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978-0-521-51948-9 - Brazilian Multinationals: Competences for Internationalization

Afonso Fleury and Maria Tereza Leme Fleury

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Introduction

The first Brazilian who ventured into international activities and defended the project of Brazil becoming an international player was the Baron of Maua, Irineu Evangelista de Souza, who lived from 1813 to 1889. From humble origins, he rose by his own merit and initiative. A trip to England in 1840 was crucial for the formation of his global mindset and entrepreneurial project. Returning to Rio de Janeiro, he bought a small foundry which became a major shipyard. Using material produced by this foundry, he was responsible for the installation of the piped water system in Rio de Janeiro. In April 1854, he inaugurated the railroad connecting the Rio to Petropolis, in the presence of Emperor Dom Pedro II, who heralded him as Baron. In 1855, along with other investors, he formed Maua, MacGregor & Cia, a financial institution with branches in London, Paris, New York, Buenos Aires, and Montevideo. His wealth in 1867 reached a sum that was 20 percent higher than Brazil's governmental budget. It is estimated that his fortune would be equivalent to \$60 billion today.

Maua allied entrepreneurship and international vision to competences related to technology, finance, and marketing. The institutional context, however, was not favorable to him. Brazil was an agro-export economy, just liberated from Portuguese colonial rule, and slavery still persisted. Resistance to his ideas was fierce.

One hundred years later, the Baron of Maua became a symbol of entrepreneurship, as a precursor to better working conditions, investment in technology, internationalization, and multilateralism.

In the last two decades, the emergence of Brazilian multinationals fulfilled the vision of the Baron of Maua: Brazil as a player on the international context. Today, a number of Brazilian multinationals stand out as leading global players: Embraer (aircraft), Companhia Vale do Rio Doce (mining), Petrobras (oil and gas), and Gerdau (steel), among others. Overall, the number of Brazilian multinationals has risen significantly since the early 1990s and particularly since 2000.

Actually, the internationalization of Brazilian corporations is part of a large process whereby multinationals from emerging economies began to play an increasingly important role in the global economy.

It was not until 2005 that *Fortune 500* included corporations from emerging countries in its ranking. If only those from Brazil, Russia, India, and China (the BRICs) are counted, they were twenty-seven in 2005, thirty-five in 2006, thirty-nine in 2007, forty-six in 2008, and fifty-eight in 2009. China accounted for the largest share; Brazil had three in 2005 and six in 2009. Since 2005, the Boston Consulting Group has produced a report on the “100 New Global Challengers” that, in 2009, included thirty-six enterprises from China, twenty from India, fourteen from Brazil, six from Russia, and seven from Mexico, the remaining seventeen coming from nine other countries. Those numbers provide the initial insights into the argument that companies that were considered laggards, working in less developed contexts, began to challenge the leaders.

Year	Some examples of rising emerging country multinationals
2003	Lenovo acquires IBM’s PC division
2005	Brazilian Vale acquires International Nickel Company (INCO) becoming the world’s largest producer
2006	Indian Mittal acquires Arcelor to become the world’s largest steel producer
2008	Indian Tata launches the revolutionary Nano car South African Brewery (SAB) Miller, and AB INBEV (a merger of Belgian Interbrew and Brazilian AMBEV) become world leaders in the beverage industry
2009	Brazilian JBS Friboi becomes the world’s largest meat producer

The impacts of the expansion of multinationals from emerging countries raised issues such as: why do they internationalize, where do they move to, how do they move, and what will be the impact on international production and trade?

The explanatory power of the classical theories on internationalization was challenged and more focused theoretical approaches started to be developed. The approach adopted for this book seeks to establish an interface between those two streams of literature because it is based on the following interdependent assumptions:

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- (a) the propensity to internationalize increases whenever there are changes in the paradigms that guide production organization at the global level, thereby creating “windows of opportunity” and “waves of internationalization”; and
- (b) seizing those opportunities is connected with the organizational competences and managerial styles developed by firms while competing in the global industries and interacting with their national, or local, environments, respectively.

For example, consider the unforeseen acquisition of Jaguar/Land Rover by Tata Motors. *The Economist* (March 29, 2008: 82) analyzes the issue under the title “Now what?” The question is pertinent. However, to answer it adequately it is not sufficient to look at Tata’s resources, competences, and managerial style, which are gradually being considered as India’s icon for competitiveness in the new global economy. It is as important as well to understand why Ford agreed to let it go and why, previously, Jaguar and Land Rover were sold to Ford.

The above assumptions will outline the analytical framework, to be applied first and foremost to the case of Brazil. The analysis of Brazilian firms focuses first on their genesis and evolution, especially in the interplay between them and the multinationals that established operations in Brazil throughout the twentieth century. Then it looks at the development of Brazilian multinationals regarding internationalization: the decision process which led them to establish operations abroad and their approaches to the management of foreign subsidiaries. This allows us to sketch an emerging Brazilian model of international management.

The subsequent application of the analytical framework to the study of multinationals from other emerging countries reveals that Brazilian firms’ process of internationalization has specific characteristics that contrast not only with the internationalization dynamics of firms from other emerging countries, but also with classic multinationals, the so-called early movers.

Therefore, the book aims to provide:

- an analytical framework to be used to study the internationalization of firms as well as as a tool for providing support for the implementation of internationalization strategies in firms and institutions;
- a comparative analysis of the paths taken by multinationals from different emerging economies, where the local influences of the

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different cultural, political, and economic environments play a fundamental role.

The book is organized into two parts. The first part aims to develop the analytical framework for the study of the internationalization process of companies from emerging countries. The second part is devoted to the study of Brazilian multinationals and comparative analyses with multinationals from other emerging countries such as China, India, Russia, and other countries in Latin America.

The first part starts with a chapter on globalization and internationalization. In this book, globalization is seen as a socio-political process involving countries and institutions, while internationalization is considered as a purposeful decision taken by an organization. In Chapter 1 that distinction is further developed and exemplified. Indicators of globalization and internationalization are presented and critically analyzed. The final section introduces emerging countries and discusses the roles that they played, currently play, and are expected to play in regards to globalization and internationalization.

Chapter 2 outlines the overarching analytical framework. Our perspective will take the firm as its basic unit of analysis, but will also highlight the context in which the company operates. In other words, it regards the firm as an open system in permanent interaction with its environment. We assume that the decisions of internationalization are related to the company's positioning in regards to the opportunities and threats that arise in the national and international environments, and its ability to anticipate and react to them. This, in turn, stems from the organizational competences developed by the company and its management style.

That perspective is derived from the resource-based view of the firm and builds, particularly, on the works of authors who developed concepts and models to explain what competence-based competition is. Therefore, in Chapter 2, an introduction to the resource-based view of the firm is followed by the proposition of a framework to look at how firms develop competences in their dynamic interrelationship with the competitive environment, either national or international.

At firm level, the development of management styles is primarily influenced by the national or local environment. We assume that the socio-political and cultural dimensions, as well as the country's or region's factor endowment, are the most relevant dimensions of the national or local environment in the shaping of managerial styles.

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Therefore, the analytical framework takes organizational competences and management style as the key determinants of a firm's strategy in general and internationalization strategy in particular. Organizational competences are primarily driven by the firm's competitive environment while management style is primarily influenced by the firm's national or local environment.

Understanding the dynamic interplay among those dimensions is crucial for the study of emerging country multinationals. The main finding revealed in this book relates to the developing organizational competences and managerial styles derived from their founding, growth, and success in their respective countries, which provided the conditions for them to follow particular internationalization paths and develop winning strategies.

In Chapter 3 we look at "early-movers and the earliest internationalization theories." During 1950–70 three blocks of countries coexisted: the so-called first world (the industrially advanced countries), the second world (the countries behind the Iron Curtain), and the third world (the other countries, considered underdeveloped at the time). It was a time when conditions for corporations from advanced countries to expand internationally were enticing.

The pioneering theories conceptualized the firm as an economic agent, and modeled their rationale through the firms' inclination to engage in foreign direct investment (FDI). A variant approach, based on the behavioral theory of the firm, developed by the Nordic school, is also a product of those times. Those theories created the mainstream for international business studies.

We revisit and update these theories to identify commonalities in relation to the analytical framework used in this book. Moreover, we set the ground for the shift that has happened in recent times, when a set of factors, to be addressed in Chapter 4, changed the competitive landscape for the early-movers and created the conditions for the emergence of multinationals from emerging countries. During the first wave of internationalization, third world countries were essentially receivers of FDI and hosts to the subsidiaries of multinational enterprises (MNEs) of the aforementioned countries.

Chapter 4 analyzes the second wave of internationalization in the 1970s and 1980s. That was triggered by changes in the market regime worldwide. Until the 1970s, most markets operated according to the "seller's law": since demand was greater than supply,

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producers established their rules and procedures and imposed them upon consumers. That was the rationale followed by the early-movers because, in the period that followed the second world war, there was a widespread need to create the capacity to produce goods and services. However, in the 1970s, there was a radical shift in certain markets because increased production capacity caused supply to exceed demand. Markets started to operate under the “buyers’ law”: power shifted to consumers, and quality became the main strategic concern. The Japanese industry was the first to operate according to this new rationale. To do so, Japanese corporations created a distinct management model which prioritized a new set of competences under a particular management style. That allowed Japan to catch up with the most advanced countries. Korea soon followed, and the competitive landscape was profoundly modified. At the same time, the initial attempts of corporations from third world countries to internationalize were observed. The results were far more modest.

In Chapter 5 we look at productive globalization, the restructuring of Western MNEs and the rise of MNEs from emerging countries. Political, social, and technological shifts in the 1970s and 1980s redefined the characteristics of the operating global environment. At the micro level of Western world corporations, profound changes were undertaken to absorb and upgrade the newly revealed best-practices of the Japanese management model’s thus counterbalancing the competitive power of Asian corporations. Those factors led Western countries and their multinationals to undertake a set of changes in terms of competitive positioning which received the broad denomination of productive restructuring.

New concepts such as focusing, outsourcing, offshoring, fragmentation, and modularization became corporate reorganization guideposts. Production systems became increasingly complex, while firms took on specialized and complementary roles in global production networks. The classic multinationals (early-movers) started focusing on highly value-adding activities and outsourced those with lower value-adding potential (generally routine activities and/or commodities producing). In other words, leading firms developed new management models, combining new profiles of competences and management styles. They abandoned and/or outsourced other types of organizational competences. This made it possible not only for new firms to enter but also generated windows of opportunity for firms from emerging countries.

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Thus, Chapter 5 has three objectives. The first, of a descriptive nature, emphasizes the changes which took place in American and European MNEs as of 1980. The second objective is to present a summary of the new management models developed by those companies to remain competitive in the new global economy. That includes how the companies were internally restructured and how this impacted the organization of their international activities. The third objective is to demonstrate how changes within MNEs from developed countries opened space for new multinational companies from emerging countries. With that, the analytical framework for the study of multinationals from emerging countries is complete.

Brazil is the focus in the three chapters that follow. Initially, Brazil's political, economic, and social development, from the colonial period until the 1980s, is summarized, in order to put the emergence of its MNEs into context. Brazil performed differently in each of the internationalization waves. During the first wave, in the 1950s and 1960s, Brazil was essentially a receiver of FDI, playing host to new subsidiaries of foreign MNEs. During the second wave, in the late 1970s and early 1980s, isolated and unsuccessful attempts of native Brazilian firms to move into international markets took place. Finally, in the third wave, in the 1990s and 2000s, Brazil is producing an effective internationalization movement.

Chapter 6 highlights the interplay, as from the early twentieth century, of Brazilian firms and MNE subsidiaries, all of which had to operate within a complex institutional context whose main feature was uncertainty and discontinuity. It is within this context that Brazilian companies are born and evolve, i.e., in competition with the subsidiaries of foreign MNEs, to then grow into Brazilian MNEs.

Chapter 7 looks at the recent evolution of Brazil and the rise of Brazilian multinationals. In the early 1990s, productive restructuring in Brazil was particularly complex and exceptionally demanding for the corporations. Traditional industrial groups and leading enterprises disappeared; important state-owned enterprises were fully privatized. Nevertheless, the competitive environment thus instated generated a selection process that revealed which Brazilian enterprises were able to develop management competences in order to survive and prosper and which were not. The leading Brazilian firms began to converge to a sort of Brazilian managerial model. This was the setting in which the internationalization of Brazilian firms grew and became solid.

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This chapter first describes the context of production restructuring in the period 1990–2008. That is followed by a section on the resurgence of the movement of Brazilian firms to the foreign countries, starting with Mercosul. Then an overall view of Brazilian multinationals is presented. The section closes with the outcome of a survey which reveals the main features of the internationalization process of Brazilian enterprises and the way in which they are managing their subsidiaries abroad. This allows the identification of a sort of Brazilian model of international management.

Chapter 8 presents the cases of the most outstanding Brazilian multinationals. Nineteen were chosen to illustrate the international presence of Brazilian multinationals belonging to different classes of corporations. State-owned, recently privatized, and private were distinguished. Within the private corporations group, agribusiness, manufacturing (from eight different industrial sectors), engineering services, specialized services, information technology (IT) products and services and born globals were analyzed on their own merits. A short text precedes each case to contextualize it within the national and international environments.

Latin America comprises very distinct national environments nurtured from common roots. Despite being parts of Iberian empires, heterogeneity and lack of integration are the key characteristics of the region. Interestingly, Argentina was one of the most developed countries in the turn of the twentieth century; Argentinean MNEs spread throughout Latin America. However, after a second attempt during the 1980s, the current standing of multilatinas is relatively modest. Chapter 9 analyzes the evolution of multilatinas, the multinationals from other Latin American countries – Argentina, Chile, and Mexico, in particular. It starts with a short section on the economic development of Latin America. That is followed by the analysis of the transition that started in the 1990s, when they opened themselves up to international markets, which brought different outcomes for different Latin American countries. Then, the multilatinas are presented and the sources of international competitiveness are discussed. The comparative analysis reveals how the national environments influenced their internationalization process and provides information for hypotheses regarding the sustainability of their internationalization strategies.

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The content of Chapter 10, the multinationals from China, India, Russia, and South Africa, highlights a different comparative track. In the case of the multilatinas, comparisons to the Brazilian case allowed us to advance the influence of national environments over internationalization strategies and performance. When China, India, and Russia are considered, the comparative analysis must emphasize how those countries are creating conditions for becoming world leaders in certain industries.

Chapter 10 begins with a broad view of Asia and its recent economic development, as a background for the introduction of the Indian and Chinese cases. Each of these is then analyzed in terms of recent economic development, country specific advantages and disadvantages, and profiles of outstanding multinationals. Short case studies about these multinationals are used to outline the main characteristics of the internationalization process. Due to its specific features, the case of Russia is taken separately.

In the concluding chapter, we first retrieve and consolidate the analytical framework. We illustrate its applicability by revisiting some of the most illustrative examples. We then synthesize the findings of Brazilian multinationals as well as the main points that arose in the comparison with multinationals from other emerging countries. The final section establishes some conjectures about the sustainability of multinationals from emerging countries and suggests future work.

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PART I

*Developing the analytical
framework and contextualizing
the phenomenon*