions in so many industries. The book puts to bed the notion that emerging-market firms have no firm-specific advantages, by providing countless examples of Brazilian firms with world-class capabilities. The book is an invaluable addition to the burgeoning literature on emerging-market multinationals."

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"This book is more than just a book on Brazilian multinationals. It is a well-researched and highly readable explanation of why Brazilian firms have followed a path of foreign expansion that differs from the path followed by multinationals in other countries. Fleury and Fleury provide a unique, insightful and fascinating account of the emergence of Brazilian firms in the world stage. The book should be of great value not only for readers interested in Brazil and its multinationals, but also for those interested in better understanding globalization and its impact on firms."

ALVARO CUERVO-CAZURRA, Associate Professor, Sonoco International Business Department, Moore School of Business, University of South Carolina

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Brazilian Multinationals

Competences for Internationalization

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Maria Tereza Leme Fleury

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To our grandchildren, Marina, Leonardo and Gabriela,
who will surf the waves of the new world,
and to our sons, Andre, Fernando and Pedro, and daughters-in-law,
who are teaching the children the art and science of sailing through rough waters.

7 The rise of Brazilian multinationals

7.1 Brazil adheres to global productive restructuring

In the early 1990s, factors linked to the international and the domestic environments gave rise to a highly turbulent period in Brazil. On the political front, a series of scandals led to the impeachment of the elected president. On the economic front, inflation spiraled out of control, reaching more than 2,000 percent a year after a disastrous attempt to freeze it through the confiscation of savings. Furthermore, subsidies were slashed abruptly while tariff and non-tariff barriers were reduced, thus opening the domestic market to international competition. The presence of foreign subsidiaries increased significantly and importing became far easier.

Therefore, the period of productive restructuring in Brazil was particularly complex and exceptionally demanding for all corporations. Traditional industrial groups and leading firms disappeared. Important state-owned enterprises were fully privatized. Nevertheless, the competitive environment thus instated generated a selection process that revealed which Brazilian enterprises could develop the competences needed to survive and prosper and which could not. This was the setting in which the internationalization of Brazilian firms grew and became solid.

This chapter first describes the context of productive restructuring in the 1990–2008 period, to highlight how the selection process also laid the cornerstone of a sort of Brazilian management model. This is followed by a section on the resurgence of the movement of Brazilian firms toward foreign countries, starting with Mercosur. Then a panoramic view of Brazilian multinational enterprises (MNEs) is presented. The section closes with the results of a survey that reveals the main features of the internationalization process of Brazilian enterprises and how they manage their foreign subsidiaries, enabling us to sketch a Brazilian model of international management.

7.2 The transition from a closed to an open economy

During the 1980s, the pursuit of absolute self-sufficiency, which had been the aim of the imports substitution policy for decades, lost its importance as the chief objective and function of national development. Thus, Brazilian enterprises began looking in other directions for their decision processes. They began to save resources and to replace the local context by an international horizon in their strategies. On top of that, they had to manage the transition within an extremely turbulent political and economic context.

In 1991, Brazil's newly empowered president introduced major changes that redefined the country's structure and competitive system. His government began by freezing bank accounts, which had a brutal impact on demand, especially for unessential goods. Many industries had to rediscover their markets and establish new strategies. The automotive industry, for example, stood idle for more than three months.

Meanwhile, the government changed the competitive system by introducing a number of major policy initiatives: the industrial competitiveness program, the technological capability program, and trade reforms. The industrialization and foreign trade policy (IFTP) established a timetable for a progressive reduction of import duties, in order to expose Brazilian producers gradually to stronger foreign competition. "The aims were clear: to improve international competitiveness, deregulate trade and achieve marketing selectivity, a transparent industrial policy, and medium- and long-term improvements in competitiveness, by developing enhanced skills and product quality" (Fleury and Humphrey, 1993: 14). That set the stage for the process of productive restructuring in Brazil.

However, the objectives of stabilizing the economy and controlling rampant inflation were not achieved. On the contrary, inflation continued to rise to 1,783 percent a year immediately prior to the implementation of the Collor plan (1991) and then peaked at 2,781 percent a year shortly before the Real plan (1993).

The difficult circumstances that applied to working in Brazil, which ensued from a lack of macroeconomic control, plus the tensions connected with political and institutional events (among other facts, President Fernando Collor de Mello, elected in 1990, was impeached in 1992) put to the test the corporate competences of both Brazilian

Table 7.1 *Different responses of firms in the turbulent Brazilian environment of the early 1990s*

Managerial capabilities	Lower response capabilities	Higher response capabilities
Sector	Capital goods, traditional goods	Industrial commodities, durable goods
Size	Small, medium, and large	Very large
Ownership	State and private-sector domestic enterprises	Multinationals
Direction of sales	Only internal market and/or only external market	Intraindustry trade

Source: Based on Ferraz *et al.* (1999).

enterprises and MNE subsidiaries. A study by Ferraz *et al.* (1999) comparing MNE subsidiaries and Brazilian firms showed that the former performed better, thanks to their greater response capacity, as Table 7.1 indicates.

Table 7.1 summarizes the set of changes in Brazil's industrial structure, which signaled a new path for Brazilian enterprises, especially where internationalization is concerned. "The need to adapt to these changing, unstable and often abrasive circumstances caused Brazilian enterprises to develop a special capacity for survival" (Coutinho *et al.*, 2008: 74). The firms that survived this harsh selection process developed the competences required to compete internationally. They also reached the end of the decade well-capitalized, as we will see further on.

In late 1993, implementation of the Real plan began. This was an inflation-fighting plan designed by Fernando Henrique Cardoso, Brazil's finance minister at the time, who would later became president of the republic. Following a number of failed heterodox plans in previous years (the Cruzado, Bresser, Summer, Collor I, and Collor II plans), the Real plan finally managed to slash inflation and keep it under control to this day, notwithstanding the initial overvaluation of the Real, the financial international crises, the 1998/9 foreign

exchange shake-up, and the subsequent devaluation of the Real. The exchange rate in 1994/5 went down to R$0.8/$, up to R$3.5/$ in 2002, then down again to R$1.8/$, and so on. Analyses show that the volatility of the Real is not only large if compared with advanced countries but also the greatest among Brazil, Russia, India, and China (the BRICs).

From 1994 to 2002, Brazil fully complied with the International Monetary Fund (IMF) and the Washington Consensus requirements, embracing a neo-liberal agenda, as did other developing countries. One of the outcomes of this was the deliberate abandonment of industrial policies, faithfully reflected in the utterance of the finance minister at that time: "the best industrial policy is no industrial policy."

From 1994 to 1997, trade liberalization, privatization of infrastructure, and deregulation made room for the foreign private sector. Among others, the following measures lowered entry barriers for foreign investors:

- extinction of entry restriction in the information technology (IT) industry in 1991;
- elimination of the limits to participation in privatization in 1993;
- elimination of the distinction between local and foreign capital, thus giving to the installed multinationals access to government loans and subsidies in 1994;
- income tax exemption for profit and dividend remittance in 1994;
- liberalization of restrictions to patenting in high-tech areas in 1995; and
- lifting of the prohibition of intra-firm remittance of royalties for trademarks and patents in 1997.

These changes, associated with the reorganization movements of the developed countries and of their MNEs, caused the flow of FDI into Brazil to recover gradually, as shown in Figure 7.1.

Consequently, "In 1998, Brazil held the eighth largest stock of FDI in the world: US$156.8 billion. Out of the 500 largest companies in the world, 405 had operations in Brazil, accounting for roughly 20 percent of GDP" (Matesco and Hasenclever, 2000: 161). This led some economists to identify a paradox: "Among the industrialized countries, Brazil probably has the lowest ratio of local to foreign capital ownership, a feature – and its implications – yet to be properly understood by analysts and policy-makers" (Ferraz *et al.*, 1999: 17).

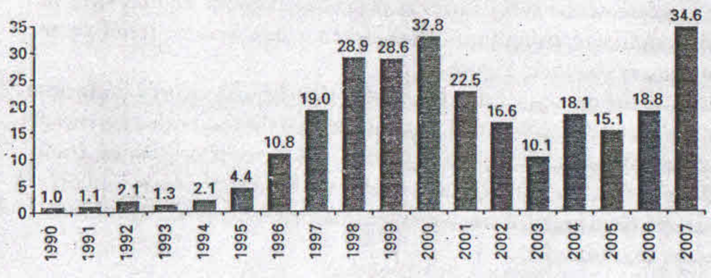

Figure 7.1 Inward FDI in Brazil, 1990–2007 ($ billion)
Source: UNCTAD (2008).

Therefore, three points are important to stress in relation to productive restructuring in Brazil: (1) the increasing proportion of MNE subsidiaries in the industrial sector and especially in the services sector; (2) the reduction of Brazilian firms' share of some strategic sectors, as a result of privatization policies; and (3) the emergence of internationally competitive Brazilian firms.

7.2.1 Share of subsidiaries in manufacturing and services increases

From the late 1950s until 1990, a co-existence of sorts between foreign and local enterprises was achieved, both groups operating within a highly protected environment. This balance was upset when foreign trade barriers were lowered drastically and Brazil entered the commercial globalization stage.

As shown in the previous chapter, in the early stages of MNE subsidiaries in Brazil, parent companies transferred technology (plants, products, and processes), along with management policies and procedures (including human resources management). This was followed by a period of a relative accommodation (1970–90). Subsidiaries were run along the lines of the multidomestic pattern, explained by the fact that their financial performance was satisfactory, sometimes even exceeding their headquarters' expectations. The transfer of technology, expertise, and information to subsidiaries was gradually reduced, so that they began operating with increasing autonomy. A byproduct of this was that they developed local competences, especially those related to the operation and management of production systems.

Then, once the economy was thrown open to productive globalization, the subsidiaries were reincorporated into the global strategies of their parent corporations. Two forces shaped the restructuring process: the new organizational directives issued by the headquarters of the MNEs, and the subsidiaries' operating conditions in the Brazilian market. Overall, two distinct phases of the restructuring process of foreign multinationals can be identified. In the first (1990–4), while the headquarters in the developed countries experimented with new ways of organizing business, the Brazilian market experienced enormous turbulence. Depending on the orientation of the headquarters and on the relative importance and autonomy of the Brazilian subsidiaries, the MNEs that were active in the country expanded in some cases but shrank in others. In other words, in the early 1990s, a clear transition in the modus operandi of the Brazilian subsidiaries was observed. Whereas previously they tended to be of the multidomestic kind, they now turned into a range of different types of companies: local implementers, specialized contributors or global mandate holders, according the Birkinshaw and Hood (1998) classification.

By the next phase (from 1994 to 2000, approximately), the international management model of developed country MNEs had matured somewhat. Concomitantly, Brazil's institutional, political, and macroeconomic circumstances had stabilized and a system to encourage the inflow of foreign capital had been set up. The action of foreign multinationals speeded up and the relative share of the Brazilian economy in the hands of MNE subsidiaries increased significantly, especially in the services sector.

For instance, in the automotive industry, virtually all the global manufacturers set up subsidiaries in Brazil. Those that had been long-established in the country, such as General Motors (GM), Ford, Volkswagon (VW) and Fiat, were joined by Toyota, Honda, Mitsubishi, Renault-Nissan, Peugeot-Citroen, Audi, Mercedes-Benz (cars), BMW (engines), and Chrysler. However, the last four shut down their Brazilian operations in the early 2000s. On the other hand, Hyundai arrived in the country in the 2000s. Mahindra, the Indian firm, started up its assembly operations in Brazil in 2008, while EFFA, a Chinese automaker, set up operations in Uruguay, from where it exports its products to Brazil. In the telecom sector, privatization brought international operators in its wake, especially from the Latin European countries. The grid of the large global firms

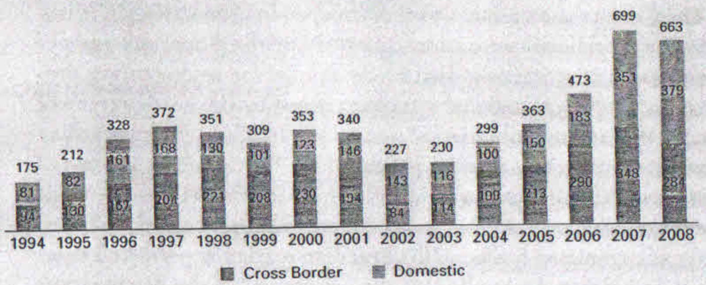

Figure 7.2 Number of mergers and acquisitions in Brazil
Source: KPMG.

became almost complete with the subsidiaries of Nortel, Huawei, Celestica, Flextronics, and Solectron, among others.

It is interesting to note that the new subsidiaries, from their very inception, were based on the new international management models, most of them following the Birkinshaw and Hood (1998) local implementer type.

However, this period's chief novelty was the arrival of MNE subsidiaries in the services industry. The global banks Santander and BBVA (Spanish), HSBC (English), and ABN-Amro (Dutch) began operating in Brazil. In the apparel retail sector, C&A (Dutch) and JCPenney (American) established shops and local supply chains. In the supermarket sector, Wal-Mart (American) and Casino (the French group that acquired control of the local Pão-de-Açúcar supermarket chain) started competing with Carrefour. In the building materials retail sector, St. Gobain (Telhanorte) and Leroy Merlin vied for business with the large local groups' retail chains. Along with the international brands that also stepped up their presence in Brazil, these firms became the drivers of local production chains.

This movement is clearly depicted in Figure 7.2, showing the figures for mergers and acquisitions (M&As) in Brazil. From 1994 to 2001, 60 percent of M&As were of the cross-border kind. In a study we carried out in the late 1990s with a sample of the 1,600 enterprises (local and subsidiaries), we found an unexpected and significant number of subsidiaries of small and medium-sized MNEs that had recently been set up in the country. However, that trend was reversed after 2001, when 52 percent of M&As involved enterprises already active in the country.

The share of the subsidiaries that produced goods and services in Brazil continued rising until 2005, when a new reverse trend came into play, as shown in Figure 7.2.

One of the consequences of this was that Brazil's export performance has been driven by MNE subsidiaries. Of the total value exported by the 200 largest Brazilian exporters, 64 percent originated from MNE subsidiaries, 30 percent from state-owned enterprises, and only 6 percent from locally owned private enterprises (*America Economia*, August 16, 2006: 84).

7.2.2 *Privatization redefines governance in strategic sectors*

Starting in the 1990s, the Brazilian state-run production system went through deep restructuring and denationalization owing to the implementation of the Plano Nacional de Desestatização (PND; national privatisation plan) and of the opening of the domestic market to foreign firms. This process was implemented at the start of the decade (during the Fernando Collor de Mello administration) and became stronger in the 1996–8 years (of the Fernando Henrique Cardoso administration).

The first phase of the privatization process (1990–4) focused on certain sectors of the transformation industry, such as steel manufacturing and petrochemicals. As of 1995, the process turned mainly to the services and infrastructure sectors, such as telecommunication and energy (Laplane *et al.*, 2003).

The main feature of the 1990–4 privatizations period was the modest participation of foreign investors, in line with their introspective period to restructure in their home countries (Table 7.2). In this first phase, state enterprises were acquired mainly by large Brazilian private-sector groups, often with state aid in the form of loans, according to Banco Nacional para o Desenvolvimento Economica e Social, (BNDES, Brazil's national bank for economic and social development 2002). Certain sectors, however, such as electric energy, mining, and oil could not be sold to foreigners according to the 1988 constitution. Furthermore, "other issues favoured local investors at the first phase, such as difficulties working out the value of the assets of the several government enterprises, in the aftermath of years of high inflation, and the uncertainties regarding the positions of political groups regarding the privatizations" (Giambiagi and Vilela, 2005).

Table 7.2 *Sales result by type of investor, 1990–4 ($ million)*

Type of investor	Sales revenues	%
Domestic companies	3,116	36
Financial institutions	2,200	25
Individuals	1,701	20
Pension funds	1,193	14
Foreign investors	398	5
Total	8,608	100

Source: BNDES (2002).

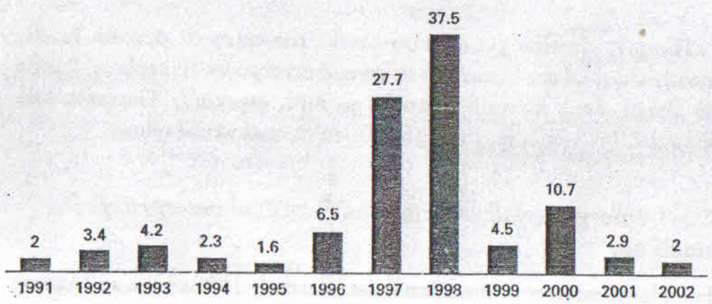

Figure 7.3 Revenues from the annual evolution of privatizations ($ billion)
Source: BNDES (2002).

As of 1995, the privatization and state reform processes were stepped up and utilities started to be transferred to the private sector. The initial objectives to resume investment in modernization of the Brazilian industrial complex were superseded by other aims. The privatizations became part of the economic policy, to keep the high government deficit of that time from pressuring public debt further. Thus, the privatizations were connected with the need to attract foreign capital as a means of financing part of the country's unbalanced current account (Figure 7.3). As of 1999, currency devaluation and fiscal adjustment corrected this issue and privatizations ceased to be a priority. The accrued revenues from the sale of government enterprises reached some $100 billion, with annual peaks of about $28 billion in 1997 and of $38 billion in 1998 (Giambiagi and Vilela, 2005).

The following sectors were included: electrical, financial, transportation, highways, sanitation, ports, and telecommunication. The

Table 7.3 *Sales result by type of investor, 1995–2002 ($ million)*

Type of investor	Sales revenues	%
Foreign investors	41,737	53
Domestic companies	20,777	26
Individuals	6,316	8
Domestic financial sector	5,158	7
Pension funds	4,626	6
Total	78,614	100

Source: BNDES (2002).

share of foreign capital was significant in the 1995–2002 period, during which it totalled 53 percent of the amount raised through all Brazilian privatization. The change in the rules pertaining to foreign capital called for an amendment to the constitution in order to make it possible for the mining and energy sectors to be exploited in part by international capital (Giambiagi and Vilela, 2005). Domestic enterprises accounted for 26 percent of the revenues, 7 percent being connected with organizations from the domestic financial sector, 8 percent with individuals, and 6 percent with the private pension plan funds, as shown in Table 7.3 (BNDES, 2002).

In general, the government's position was to give up its production activities entirely, delivering them into the hands of private sector firms, whether domestic or foreign, though it set up regulation processes based on regulating agencies to ensure the compliance of the services rendered with pre-defined performance criteria.

This had different consequences, depending on the sector. In the high-tech areas, the result was, essentially, a de-nationalization, state companies giving way to foreign enterprises. The telecom industry was the most visible case.

Box 7.1 The evolution of the telecommunication industry in Brazil

In the first part of the twentieth century, the telecommunication system consisted of a heterogeneous group of isolated regional telephone operators, each one serving a specific area, using imported equipment. In the late 1960s, a national telecom company, Telebras, was created as the main organization responsible for developing and running the telecoms. That decision combined the imperatives of the governing macroeconomic model of import substitution at that time with the interests of the military government, which regarded telecommunication as an area of strategic relevance for national security and technological development.

Telebras had an operating branch, Embratel, in charge of long distance services and of the organization and control of the twenty-three state network operators. The technological duties were assigned to the Center for Research and Development (CPqD), which, to some extent, played the role of a research laboratory. CPqD's chief concern was to create local capabilities in telecom technologies through its own research and to integrate the activities undertaken by universities, enterprises, and other research centers.

Until the 1980s, subsidiaries of foreign specialist equipment suppliers (NEC, Ericsson, etc.) were obliged to comply with the technological regime that Telebras and CPqD imposed upon them through specific operating standards, designs, and technologies. A very successful platform called Tropico was developed by CPqD for the specific conditions of Brazil.

The privatization process, however, meant that foreign enterprises, such as Portugal Telecom, Telefonica (Spanish), and MCI (US), among others, became the large network operators. The Brazilian firms only managed to establish themselves in a limited number of regions.

CPqD was then transformed into a private-sector foundation, putting an end to its role as the coordinating agency for the development of telecommunication technologies.

These changes led to improved telecom services but also to a strong reduction in the country's process of technological development, not only in this field, but also in the software area, one of the main telecom suppliers.

On the other hand, other state companies were kept under local control. Table 7.4 shows the dates of the Companhia Siderúrgica Nacional (CSN), Vale, and Embraer privatizations. As for Petrobras, even though the Brazilian government sold part of its shares, it is still the controlling stakeholder.

Table 7.4 *The privatization of Brazilian state-owned enterprises*

Enterprise	Year	Governance
CSN	1993	Brazilian Industrial Group, Bradesco Bank, Pension Funds
Vale CVRD	1997	Brazilian Industrial Group, Opportunity Bank, Pension Funds
Embraer	1994	Brazilian Government, Brazilian Financial Group, Pension Funds
Telebras	1998	Telefônica (Spain), Portugal Telecom, and local financial groups

The privatization period also marks the entry of pension funds, mostly those of the former state-owned enterprises (Petrobras, Banco do Brasil, etc.). Certain financial groups, especially Garantia and Vicunha, became important players on the industrial scene.

7.2.3 *Internationally competitive Brazilian enterprises stand out*

For a large number of Brazilian firms, the early 1990s were an ongoing threat. The rising competitiveness in the domestic market due to imports, the increased participation of foreign MNEs' subsidiaries, and the possibility of them engaging in international procurement, made feasible by the newly established trade policies, resulted in what some authors called "the denationalization process." Several leading Brazilian firms, especially in the automotive and other technology-intensive industries, were sold to foreign MNEs. The most striking case was MetalLeve, previously one of Brazil's most advanced firms, a first-tier supplier with a research and development (R&D) laboratory in Detroit and distribution centers in other parts of the US, which was sold to German Mahle. Vargas (brake systems), Nakata (suspension systems) and Cofap (shock absorbers), among others, had a similar fate.

On the other hand, another group of Brazilian companies started to catch up by upgrading competences. The initial target was to reach the productivity and quality levels found in the international market. The Japanese management model became their chief source of inspiration, methods, and techniques.

The strong dissemination of Japanese management techniques was led by enterprises that were state-owned at the time, such as Petrobras and Vale, and that demanded better management from their suppliers. In parallel, the MNE subsidiaries, which were being restructured at that time, were also important in this regard.

The Programa Nacional de Qualidade e Produtividade (PBQP; national quality and productivity program) instituted by the federal government, was widely disseminated and influenced the access criteria to other financial support programs. The National Quality Prize (Premio Nacional da Qualidade), organized along the lines of the Deming prize in Japan and of the Malcolm Baldridge prize in the US, was also very important in this process. From 1991 to 2008, in the manufacturing area, the prize was awarded to MNE subsidiaries ten times and to Brazilian enterprises nine times. In the services sector, it was granted ten times to Brazilian enterprises and twice to MNE subsidiaries. Among the Brazilian MNEs, the prizewinners were WEG (1997), Gerdau (2002 and 2007), and Petrobras (2007).

After 1994, the course of action of Brazilian companies was modified, given the imperative of becoming effectively integrated with global production systems. Local firms began to see MNEs from a different perspective, as stronger competitors, potential partners and eventual suppliers. For example, Aulakh (2006) screened 357 cross-border alliances involving Brazilian firms. The author identified three different types: technology alliances (45 percent), marketing alliances (26 percent), and production alliances (29 percent).

Local leading enterprises dropped their defensive and isolated strategies and moved toward proactive integrative strategies. Strategic alliances became essential not only for transferring technology, but also to guarantee access to the international negotiation circuits. Priorities changed; from the individual pursuit of indicators of excellence, firms now aimed at institutional integration with international operations, by joining global production networks. The choice basically depended on the new structure of industry at the global level and the relative bargaining power of local companies vis-à-vis the MNEs operating in that industry.

Thus, a new profile of organizational competences was gradually consolidated within Brazilian enterprises. We will revisit this point in the next chapter.

7.3 Establishing the roots of international competitiveness

As a by-product of the restructuring process, Brazil and Brazilian firms began to identify the roots of their international competitiveness.

Evidently, the country's factors endowment (especially nature, climate, size of domestic market) was always seen as a country specific advantage. However, the other dimensions related to the local environment, namely the cultural dimension and the sociopolitical structure, were gradually unveiled and understood in terms of their potential contribution for the development of local enterprises.

In regards to the sociopolitical infrastructure, the difficulties and challenges of the 1980s and 1990s were tough lessons that spurred reparatory actions. In the 1990s significant changes were consolidated starting with the Fernando Henrique Cardoso administration, this process having continued in the Luiz Inacio Lula da Silva administration. However, effective supportive policies geared to internationalization were only established in 2004, when the tradeoffs associated with that decision became clear to the governmental agencies, especially BNDES.

Despite Brazil's new-found political and financial stability, some authors kept employing words such as disorder, uncertainty, attrition, and fluidity to describe the main features of the business environment, meaning a set of unique obstacles that make it harder to do business in Brazil than in other countries. Brazil still ranks badly in the competitiveness rankings: the World Economic Forum (WEF, 2009) classifies Brazil as 56th, behind China (29th), Chile (30th), India (49th) and Costa Rica (55th). On the other hand, there are more positive assessments of Brazilian overall competitiveness, based on different criteria. For example, in the ranking developed by the Institute for Large Scale Innovation, Brazil is ranked 12th among the twenty most innovative countries in the world.

In that context, it is not surprising that Sull and Escobari (2004) described Brazilian executives as "pilots racing on unknown tracks in the midst of a fog: as they can only see what lies ahead very vaguely, they must learn to react quickly to the changes that are typical of an environment in constant transformation."

At firm level, interestingly, the unveiling of the traces of Brazilian organizational culture started with the need to incorporate the Japanese approach to managerial processes. The exposure to new management models and techniques and the rupture with the until-then hegemonic "American way of organizing" led Brazilian enterprises to a reflection about their own style and competences.

Authors who have analyzed the characteristics of the Brazilian management style prior to that point in time (Barros and Prates, 1996; Tanure, 2005; Caldas, 2006), have associated it with national cultural traits allegedly rooted in the country's early history. Those traits would be the result of the colonization project of the Portuguese, who established rigid and hierarchical organizations, depleted the colony's natural riches, and exploited the land through a slavery-based regime, among other factors. The social elements that were introduced back then in the formation of Brazil's rural and agricultural society subsequently have influenced its urban and industrial society and the way in which Brazilian firms were managed as well.

These authors admit that, up to the 1980s, Brazilian management style had its roots in this heritage, thus summarized by Hickson and Pugh (1995):

- centralization of decisions at upper hierarchical levels, with clear incompatibility between responsibility and authority;
- immediatist views that target short-term results with an emphasis on solving crises;
- lack of strategic planning and/or a gap in planning between the tactical and the operating management levels;
- pursuit of reactive and adaptive (i.e., short-term) solutions, prizing "creative improvisation," known in Portuguese as the *jeitinho*, or "the Brazilian way around" things, as translated by Hickson and Pugh (1995: 85).

To all of the above, one can also add:

- openness to novelty; interest in and admiration for management practices imported from other countries (Caldas, 2006; Chu and Wood, 2008).

The "traditional Brazilian management style," prevalent up to the late 1980s, was compatible with a protected domestic market and dependent on the government actions. That helped to establish a "parochial" mentality in most industrial sectors, i.e., an inward-oriented entrepreneurial and managerial style that was devoid of a global overview. To survive, private firms developed competences

mainly in the production area while state-owned enterprises invested more heavily in building technological and production competences.

The negative experience of the first companies that embarked upon internationalization, the exposure to new management models, and the increasing competition for the domestic market, fueled a process of revision of local management models and furthered the development of a more global view of the world among managers and entrepreneurs. The new field of experimentation that Mercosur offered in the 1990s helped to trigger a global mindset among business people and prepared firms for a new style of competition.

It was under these circumstances that the Brazilian management model began to take shape. As in all other countries, the development of this model resulted from a complex process that involved cultural, social, and political factors, in addition to local endowments and the competitive dynamics of the business sectors. In Chapter 4, for instance, we described such a process for Japan in detail. In the case of Brazil, the cornerstone of its management model seems to have been a blend of the management model developed by the Brazilian private-sector enterprises that survived the tough 1990s and the management model of the former state-owned enterprises, which, once privatized, remained under domestic control. Among the private-sector enterprises, the ones that had truly developed the competences needed to survive and prosper in the competitive and turbulent domestic market, in which they had to fight MNE subsidiaries for every shred of business, stood out. In the case of the former state-owned enterprises, the privatization process injected new competences into them (especially in marketing and finance), complementing their strong production and technology competences, besides unveiling new horizons for their operations.

In that transition, Brazilian managers changed while maintaining their cultural background. For example, Tanure (2005: 98) observed that "the short-term pressure that inflation imposed for a long time on the Brazilian people was not internalized as a core cultural value, as is the case in the USA, where failure to meet quarterly targets may be fatal. There is a certain balance, in that the pressures and ruptures caused by the institutional context are moderated by the Brazilian cultural characteristics, which include a high degree of personal adaptability, the importance of status and the use of time to weave social relations."

Sull and Escobari (2004) identified the factors that led some firms in Brazil to be highly successful in the very turbulent local environment. To describe traces of the Brazilian way of managing, the authors created metaphors such as active waiting, golden opportunities, sudden death, and submarine fishing, among others. They found out that to strive in turbulent environments the important thing is:

> taking action during comparative lulls in the storm. Huge business opportunities are relatively rare; they come along only once or twice in a decade. Moreover, for the most part, companies cannot manufacture those opportunities; changes in the external environment converge to make them happen. What managers can do is prepare for these golden opportunities by managing smartly during the comparative calm of business as usual. During these periods of active waiting, leaders must probe the future and remain alert to anomalies that signal potential threats or opportunities; exercise restraint to preserve their war chests; and maintain discipline to keep the troops battle ready. When a golden opportunity or "sudden death" threat emerges, managers must have the courage to declare the main effort and concentrate resources to seize the moment. Sull (2005a)

Sull's and Escobari's findings about Brazilian companies were based on previous analyses of entrepreneurial firms in highly dynamic industries, like the Internet business. In "Strategy as simple rules," Eisenhardt and Sull (2001) assert that:

> managers of such companies know that the greatest opportunities for competitive advantage lie in market confusion, so they jump into chaotic markets, probe for opportunities, build on successful forays, and shift flexibly among opportunities as circumstances dictate. But they recognize the need for a few strategic processes and a few strategic rules to guide them.

Therefore, the management style developed by Brazilian leading firms may be regarded as peculiar, but not outdated. On the contrary, firms in very dynamic industries may be using similar styles.

Table 7.5 summarizes the competences of that new breed of Brazilian enterprises.

Evidently, the new set of organizational competences reflects a new management style where the challenges of a globalized economy and internationalized competition have been internalized.

Table 7.5 *Organizational competences in the traditional and new Brazilian management models*

Competences	Traditional	New
Organizing competence: to establish and implement management systems	Internally: centralization of decisions at upper hierarchical levels, with clear incompatibility between responsibility and authority Externally: low propensity toward cooperation and partnerships	Organizational flexibility: capacity to adapt and change depending on external conditions: markets, macroeconomic conditions, etc Externally: gradual understanding and acceptance of partnerships
Planning competence: to identify, develop, and implement business strategies	Immediatist views targeting short-term results with an emphasis on solving crises. Lack of strategic planning and/or a gap in planning between the tactical and the operating management levels	Active waiting: preparing for golden opportunities by managing smartly during the comparative calm of business as usual. Know-how to act in the political-institutional circuits
Production competence: to do things (goods and services) more quickly, flexibly, or reliably than competitors	Basic. Prefers high-scale and low-cost production systems. Cannot master process technologies. Buys equipment. Avoids investments in personnel development	World class. Strongly influenced by the Japanese approach to production management. Masters process technologies. Competes with MNEs' subsidiaries
Technological competence: to add value to products and processes	Basic engineering. Invests nothing or close to in R&D. Interactions with national innovation system is feeble	Strong in product and process development. Creativity in what concerns innovations. Some invest heavily in R&D

Table 7.5 (cont.)

Competences	Traditional	New
Commercial competence: to sell goods and services	Basic. Prefers to pursue the market that buys the product as it is, instead of upgrading the product according to the market's expectations. Low concern with brand and image	Developed to satisfy the complex characteristics of the Brazilian markets. Strong concerns with brand and image
Supply chain management competence: to manage purchasing and select suppliers	Accepted the impositions made to become members of supply chains. No efforts for upgrading	Learnt the rules for supply chain governance. Upgrading is part of the strategy
Customers relationship management competence: to bring a firm close to its customers	Non-existent	Learnt how to be customer oriented. Invested in the creation of B2B or B2C systems
Human resources management competence: to capture, develop, and compensate people	Traditional old-fashioned posture and conflicting attitude toward labor	The most advanced in the nation
Financial competence: search, allocation, and investment	Developed to survive in the turbulent domestic market; still dependent from the local governments and institutions	Developed to survive and learnt to operate in the financial markets; high concern with risk management

7.4 The evolution of Brazilian multinationals

7.4.1 *Where it all began: the Mercosur experience*

The internationalization of Brazilian enterprises from the early 1990s to the early 2000s concentrated on Mercosur (Mercado Común del Sur, a regional trade agreement between Argentina, Brazil, Paraguay, and Uruguay), which absorbed 36 percent of the country's outward foreign direct investment (OFDI) until 2002. The tax regime added to geographic proximity and smaller cultural distance to justify the trend.

The economic integration of South American countries takes us back to the 1960s. Under the tutelage of the UN Economic Commission for Latin America and the Caribbean (ECLAC)/Comision Economica para America Latina (CEPAL), an agreement was reached concerning the Latin American Free Trade Association. In practice, this agreement did not work, but it was used as a parameter for subsequent attempts at economic integration. In 1979, Argentina and Brazil signed a protocol of intent concerning trade, but little progress was made.

Mercosur was established in 1991, when Uruguay, Paraguay, Brazil, and Argentina signed the Treaty of Asunción. It is generally regarded as the result of the confluence of political projects that encouraged closer relations, coupled with the pressures of international economic circumstances. All of this was underscored by two conditioning factors: globalization and regionalization. According to this treaty, most of the goods and services produced in any of the signatory countries should circulate freely throughout the integrated region, free of duties or non-tariff encumbrances. In practice, Brazil and Argentina are the countries that make the most of the agreement. Uruguay and Paraguay, due to their small economies, play a less relevant role in the commercial flows.

Studies showed that Mercosur was the third most important reason for the establishment of subsidiaries abroad. The first was the local consumer market and the second was synergy with the production facilities in other Mercosur countries (BNDES, 1995).

Data on the foreign operations of Brazilian enterprises is not entirely reliable, but rough estimates indicate that some 300 subsidiaries originating from Brazil were set up in Argentina, profiting from the Mercosur tax breaks. This figure includes subsidiaries of Brazilian firms as well as affiliates of local MNE subsidiaries, especially of those in the electromechanical and automotive sectors. MNEs from developed economies invested in Mercosur, either directly or through a subsidiary in some other country, and especially by means of M&As. There is evidence that FDI through M&As in Mercosur countries went hand in hand with the opening of the economy and privatization cycles in this block's countries, in particular Brazil and Argentina. Bonelli (2000) concluded that developed country MNEs were in a better position than the firms from Mercosur itself, thanks to their technological and financial capacity and the possibility of applying the know-how and experience they had accrued in their subsidiaries to the streamlining and modernization of their local structures.

However, the aforementioned "de-nationalization of Brazilian industry" and Mercosur limitations caused the above figure to gradually shrink. Following the Argentine economic collapse in 2001, the number plummeted.

The operational regime of Mercosur is still an issue decided at the political and diplomatic levels, mainly. Unilateral decisions are still common and firms have to resort to lobbying to settle the grounds. The mobility of firms, especially between the Argentinean and the Brazilian borders, is still high. Depending on the exchange rates and the provisional state of affairs, a large number of MNEs is able to shift the workload from one country to another, profiting from modern production techniques.

7.4.2 The evolution of Brazilian outward foreign direct investment

As previously mentioned, from 1960 to 1982, Brazilian OFDI went through an outstanding initial phase as compared to the other developing countries. Official data put the OFDI figure at some $800 million, which, however, is generally considered underestimated. The main point is that these investments were concentrated in specific sectors: the oil industry, civil construction, and financial services. However, they were geographically dispersed.

From 1980 to 2003, OFDI more than doubled, reaching $2 billion. It became more focused on Latin America and more diversified in

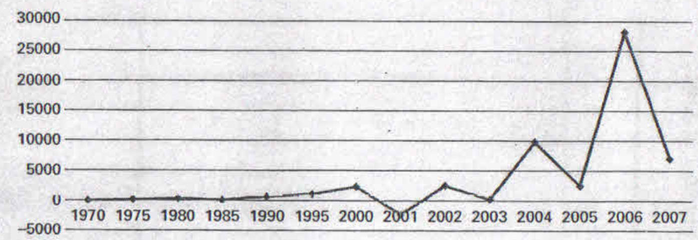

Figure 7.4 Brazilian outward FDI flows, 1970–2007 ($ million)
Source: UNCTAD (2008).

terms of sectors. Nevertheless, this growth was substantially lower than that of the Asian countries.

Beginning in 2003, OFDI started to rise significantly (Figure 7.4). This is mainly connected with the internationalization of Brazilian commodity producers, which encountered a fairly favorable international context; however, they were not the only parties to benefit from this.

It is important to stress that a large share, 58.2 percent of the firms, financed the internationalization of their activities with their own capital, while 27 percent got bank loans and raised funds through debt issues abroad (SOBEET, 2008). Only 6 percent of them resorted to loans from BNDES. The fact that Brazilian companies largely prefer to use their own capital to internationalize is due to their combined evaluation of cost, strategy, and capacity for debt. Still, one must stress that even before the world crisis, bank credit lines geared specifically to the activities of Brazilian firms abroad were scarce. BNDES only started providing funding for the expansion of Brazilian concerns abroad as of 2005. This was also the year in which Brazilian private-sector banks upped their support for the international operations of Brazilian enterprises.

Another important indicator is the M&As in which Brazilian firms were the buyers. Table 7.6 shows the geographic distribution of M&As involving Brazilian enterprises abroad, 1995/2004.

The pattern revealed by the above numbers reveals that:

- a third of foreign ventures is directed to developed countries while two-thirds targets developing countries; Argentina responds to a third of the total number of M&As;

Table 7.6 *Geographic distribution of M&As involving Brazilian enterprises abroad, 1995/2004 (number of deals completed)*

Country/ region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1995–2004
World	14	6	4	13	11	10	8	6	8	10	90
Developed economies	3	2	1	5	3	3	5	0	4	3	29
US	0	0	0	2	1	1	2	0	1	1	8
Portugal	0	1	0	0	0	0	1	0	1	1	4
Spain	0	0	0	1	2	1	0	0	0	0	4
Canada	1	0	0	0	0	1	1	0	0	1	4
UK	0	1	0	2	0	0	0	0	0	0	3
Developing economies	11	4	3	8	8	7	3	6	4	7	61
Argentina	4	1	3	6	3	5	2	5	2	1	32
Colombia	1	0	0	1	0	0	0	0	0	2	4
Peru	2	0	0	0	0	0	0	0	0	2	4
Venezuela	1	2	0	1	0	0	0	0	0	0	4
Bolivia	1	0	0	0	1	1	0	0	0	0	3

Source: Almeida (2007: 75).

- the evolution in time reflects the expectations of Brazilian firms in regards to the positioning of the country in relation to the international environment; this was clearly the case for the drop in the figures in 2001–3 when the transition from the Fernando Henrique' term to the Lula's term created high levels of anxiety in regards to the directions of Brazilian economy.

Finally, it is interesting to introduce Fundacao Dom Cabal's Index of Regionalization. It shows that Latin America is losing relevance in the last years while North America, Asia, and Africa are becoming more important in regards to Brazilian OFDI (Table 7.7).

The investments in Africa are related to resources-seeking projects led by Petrobras and Vale, mainly, as well as to the participation of Brazilian engineering firms, like Odebrecht and Camargo Correa, in the development of large infrastructural projects mostly in the Portuguese-speaking African countries.

7.4.3 The Brazilian multinationals: a chronological view

The different definitions of what a multinational enterprise is and the deficient databases available mean that any attempt to picture an overall description of Brazilian MNEs (BrMNEs) is questionable and open to discussion. For example, according to United Nations Conference for Trade and Development (UNCTAD) data from 2004, more than 1,000 Brazilian enterprises invested abroad in some way starting in the early 1990s. However, that takes into account exports, joint ventures, and the various kinds of FDI. The number of new BrMNEs has been increasing since the 1970s, as shown by Figure 7.5.

For the purpose of this book, we assume that an MNEs is a company "... with some foreign sales and some foreign production, where the latter takes place in a wholly-owned subsidiary," according to Rugman and Li (2007), or a "... business that has productive activities in two or more countries," according to Hill (2008).

We have developed our own database which amounts to eighty companies (Table 7.8 on page 192). In the list we included all Brazilian firms that have had operations abroad at least once in their lifetime, including those which have already closed down.

In addition, it is revealing to look at the BrMNEs as they appear in the international and national rankings. These rely on a variety of

Table 7.7 *Brazilian multinationals – index of regionality*

Companies	Total countries	Latin America (%)	North America (%)	Europe (%)	Africa (%)	Asia (%)	Oceania (%)
CVRD	33	15	6	15	21	39	3
Petrobras	25	44	4	8	24	20	0
WEG	22	23	5	36	0	32	5
Camargo Corrêa	17	71	6	6	18	0	0
Odebrecht	16	38	6	13	31	13	0
Stefanini IT Solutions	14	50	14	29	0	7	0
Gerdau	13	69	15	8	0	8	0
Itautec	11	55	9	36	0	0	0
Andrade Gutierrez	11	9	9	45	18	18	0
Votorantim	10	50	20	10	0	10	10
Randon	10	30	10	0	40	20	0
Tigre	9	89	11	0	0	0	0
Marcopolo	9	33	0	11	22	33	0
Itaú Unibanco	8	50	13	25	0	13	0
Localiza	8	100	0	0	0	0	0
Marfrig	7	43	0	57	0	0	0
Natura	7	86	0	14	0	0	0
—	—	—	—	—	—	—	—
Sabó	6	17	17	50	0	17	0
Banco do Brasil	6	50	0	17	17	17	0
Metalfrio	5	40	20	20	0	20	0
Artecola	5	100	0	0	0	0	0
Ultrapar	5	60	20	20	0	0	0
Aracruz Celulose	4	0	25	50	0	25	0
Embraer	4	0	25	50	0	25	0
Totvs	4	75	0	25	0	0	0
Perdigão	4	25	0	75	0	0	0
Suzano	4	25	25	25	0	25	0
Lupatech	3	67	33	0	0	0	0
M. Dias Branco	3	67	33	0	0	0	0
Oi	3	67	33	0	0	0	0
DHB	2	0	50	0	0	50	0
Marisol	2	50	0	50	0	0	0
Sadia	2	0	0	50	0	50	0
América Latina Logística	1	100	0	0	0	0	0
Tam	1	100	0	0	0	0	0
Portobello	1	0	100	0	0	0	0
Cia Providencia	1	0	100	0	0	0	0
Porto Seguro	1	100	0	0	0	0	0
Cedro	1	0	0	100	0	0	0

Table 7.7 (*cont.*)

Companies	Total countries	Latin America (%)	North America (%)	Europe (%)	Africa (%)	Asia (%)	Oceania (%)
Arezzo	1	0	100	0	0	0	0
Cemig	1	100	0	0	0	0	0
Average index of regionality 2008		46.23	17.31	20.61	4.66	10.75	0.43
Average index of regionality 2007		40.38	14.72	20.00	8.3	16.6	—
Average index of regionality 2006		46.91	11.34	20.62	6.7	14.43	—

Source: FDC (2009).

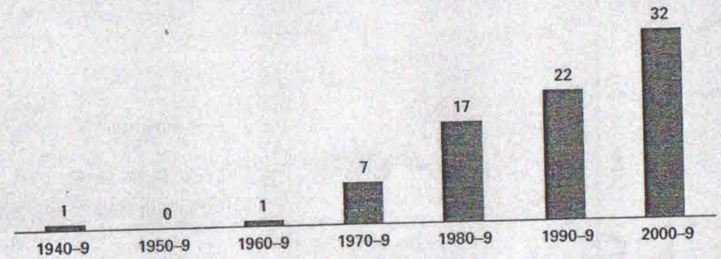

Figure 7.5 Brazilian multinationals – first operation abroad, 1940–2009

different inclusion criteria: financial and non-financial firms; firms with production facilities, commercial offices, or distribution centers abroad; manufacturing firms and service firms; and so on.

7.4.4 Brazilian multinationals in the international rankings

Four international rankings are relevant when it comes to measuring the size and value of firms' operations, regardless of whether they are in developed or developing countries: Fortune 500, Boston Consulting Group, Columbia Program for International Investment, and UNCTAD. Though they employ different metrics methodologies, some BrMNEs are repeatedly listed in these rankings.[1]

The Fortune 500 list includes Brazil's three largest banks: two private (Bradesco and Itaú) and one state-owned (Banco do Brasil). Three other enterprises: Petrobras (state-owned), Companhia Vale do Rio Doce (privatized), and Gerdau Steel are on this list. The World Investment Report (WIR) also includes the three of them among the

[1] Methodologies: *Fortune 500*: consolidated with subsidiaries and reported revenues from international operations. Main indicators: revenues, followed by profit. *BCG*: fourteen countries chosen based on gross domestic product (GDP) magnitude, value of exports, and amount of long-term FDI. Three-stage criteria: (1) selection only of firms with true FDI (excluding joint ventures); (2) firms with revenues greater than \$1 billion; and (3) selection of the firms' internationalization criteria: presence of subsidiaries and control abroad, sales networks, production sites, R&D center, and the largest investments in internationalization over the last five years (including mergers and acquisitions), among others. UNCTAD: ranking by assets abroad and by transnationality index (consisting of the average: assets abroad/total assets, revenues abroad/total revenues, and employees abroad/total employees). *CPII*: criteria quite similar to UNCTAD's.

Table 7.8 *Brazilian multinationals – main characteristics and internationalization data*

	First operation abroad	Type of first operation abroad	First plant abroad	Company	Sector	Ownership
1	1941	Branch		Banco do Brasil	Bank	State-owned
2	1961	Plant	1961	Magnesita	Refractory producer	Private
3	1972	Acquisition (Colombia)	1972	Petrobras	Oil and gas	State-owned
4	1976	Commercial office	1995	WEG	Electric engines	Private
5	1976	Commercial office	—	Tupy	Metallurgy, steel	Private
6	1977	Plant	1977	Tigre	Construction materials	Private
7	1977	Services contract	2005	Camargo Corrêa	Engineering services	Private
8	1979	Services contract	1988	Odebrecht	Engineering services	Private
9	1979	Commercial office and after sales services	2004	Embraer	Aircraft	State-owned
10	1980	Plant	1980	Gerdau	Steel	Private
11	1980	Plant	1980	Caloi*	Consumer goods	Private
12	1980	Joint venture	1985	DHB	Autoparts	Private
13	1980	Plant	1990	Metal Leve*	Autoparts	Private
14	1980	Branch	—	Banco Itaú	Bank	Private
15	1980	Licensing	—	Staroup*	Apparel	Private
16	1981	Local representative	1992	Natura	Cosmetics	Private
17	1983	Strategic alliance	2000	Artecola	Chemicals	Private
18	1984	Plant	1984	CVRD	Mining	State-owned
19	1985	Plant	1985	Romi	Capital goods	Private
20	1985	Licensing	1989	Alpargatas	Consumer goods	Private
21	1985	Commercial office	1997	Moura	Autoparts	Private
22	1985	Store	—	Boticário	Consumer goods	Private
23	1986	Commercial office	—	Tramontina	Consumer goods	Private
24	1988	Services contract	2003	Itautec	IT	Private
25	1988	Strategic alliance	2008	Agrale	Vehicles/parts	Private
26	1990	Joint venture	1990	Perdigão	Food	Private
27	1991	Plant	1991	Marcopolo	Buses	Private
28	1991	Plant	1991	Sadia	Food	Private
29	1991	Strategic alliance	1997	IBOPE	Specialized services	Private
30	1992	Plant	1992	Sabó	Auto parts	Private
31	1993	Plant	1993	Ambev*	Beverage	Private
32	1994	Plant	1994	Randon	Truck parts	Private
33	1994	Alliance/Born Global	2002	Fugitec	Software	Private
34	1995	Plant	1995	Santista	Textile	Private
35	1996	Plant	1996	Klabin	Pulp and paper	Private
36	1996	Plant/Born Global	1996	Xseed	Software	Private
37	1996	Plant	1996	Metagal	Autoparts	Private
38	1996	Commercial office	2000	Stefanini	Software	Private
39	1996	Office/Born Global	2001	CI&T	Business intelligence	Private
40	1996	Office	-	Facchini	Autoparts	Private
41	1997	Restaurant	1997	Fogo-de-chao	Food services	Private
42	1997	Office	1997	Totvs	IT	Private

Table 7.8 (*cont.*)

	First operation abroad	Type of first operation abroad	First plant abroad	Company	Sector	Ownership
43	1997	Office	2004	Coteminas	Textile	Private
44	1998	Office	1989	SMAR	Automation	Private
45	1998	Licensing	2007	Azaléia	Consumer goods	Private
46	1998	Commercial office	—	Romagnole	Mechanics	Private
47	1999	Joint venture	1999	Cipatex	Chemicals, petrochemicals	Private
48	1999	Plant	1999	Busscar	Vehicles and parts	Private
49	1999	Acquisition (railway)	1999	ALL América	Transportation, logistics	Private
50	2000	Services office	2001	Bematech	IT	Private
51	2000	Distribution center	2008	Maxxion	Auto parts	Private
52	2001	Plant	2001	CSN	Steel	Privatized
53	2001	Plant	2001	Votorantim	Cement	Private
54	2001	Services office	2001	Politec	Business intelligence	Private
55	2001	Strategic alliance	2007	Datasul	IT	Private
56	2001	Commercial office	—	Aracruz	Pulp and paper	Private
57	2002	Joint venture	2002	Lupatech	Mechanics	
58	2002	Joint venture	2002	Braskem	Chemicals	Private
59	2002	Plant	2002	Grupo Brasil	Vehicles and parts	Private
60	2002	Office/Born Global	2003	Ivia	Software	Private
61	2003	Logistics center	—	Inplac	Packaging	Private
62	2004	Plant	2004	Votorantim	Steel and metals	
63	2004	Services office	2004	CPM Braxis	IT and services	Private
64	2004	Office	—	Gol	Transportation, logistics	Private
65	2004	Services office	—	YKP	Business intelligence	Private
66	2004	Services office	—	Spring Wireless	IT and services	Private
67	2004	Services office	—	Atech	IT and services	Private
68	2005	Plant	2005	Camargo Corrêa	Cement	Private
69	2005	Plant	2005	Friboi	Food	Private
70	2005	Plant	2005	Metalfrio	Refrigeration systems	Private
71	2005	Restaurant	2005	Spoleto	Restaurant	Private
72	2005	Services office	2005	Griaule Biometrics	Software	Private
73	2005	Plant	2005	Marisol	Textile	Private
74	2005	Office	—	TAM	Transportation, logistics	
75	2006	Plant	2006	Marfrig	Food	Private
76	2006	Plant	2006	Suzano	Petrochemicals, pulp and paper	Private
77	2006	Commercial office	2006	FFS Filmes	Chemicals, petrochemicals	Private

Table 7.8 *(cont.)*

	First operation abroad	Type of first operation abroad	First plant abroad	Company	Sector	Ownership
78	2007	Store	—	Arezzo	Consumer goods	Private
79	2008	Store/strategic alliance	—	Bob's	Food chain	Private
80	2009	Store	—	Track & Field	Sportswear	Private
81	—	Branch	—	Bradesco	Finance	Private

Source: Firms' official websites; SOBEET (2008).
* Acquired by foreign capital.

fifty largest non-financial MNEs from developing nations, classified by assets abroad (UNCTAD, 2008). The Boston Consulting Group's report classifies fourteen Brazilian enterprises among the 100 global challengers from emerging countries, which are mainly from the BRICs (China has thirty-six companies in this ranking, India has twenty, Russia has six and Mexico has seven). Table 7.9 shows the position and recurrence of the main BrMNEs in these four international rankings.

7.4.5 Brazilian multinationals in the national rankings

Two rankings were developed by Brazilian institutions (Table 7.10): that of Sociedade Brasileira de Estudos de Empresas Transnacionais e da Globalização Econômica (SOBEET; the Brazilian society for the study of transnational companies and economic globalization) and that of *Fundação Dom Cabral* (FDC; the Dom Cabral foundation), partnered with Columbia University's Columbia Program on International Investment (CPII).

Based on data from Brazil's central bank, SOBEET estimated that there were 887 Brazilian firms with some form of activity abroad, meaning companies with more than 10 percent of their capital in foreign branches and OFDI greater than $10 million. As the central bank does not reveal names, SOBEET was only able to identify 211 of them, to which questionnaires were sent. Those criteria caused firms that normally would not be considered MNEs to be taken into account, such as two airlines that offer international services (Gol and Transportes Aeréos Manilia (TAM).

According to SOBEET's approach, Brazilian firms' foreign presence consists principally of sales offices (31.2%); however, 23.1% of the companies set up plants or service units abroad. A third group (18.9%) exports via licensing agreements with distributors, i.e., franchising. The number of BrMNEs that actually own companies abroad is twenty-three (11 percent).

The FDC index, in turn, presents the twenty main BrMNEs in terms of assets, employees, and foreign revenue, using the same methodology as UNCTAD. According to FDC, all the firms on its list belong to the private sector, other than Petrobras.

Their distribution by sector indicates a substantial concentration in natural resources, with two enterprises (Vale and Petrobras)

Table 7.9 *Brazilian multinationals – international rankings*

	Company	Industry	*Fortune* 500 (2009/2008)[a]	*Forbes* 2000 (2008/2007)[b]	*WIR* (2008)[c] Foreign assets	TNI[d]	BCG (2009)[e]
1	Petrobras	Oil and gas	34/63	29/88	12	94	X
2	Bradesco	Bank	148/204	85/208	—	—	—
3	CVRD	Mining	205/235	76/361	11	73	X
4	Itaúsa	Bank	149/273	175/477	—	—	—
5	Banco do Brasil	Bank	174/282	132/256	—	—	—
6	Gerdau	Steel	400/–	766/1,496	39	47	X
7	Braskem	Chemicals	—	1,091/1,170	—	—	X
8	Embraer	Aircraft	—	1,345/1,467	—	—	X
9	CSN	Metals	—	809/1,049	—	—	—
10	Unibanco	Bank	—	233/–	—	—	—
11	Sadia	Food	—	1,733–	—	—	X
12	Votorantim	Cement	—	1,487/–	—	—	X
13	WEG	Electric engines	—	1,824/–	—	—	X
14	Aracruz	Pulp and paper	—	1,519/–	—	—	—
15	Suzano	Pulp and paper		1,971/–	—	—	—
16	Usiminas	Steel		736/–	—	—	—
17	Coteminas	Textile	—	—	—	—	X
18	JBS – Friboi	Food	—	—	—	—	X
19	Marcopolo	Buses	—	—	—	—	X
20	Natura	Cosmetics	—	—	—	—	X
21	Perdigão	Food	—	—	—	—	X
22	Camargo Corrêa	Engineering services	—	—	—	—	X

[a] *Fortune* (2008, 2009);
[b] *Forbes* (2007, 2008);
[c] *World Investment Report* (UNCTAD, 2008);
[d] Transnationality Index (UNCTAD, 2008);
[e] Boston Consulting Group (2009); X indicates inclusion in BCG's New Global Challengers List.

Table 7.10 *Brazilian multinationals – Brazilian rankings*

FDC ranking			SOBEET ranking				
2008	2007	2006	2008	2007	2006	Company	Sector
—	—	—	1	1	—	Friboi	Food
—	1	—	—	—	—	Camargo Corrêa Cimentos	Cement
6	2	—	2	2	1	Odebrecht	Engineering services
1	3	1	3	3	2	Gerdau	Steel
19	4	—	21	31	16	Votorantim Cimentos	Cement
—	—	—	5	4	—	Coteminas	Textile
—	—	—	6	5	3	IBOPE	Specialized services
—	—	—	10	8	5	Ambev	Beverage
4	5	2	11	6	6	CVRD	Mining
2	6	3	7	7	4	Sabó	Autoparts
5	7	14	4	9	14	Metalfrio	Refrigeration systems
15	8	9	19	13	9	Grupo Camargo Corrêa	Diversified
11	9	22	—	—	—	Lupatech	Mechanics
13	10	6	16	17	8	Embraer	Aircraft
7	11	23	37	28	23	Aracruz	Pulp and paper
9	12	12	12	10	15	Artecola	Chemicals
12	13	4	13	18	10	Marcopolo	Buses
8	14	8	—	—	—	Tigre	Construction materials
—	15	10	—	—	—	Duas Rodas	Food
20	16	18	28	25	20	Petrobras	Oil and gas
—	17	—	—	—	—	Camargo Corrêa	Engineering services
—	18	19	—	24	18	America Latina Logistica	Transportation, logistics
26	19	11	22	—	—	Andrade Gutierrez	Engineering services
21	20	17	29	33	26	Natura	Cosmetics
18	21	—	20	—	—	Stefanini	Software
38	22	—	—	—	—	Arezzo	Consumer goods
23	23	—	43	20	21	DHB	Autoparts
27	24	25	40	37	33	Totvs	IT
25	25	26	—	—	—	Ultrapar	Chemicals
28	26	32	—	—	—	Localiza Rent a Car	Transport
35	27	—	53	35	37	Sadia (merged Perdigao 2009)	Food
31	28	28	—	—	—	Randon	Truck parts
10	29	—	51	34	27	Suzano	Pulp and paper
33	30	30	50	45	46	Marisol	Textile
—	31	27	41	43	39	Bematech	IT
—	32	—	—	—	—	Politec	IT
—	33	—	—	—	—	Alpargatas	Consumer goods
32	34	20	32	26	19	Perdigão (merged Sadia 2009)	Food
3	—	—	9	11	29	Marfrig	Food
	—	—	15	12	11	Gol	Transportation, logistics
16	—	—	14	14	7	WEG	Electric engines
14	—	—	18	15	13	Itautec	IT
—	—	—	—	16	12	Coimex Trading	Foreign trade
—	—	—	—	19	31	Metal Leve (linked to Mahle)	Autoparts
—	—	—	31	21	17	Grupo Brasil	Vehicles and parts

Table 7.10 (*cont.*)

FDC ranking			SOBEET ranking				
2008	2007	2006	2008	2007	2006	Company	Sector
—	—	—	23	22	22	Tupy	Metallurgy, steel
22	—	—	25	23	43	TAM	Transportation, logistics
—	—	—	33	27	28	Acumuladores Moura	Autoparts
—	—	—	39	29	25	Banco Itaú	Bank
—	—	—	30	30	—	CSN	Steel
—	—	—	35	32	24	Agrale	Vehicles and parts
—	—	—	—	36	35	FFS Filmes	Chemicals, petrochemicals
—	—	—	42	38	30	Braskem	Chemicals
—	—	—	—	39	40	Datasul	IT
—	—	—	55	40	32	Banco do Brasil	Finance
—	—	—	—	41	38	Cipatex	Chemicals, petrochemicals
—	—	—	—	42	34	Facchini	Autoparts
—	—	—	46	44	36	Inplac	Packaging
—	—	—	52	46	42	Klabin	Pulp and paper
—	—	—	—	47	45	CPM Braxis	IT
—	—	—	—	48	47	Cisa	Foreign trade
—	—	—	54	49	44	Romagnole	Mechanics
—	—	—	—	50	41	CVC	Specialized services
29	—	—	—	—	—	Cia Providencia	Plastics
36	—	—	—	—	—	Oi	Telecommunications
34	—	—	—	—	—	Porto Seguro	
37	—	—	—	—	—	Cedro	Textile
—	—	—	17	—	—	Duratex	Specialized construction activities
—	—	—	24	—	—	CI&T	IT
—	—	—	26	—	—	Bertin (merged JBS Friboi 2009)	Meat
17	—	—	27	—	—	ALL América	Transportation, logistics
—	—	—	34	—	—	Romi	Capital goods
—	—	—	36	—	—	Alusa	Engineering services
24	—	—	38	—	—	Portobelo	Ceramic and tiles
—	—	—	44	—	—	Módulo Security Solutions	IT
—	—	—	45	—	—	Altus	Electrical equipment
—	—	—	47	—	—	Iochpe Maxxion	Autoparts
—	—	—	48	—	—	Minerva	Food
—	—	—	49	—	—	M. Dias Branco	Food
—	—	—	56	—	—	Telemar	Telecommunications
39	—	—	57	—	—	Cemig	Energy

Source: FDC (2006; 2007; 2008); SOBEET (2006; 2007; 2008).

accounting for more than two-thirds of the foreign assets of the twenty most internationalized firms. A second group, comprising firms that provide inputs for other industries, accounts for more than 19%. The BrMNEs that make end products and the service companies account for some 6%, respectively. This leaves less than 1% for Natura, the only consumer goods concern in the FDC's ranking. As for the percentage of the firms' total assets, the foreign assets of the top twenty range from 1% to 46%; only two hold foreign assets in excess of $10 billion. Concerning the group as a whole, their foreign assets, in 2006, accounted for 20% of their total assets, versus 12% in 2005.

7.5 Strategies and competences for internationalization: the Brazilian experience

7.5.1 The research design

Aiming to advance in the analysis of "strategies and competences of Brazilian MNEs," we conducted a survey in 2007. The concepts and structure of organizational competences presented in Chapter 2 and refined in Chapter 5 formed the theoretical framework for this survey.

The preceding section, in which we presented the several rankings and data sources, illustrated the great diversity of BrMNEs. The criteria for defining this survey's universe was to classify as MNEs firms with at least one actively managed production operation abroad. In late 2006, this led to a list of forty-seven BrMNEs, including companies with foreign manufacturing operations, as well as technology-based professional services enterprises (in the engineering and IT industries) with project offices abroad. Some born global firms were identified in the latter category. The survey did not take into account pure service companies, such as banks and restaurants, or firms that were only exporters.

contestaron 30 empresas 22 indus-triales

Out of the forty-seven firms contacted, thirty (63%) agreed to answer a questionnaire. Of these, twenty-two were from the industrial sector (73%) and eight were from the technical and professional services sector (28%). The senior managers in charge of international operations at the headquarters of these BrMNEs were the respondents. Only two of the seventeen missing firms were truly important for the survey's purposes. They were unable to take part in this study because

Table 7.11 *Percentages of the different industries in the sample*

Industry	Number BrMNEs	Sample/total	%
Based on natural resources	4	3/4	75
Basic inputs	14	7/14	50
Producers of consumer goods	7	2/7	29
Parts and components suppliers	8	6/8	75
Systems assemblers	4	4/6	66
Technical and professional services	8	8/8	100

they were on the brink of major acquisitions and thus prohibited from disclosing information to the public. The other firms declined, either because their international operations were small, or because they were unsure whether to expand in the international arena or withdraw from it. The head offices that agreed to take part authorized us to contact their foreign subsidiaries. These totaled ninety-three, sixty-eight of which responded. The questionnaire was based on tested and published research tools, especially from Birkinshaw *et al.* (1998). It was then pre-tested in two BrMNEs. Table 7.11 shows the relative participation of the different industrial sectors in the sample.

The sample of subsidiaries included 64 percent of the total subsidiaries of 63 percent of all BrMNEs. This seems to be a very representative sample, thus reinforcing the results obtained in regards to the role of subsidiaries of Brazilian multinationals.

7.5.2 Internationalization drivers

According to 96 percent of the surveyed firms, internationalization was on their strategic agendas a long time before the decision to internationalize. In other words, Brazilian firms were prepared to take the plunge into foreign waters.

The firms that started going international prior to 2000 put less effort into planning this, perhaps because the investment was lower and targeted regions that were psychically and physically closer. The research data reveal, however, that the planning for internationalization became increasingly careful as time went by. Planning became more elaborate to minimize consolidation and expansion problems, "the day after" effect.

Table 7.12 *Factors influencing internationalization decision*

O advantages

Firm strategy related factors	- Exploit intangible assets (36%)	Resources
	- Meet need for hard currency revenues (63%)	
	- Create new markets due to domestic market saturation (64%)	Markets
	- React to international competitors (56%)	Competition
	- React to local competitors (18%)	
	- Meet international clients' demand (68%)	Global production networks
	- Outsourcing in other country (7%)	
Environment related factors	- Exploit comparative advantages (79%)	Country endowments
	- Overcome technical barriers (23%)	International institutional aspects
	- Overcome commercial barriers (42%)	
	- Exploit tariff advantages (31%)	Site advantages
	- Gain access to other financial markets (59%)	

The factors that influenced the internationalization decision were classified into two categories: those that concerned the firm's strategy and those that concerned the environment, as listed in Table 7.12.

The first point to be highlighted concerns the first line of environment-related factors: four out of five Brazilian multinationals considered comparative advantages as an important factor for internationalization. These advantages should be interpreted broadly, being related to the firms' operating circumstances in the country. Here, we are essentially referring to country-specific advantages, which encompass elements such as natural resources, market size and particular features, development stage relative to other countries, and specific operational challenges in a turbulent environment.

Two types of competences and resources were highlighted by the answers: financial resources and intangible assets. As for financial resources, a significant percentage of BrMNEs declared that their decision to internationalize was influenced by their need for foreign currency revenues (63 percent) and to gain access to other financial

markets in order to obtain financing under more equitable terms relative to their international competitors (59 percent). These high percentages reveal the difficulties and limitations of operating within the Brazilian institutional context, given the exchange rate volatility relative to that of other countries. The data corroborate the argument that the importance of these factors was enhanced when it came to deciding to become international, due to the series of economic crises that the country suffered in the late 1990s and early 2000s.

On the other hand, more than one-third of the firms indicate that they internationalized because of the specific ownership advantages associated with intangible assets. This ratio struck us as significant in that it is not in line with the more traditional international business approach. It signals that there may be new ways for late-movers to develop intangible assets that will lend them strong positions in the international competition arena.

Two questions put competition in the position of being an influencing factor in the decision to internationalize. Actually, 56 percent of the firms indicated that, indeed, their decision had been influenced by the movements of other global competitors. In other words, when international competitors move about in the international arena, Brazilian firms become international to gain and safeguard positions. Ambev, Embraer, and Vale are examples of this. In the second case, when developed country multinationals expand in the domestic market, Brazilian firms react, looking for new positions in the international market. This is the case, for instance, of Votorantim, in the cement industry, and of the IT firms.

The variable "markets" also stands out. Nevertheless, responses mainly emphasize domestic market limitations, rather than foreign market potential: 64 percent of the firms felt that the domestic market was small or saturated, this being one of the factors that had induced them to internationalize. Here, Gerdau (steel mills) is an interesting example. It supplies components for the building industry, a major market in Brazil. However, Brazilian construction has not evolved in its use of metallic structures and only a meager 3 percent of construction projects might come to use Gerdau components. This was therefore a determinant for its speedy internationalization. Indeed, the firm recently set up a plant in an inner-Brazilian state that works entirely in inches, targeting only the export market. The standard in Brazil is metric.

There is still a group of firms whose internationalization decision was tied to global production networks, driven by international clients. These are the cases of supplier followers. The most typical cases concern the automotive chain (Sabó, Metagal, etc.), the white goods chain (Embraco, WEG) and the IT firms specializing in solutions. A still modest number of firms (just 7 percent) have set up a base for outsourcing in other countries.

The institutional factors that influence internationalization decisions are mentioned by a significant number of the cases studied: 42 percent of the BrMNEs feel that trade barriers or the lack of trade agreements influenced their decision to set up operations abroad. For instance, the failure of the Free Trade Agreement of the Americas (FTAA) negotiations has led Brazilian firms to set up subsidiaries in Mexico in order to gain access to the US market. As several studies have pointed out (Chang, 2002; Messner, 2004), technical barriers may be raised for political purposes and interests. In the case of Brazil, this has had a greater impact on the food and agricultural industries.

7.5.3 Competences for competing in the domestic markets

In the beginning of this chapter, we described Brazil's productive restructuring in the 1990s, the bankruptcy of traditional corporate groups or their sale to foreign firms, the privatization of state enterprises, and the entry of new international competitors.

In this turbulent context, Brazilian firms were not only able to gain strength to compete in the domestic market but also to brave international markets. What we investigated was whether the competences that were important to survive and prosper in the domestic market are the same that supported the internationalization process.

The firms were required to rate the importance of nine competences (Table 5.3) for competing in the domestic market. Overall, the organizational competences hierarchy is shown in Table 7.13.

The technological, production, customer relationship management (CRM), organizing, and financial competences emerged as the most strategic ones for competing in the domestic market. They reveal the profile of a firm already strongly influenced by the international context and innovative in products and services. They are concerned about cost effectiveness and prioritize the development of management

Table 7.13 *Organizational competences hierarchy for domestic competition*

(1) Technological
(2) Production
(3) Customers relationship management (CRM)
(4) Organizing
(5) Financial
(6) Supply chain management (SCM)
(7) Planning
(8) Commercial
(9) Human resources management (HRM)

models in order to survive and prosper within a complex institutional environment. In respect to the financial competence, it has always been highly relevant for their survival in the turbulent local institutional environment, as earlier commented. Therefore, the profiles of the organizational competences developed to compete in the domestic market were shaped by the competitive regime of the respective industry, by the national environment and also by the firm's own features.

An interesting example for that prioritization of competences is Brazil's textile apparel enterprises. Up to the mid-1990s, they were vertically integrated concerns that covered the gamut of their sector's activities, from fiber production to end-product manufacturing. Their core competence was production. However, owing to competitive context changes, the textile firms that survived and prospered were those that changed their position in the value chain, by creating CRM competences centered on the management of brands, distribution channels, and retailing, in order to serve their customers better. Meanwhile, they also rationalized their production processes, outsourcing those activities that added less value. All of this altered their competitive positioning, better equipping them to face the marketing chains that were set up at the time (like C&A and JC Penney) and the competition of imports, while increasing awareness of customers' tastes and preferences.

Technological competence is ranked as the most important competence, indicating the degree of concern of successful Brazilian firms in their catching-up efforts. This trend is reinforced when we notice that production is ranked as the second most important competence

Table 7.14 *Influence of the business environment on competence development (%)*

Foreign consumers' requirements	78
Relation with corporate customers abroad	77
Global competitors' strategies	73
Financial market rules and regulations	63
Relations with corporate customers in the country	63
Relations with foreign suppliers	59

and the one that ensures cost effectiveness. The cases that will be presented in the next chapter will clarify how this strategic positioning came about.

Table 7.14 shows that the international environment factors were those that most influenced the development of competences for domestic market competition. In other words, there has been an internalization of the conditions prevailing in the international markets within the domestic markets: local firms were already exposed to the demands of international clients and consumers, as well as to global competition. Perhaps that is why 96 percent of the firms answered that internationalization has already been on their strategic agendas for quite some time.

These findings are further supported by the firms' assessment of the influence of the several government policies on the development of their competences and their international competitiveness. The vast majority of the firms felt that the policies that govern the local competitive regime were those that most heavily influenced such decisions.

On the other hand, the industrial, science, and technology policies were considered relatively unimportant. Table 7.15 is particular telling when we compare the Brazilian case with China, India, and Korea.

7.5.4 *Competences for the entry phase*

The relative importance of organizational competences changes when one takes into account the international entry phase (Table 7.16).

This stage is particularly relevant because "the period when a company is going through the [internationalization] process is essentially a highly unstable phase between two more stable phases: the domestic

Table 7.15 *Perception of the influence of policies on the development of competences (%)*

Foreign trade policies	63
Economic policies	57
Science and technology policies	41
Labor and union relations policies	38
Infrastructure policies	30
Industrial policies	30
Education policies	23

Table 7.16 *Organizational competences hierarchy for internationalization – entry phase*

Competing domestically	Entering international markets
(1) Technological	(1) Production
(2) Production	(2) Organizing
(3) CRM	(3) HRM
(4) Organizing	(4) Planning
(5) Financial	(5) Technological
(6) SCM	(6) Commercial
(7) Planning	(7) CRM
(8) Commercial	(8) Financial
(9) HRM	(9) SCM

state and the state of having become a global company" (Ghoshal, cited in Korine and Gómez, 2002: xi).

Compared to the previous profile of competences for competing in the domestic market, there seems to be a profound reorganization of the key competences. To make the international undertaking operational and feasible, production is the first competence to be mobilized, which turns it into the most important one, followed by organizing and human resources management (the least important prior to internationalization). This new profile reveals the challenges of intervening quickly in the reality of foreign investments (plant/factory/office), to render the operation efficient, transfer the management model in order to integrate the international unit, and expatriate employees.

It is interesting to note that human resources management (HRM) was not previously considered important for competing in the domestic market, as firms were able to draw, develop, and retain the necessary personnel; however, during this second period, new and different requirements arose that transformed HRM into a highly relevant competence.

The change in the profile of competences reflects a Brazilian firm's entry mode through acquisitions and organic growth as well. In both cases, they have to incorporate a large volume of input from the foreign location, abruptly. Production has to redevelop the competences that, through the mutual interaction between firm-specific resources and environment-specific resources, enable the subsidiary to attain international productivity standards as fast as possible. The transfer of personnel (coordinated by HRM) and of the organizational model aims at putting the newly acquired subsidiary in place in its new orbit.

It is interesting to compare this with the Japanese case. As the Japanese firms already had a consolidated management model that lent them a competitive edge, the challenge was to create the conditions needed to transfer the model to the host country. In the case of Brazilian firms, however, we observe an intervention process designed to help the headquarters to figure out how to take effective action over the incorporated subsidiary, thereby establishing a specific, though perhaps transitory, organizational model.

7.5.5 *Competences for international expansion*

In the subsequent phase, international expansion, a new and significant change arises in the prioritization of organizational competences. The commercial and CRM competences now became the most important, followed by technological and production competences (Table 7.17).

One possible interpretation is that, after the new subsidiary's internalization, the head offices try to consolidate a new product and market configuration. At the same time, they need feedback on the subsidiary's efficacy and input to assess new investment possibilities. The fact that the technological and production competences follow each other on the list of priorities seems to indicate that these

Table 7.17 *Organizational competences hierarchy for internationalization – expansion phase*

Domestic market competition	Entry into international market	International expansion
(1) Technological	(1) Production	(1) Commercial
(2) Production	(2) Organizing	(2) CRM
(3) CRM	(3) HRM	(3) Technological
(4) Organizing	(4) Planning	(4) Production
(5) Financial	(5) Technological	(5) SCM
(6) SCM	(6) Commercial	(6) Financial
(7) Planning	(7) CRM	(7) Organizing
(8) Commercial	(8) Financial	(8) HRM
(9) HRM	(9) SCM	(9) Planning

functions are involved in this consolidation and expansion, guaranteeing the delivery and development of new products and services. In other words, the technological competences continue to be very important even after internationalization: although many BrMNEs develop distinctive competences in order to be competitive in the domestic market, these competences are relevant in the expansion phase. However, the presence of the CRM competence in this block seems to indicate that the issue here is the development of a new competence that will enable the firm to work efficiently within the new MNE configuration, complying with the orientation of a customer-oriented strategy, as seen in Chapter 2. It is as if, in the pursuit of a new international management model, the development of technological competences becomes a function of international customers' demands.

HRM competence, however, after braving the challenges of the entry phase, is better consolidated and drops down a few notches on the scale of priorities.

Figure 7.6 depicts the most important changes observed in the architecture of competences of Brazilian multinationals in the three stages of the internationalization process. However, it is necessary to consider that since the entry stage, subsidiaries will start to play a role in the development of competences of the Brazilian firm.

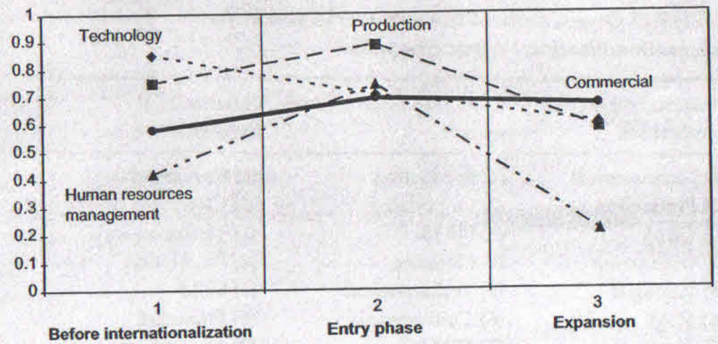

Figure 7.6 The hierarchy of competences changes during the internationalization process

7.6 Brazilian multinationals as networks of competences

7.6.1 The Brazilian subsidiaries in the survey

The configuration of the subsidiaries that responded to the survey reflects Brazilian firms' internationalization pattern: an initial movement into South American countries, for Mercosur-related economic and financial reasons, along with geographic and cultural proximity, followed by their advance into other regions.

The subsidiaries' sample involved Latin America (35%) mainly. The country with the largest number of subsidiaries is Argentina (14%), followed by Mexico (8%). China was present with four subsidiaries. Overall, 43% of those subsidiaries were the result of acquisitions, 42% were greenfield investments, and 15% were joint ventures. Greenfield investments were the chief form of entry abroad up to 2000, after which Brazilian firms started preferring acquisitions strategies.

The initial preference for greenfield investments can be explained by the fact that Brazilian firms' original expansion targeted Mercosur countries, where the opportunities for the purchase of attractive firms in terms of their resources were limited (Table 7.18). Such acquisitions, in so far as they did occur, took place in Argentina, which had strong companies in the consumer goods and natural resources sectors. In these cases, the investments were primarily market-seeking and efficiency-seeking, rather than resource-seeking. The change in the entry strategy, which turned to acquisitions in developed countries,

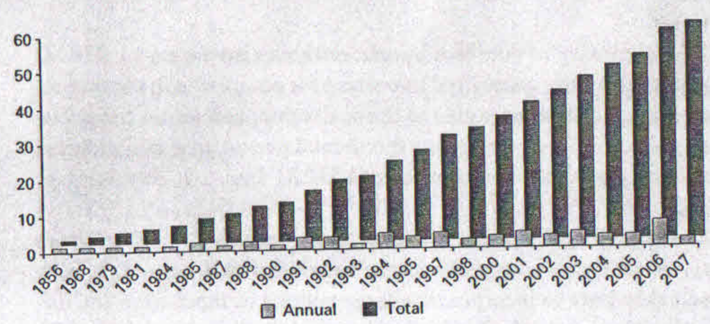

Figure 7.7 Evolution of the number of Brazilian multinationals and their subsidiaries

Table 7.18 ***How Brazilian firms entered foreign countries (%)***

	Acquisitions	Greenfield investments	Joint ventures
Before 2000	15	28	7
After 2000	29	13	8

is related with Mercosur's decline and the consolidation of globalization, as we saw in previous chapters.

The age of the subsidiaries also varies a lot. The sample's oldest one was set up back in 1968, whereas two were newly acquired at the time of the survey. Half of the subsidiaries are less than ten years old, which illustrates how early is the stage of Brazilian firms' internationalization (Figure 7.7).

Of these subsidiaries, 40% sell only to their host country. The others (60%) serve international markets. The Latin American subsidiaries sell 70% of their output to Latin America itself, 10% to North America, and 20% to Europe. The North American affiliates sent 10% of their production to Latin America and 29% to Europe. The main foreign market of the European subsidiaries is Eastern Europe, followed by Asia. The Asian subsidiaries are more globally oriented, exporting primarily to Europe but also to North and South America. The Eastern European subsidiaries export little, and only to Europe. As for Africa, it does not appear on the graph, because its subsidiaries serve only their local markets (Figure 7.8).

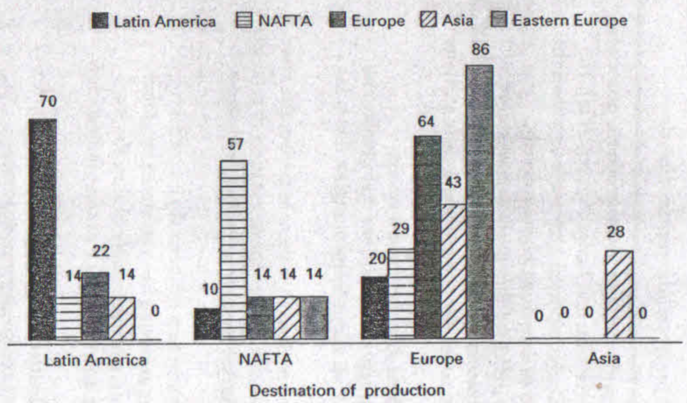

Figure 7.8 Destination of subsidiaries' production according to their location

The subsidiaries' size was measured by the number of staff. Some 30% of the subsidiaries have fewer than 50 employees and 20% have 50 to 200 employees (these are engineering and IT services offices mainly). In other words, half of them have at most 200 employees. Another 25% have a staff of 200 to 1,000 and the last 25% have more than 1,000 employees.

When it comes to the subsidiaries' annual sales, the first 25% of them sell $1 million to $16 million, while another 25% sell $20 million to $125 million; in other words, half of the subsidiaries invoice less than $125 million; 35% of them sell $125 million to $0.5 billion, and another 8%, $0.5 billion to $1 billion. Only 7% of the subsidiaries sell more than $1 billion a year.

Thus, a characterization of the "average" BrMNE subsidiary indicates that:

- the first foreign entry is in a Latin American country;
- the subsidiary is medium-sized; and
- it mainly serves the host market, although 60% serve regional markets.

7.6.2 *The headquarters–subsidiaries relationship*

Hypothetically, Brazilian MNEs, as late-movers, should need to make the most from the competences and resources of their

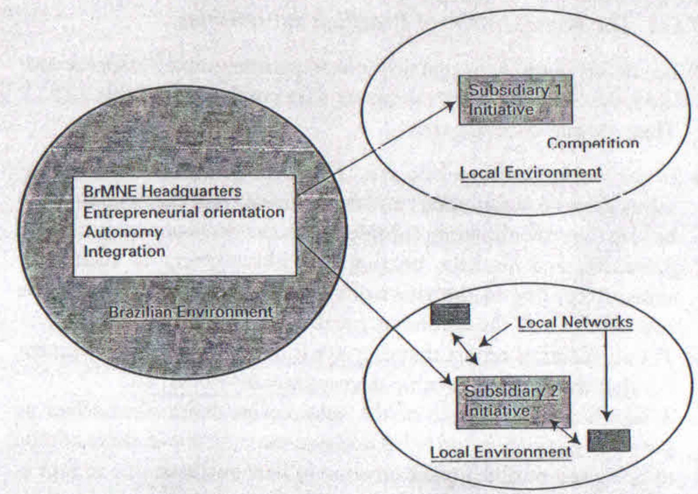

Figure 7.9 Headquarters–subsidiaries relationships: analytical framework

subsidiaries, in order to catch-up and compete with mature and well-established MNEs. In other words, the development and operation of a headquarters–subsidiary management model should be much more critical for emerging MNEs from less developed countries than for traditional MNEs.

To answer the question "what are the relationship patterns that BrMNEs are establishing vis-à-vis their subsidiaries?" we investigated the research data, aiming to extract an explanatory model.

We departed from the international management models presented in Chapter 5: multidomestic, global, transnational, and metanational. We also considered that the development of competences within a firm may lead to local, non-local, and specific competences. We were primarily interested in the development of non-local competences, those that are transferable between headquarters and subsidiaries. Otherwise said, we have tried to assess whether the subsidiaries are contributing to the BrMNEs' corporate performance through the development of non-local competences.

Figure 7.9 shows the analytical framework for analyzing the relations between headquarters and subsidiaries.

7.6.3 *The management of Brazilian subsidiaries*

When the six dimensions that define headquarters–subsidiaries are considered, the outcomes from the survey data are shown in Table 7.19.

Thus, we can conclude that:

- In the headquarters–subsidiaries relationship, the latter see themselves as more autonomous and enterprising than the headquarters believe they are allowing; subsidiaries make decisions on products, processes, and markets, bearing the risks inherent to such decisions. According to the views of their headquarters, however, the subsidiaries lack the autonomy for this.
- The subsidiaries report that they are in a competitive environment but that they operate weakly in corporate networks; and
- A significant percentage of the subsidiaries define themselves as possessing initiative and being decision-makers: one in three admits to being responsible for the creation of new business; one in four is charged with the acquisition of new firms; and one in two for their own R&D budgets.

To conclude, headquarters' views of their subsidiaries' role seems to be divorced from the subsidiaries' actual operations. The characteristics highlighted above seem to configure what is sometimes considered as "rebel subsidiaries."

7.6.4 *Competences profiles: the differences between headquarters and subsidiaries*

Table 7.20 shows subsidiaries' perceptions of what might be the areas in which their competences exceed those of their headquarters. Most subsidiaries feel that their competences in the commercial, financial, and HRM areas are superior. At first sight, all these competences have strong local content, i.e., they are specific competences. At the same time, 27 percent of the subsidiaries feel that they are more competent than their headquarters in technology, and 25 percent, in CRM. This may indicate that the BrMNEs have a significant number of subsidiaries that might actually be able to contribute to their upgrading.

Table 7.21 conveys the idea of the transfer of competences between headquarters and subsidiaries. Three out of every four subsidiaries report receiving technological competences from their headquarters,

Table 7.19 *Dimensions which define headquarters–subsidiaries relationships for Brazilian multinationals*

Autonomy	Autonomy was evaluated in connection with decisions about products, processes, markets, upstream and downstream relations, and budgeting; regarding all of these, a far larger number of subsidiaries reported high autonomy than the number of headquarters that admitted to delegating high autonomy.
Integration	An ambiguous relation: the subsidiaries indicated that headquarters resort heavily to communication and socialization mechanisms; nevertheless, for half of the subsidiaries studied, the headquarters fail to understand their affiliates' activities and role.
Entrepreneurship	A high percentage of the subsidiaries admit that they have a strong entrepreneurial orientation, even with regard to decisions that involve risk. However, the number of head offices that admit to encouraging this is far lower.
Initiative	One-third of the subsidiaries reported operations that show initiative; the areas in which this dimension becomes most obvious are the adaptation of products and services, in order to meet local market requirements, and technology-related investments.
(Local) business networks	The subsidiaries report far stronger downstream relations than upstream relations, i.e., they explain themselves as having been attracted by global clients rather than as organizers of international supply chains; the local characteristics concerning the science and technology context indicate low intensity.
(Local) competitive environment	The vast majority of the subsidiaries admitted to being in a highly competitive environment with demanding markets and rivalry among firms.

Table 7.20 *Competences regarding which subsidiaries believe that they are better than headquarters (self-evaluation) (%)*

Technological competence	27
Production competence	42
Commercial competence	63
CRM competence (marketing)	25
SCM competence (logistics)	45
HRM competence	48
Financial competence	53

Responses on planning and organizing competences were not requested.

and half from production. However, the most revealing element here is that those that believe that their technology and production competences are superior (81 and 71 percent, respectively) indicate that they are transferring competences to their headquarters.

Based on Table 7.21, we surmise that headquarters make use of subsidiaries' competences mainly in the CRM and supply chain management (SCM) areas. In other words, BrMNES, through their subsidiaries, seek to establish new positions in global production networks. This is, apparently, what headquarters most value. On the other hand, among the subsidiaries that believe that they have superior competences, it is the HRM competence that is least valued by their headquarters.

7.7 Toward a Brazilian model of international management?

The general characteristics of the Brazilian firms' internationalization process are:

- The majority of Brazilian firms took a long time to become international, as in general this occurred decades after they were established. In the 1980s, they gave birth to a modest internationalization movement, which, however, only became significant as of the late 1990s, following a series of events that changed the firms' operating context.
- Brazilian firms internationalized autonomously, in accordance with their own decisions and strategies; there was no cooperation either among industrial firms or between the latter and financial institutions and there was no government support.
- The privatized firms were among the largest Brazilian MNEs of the 1990s.
- A large number of Brazilian multinationals are part of family groups.
- At first, the internationalization strategies favored Latin American countries, as their geographical distance was shorter and their cultural and institutional differences smaller. Recently, a shift toward more developed markets was observed.

Table 7.21 *Perceptions of subsidiaries in regards to organizational competences (%)*

	Gets from headquarters (1)	Transfers to headquarters (2)	Is more competent than headquarters (3)	Is more competent than and transfers to headquarters (3/2)
Technological competence	73	22	27	81
Production competence	51	30	42	71
Commercial competence	25	31	63	49
CRM competence	57	23	25	92
SCM competence	32	39	45	87
HRM competence	46	21	48	43
Financial competence	59	24	53	45

Responses on planning and organizing competences were not requested.

A noticeable specificity of the BrMNEs is their management model. The preceding discussion helps one to understand this model's roots, which was hegemonic up to the 1980s and 1990s (although they can still be found in many firms). Some Brazilian firms broke away from their cultural legacy, by facing challenges and taking advantage of opportunities, thus developing a distinctive profile of organizational competences, articulated through a novel management style. These allowed them to capture, as well as to create, opportunities in the international arena and claim a visible position among multinationals. In certain cases, internationalization was also "induced by the transformation of the operating conditions in the home country that followed the process of economic reform" (Cuervo-Cazurra, 2007).

In general, internationalization was a strategy that took a long time to mature in Brazilian firms. Initially they preferred adopting uncertainty and risk avoidance mechanisms (for example: preferring exports to FDI), tending to choose outwardly similar markets and adopting individual, non-cooperative decisions to internationalize.

Their internationalization is not always fast. Although their strategy is based on fast responses, as foreseen by Sull (2005a), that does not mean that their pace of internationalization is rapid. There is a consensus among Brazilian firms that, due to their relative resources, mistakes can have dramatic repercussions. Therefore, Brazilian MNEs tend to embrace a cautious posture.

At first, the internationalization strategies favored greenfield investments in Latin American countries. Over time, BrMNEs started resorting to several types of entry (greenfield investments, alliances, partnerships) and undertook a mix of activities, with a view to making their need for horizontal expansion compatible with the imperative of a vertical upgrade, as foreseen by Guillén and Garcia-Canal (2009).

In general, the corporate competence that constitutes the cornerstone of their internationalization strategy is production; in the early stages, that is where their competitive differential resides. However, during the expansion phase, other competences are called to play more strategic roles. Still, for historical and institutional reasons, the most critical but evidently weak competence is HRM.

Table 7.22 synthesizes the evolution of the architecture of competences in Brazilian firms.

Certain competences can be considered peculiarities of emerging country companies in general and can be a source of competitiveness in their international forays. As emphasized by Guillén and Garcia-Canal (2009), these firms show excellent performance in institutionally complex and turbulent environments due to their political experience and ability to manage acquisitions. The authors highlight that those

Table 7.22 *The evolution of the architecture of competences in Brazilian firms*

Competences	Traditional	New	BrMNEs
Organizing	Hierarchic; centralized	Flexible; invested and learnt to create partnerships	Competent in managing acquisitions; developing international management model
Planning	Immediatist; "intuitive"	Active waiting; proactive in regards to the sociopolitical infrastructure	Developing new competences to strive under uncertainty and turbulence
Production	Primary: high volume and low quality to get low cost	World class; masters process technology	World leader; innovates in process engineering
Technological	The minimum investment necessary	"Creative innovation." Some invest in R&D	Moderate investments and reliance on partnerships
Commercial	Seeks the markets that buy its products; low concerns with brand and image	Learnt from the diversity and complexity of domestic market. Concerned with image and brand	Upgrading through experiential learning
Supply chain Management	A passive supplier; no efforts to upgrade	Learnt the rationale of global protection networks (GPNs) and seek strategic positioning.	Some are leaders of GPNs

Table 7.22 (*cont.*)

Competences	Traditional	New	BrMNEs
Customers relationships management	Non-existent	Learnt the strategic value of CRM and invested	Upgrading through experiential learning
Human resources management	Conservative	Local leaders	The most difficult front for international expansion
Financial	Had to learn but is dependent on government	Strong competence; concerned with risk management	Learnt to operate in international financial markets
Corporate social responsibility			Critical to overcome liability of foreignness

companies "absorb technology, combine resources, and innovate from an organizational point of view in ways that reduce costs and enhance learning" (Guillén and Garcia-Canal: 31). Moreover, some of the cases reflect the importance of their participation in global production networks, to leverage the competences differentials.

The relationship between the local environment and competence development at firm level is mediated by the firm's management style, promoting the unique characteristics in different contexts. The "Brazilian management style" contributes to competence development at firm level. A typical feature is related to seeking creative and adaptive solutions, which contributes to organizational flexibility and adaptation to new operational contexts.

The very process of internationalization is imposing profound changes in organizational competences, especially in what concerns the direct relationships in foreign countries, which creates new demands for the commercial and CRM competences.

However, the internationalization process of Brazilian enterprises revealed that there is a new competence to be nurtured and grown that is related to corporate social responsibility. This finding seems to be related to the new demands faced by Brazilian enterprises in their insertion within the foreign local communities. It is a new version of how foreign firms must cope with the liability of foreignness. This point will be further elaborated in the next chapter.

The Brazilian model of international management is still under construction but its foundations are already visible. The consolidation will depend on the speed of the leaders and the demonstration effect, thus attracting new contenders in the international markets.