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Expansion and internationalization of business companies in Brazil: theoretical and methodological contributions

Abstract

This paper presents the special issue of the *Journal of Evolutionary Studies in Business* about the internationalization of Brazilian companies. The text aims to shed light on both traditional and new theories of internationalization in order to analyze the trajectories of Brazilian multinationals in light of the world economic scenario of recent decades. This special issue presents five cases of internationalization of Brazilian companies: Embraer, in the aviation sector; WEG, a producer of electric motors; Expocaccer, a coffee cooperative; Gerdau, a company in the steel sector; and Romi, a producer of lathes, machines, and equipment. This introductory article intends to recover theoretical elements about the internationalization of firms and underline the role of the State in the development of Brazilian companies.

Keywords: Firm theory; Internationalization of companies; Brazilian multinationals

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Introduction

At the beginning of the twenty-first century, Brazil rose to a prominent position in the world economic scenario, both due to its growing domestic market and to the maturity of some economic groups that began to occupy space in certain sectors of the world economy. As one of the eight largest economies in the world, Brazil was characterized as an emerging market with great potential for new investments, thus becoming a destination for significant flows of capital and industrialized products from both traditional partners of foreign trade, such as the United States, as well as from new partners, especially China. On the other hand, the scenario of an opening up of the foreign market along with the strengthening of some Brazilian companies in recent decades has increased the presence of Brazilian companies abroad. As an example, we can cite those companies that benefited from the comparative economic advantages to establish companies abroad operating in the agriculture and raw input materials sectors, and also the companies that started offering high-technology industrialized products, such as aircraft production, high complexity services in the IT and tertiary sector, and civil construction.

This position achieved by some Brazilian economic groups was not exclusively a result of the transformations in the international economy in recent decades. In many cases, the origin of this maturation process of the firms can be traced back to the mid-twentieth century, when the Brazilian economy deepened its industrialization and began to build some of the important economic groups that are currently leaders in their branch of activity. As for the internationalization experiences of Brazilian companies up to the 1990s, it is possible to single out some few successful cases resulting from the initiatives of the firms themselves, without having to depend on deliberate government policies. Nevertheless, we are positively sure that

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it was not until the 2000s that Brazilian companies reached positions of greater prominence in the foreign market as a result of new national policies to foster internationalization.

In this sense, this introductory article does not aim to make an exhaustive review of the literature on internationalization of companies in Brazil. Instead, it intends to shed light on the path followed by Brazilian firms in their internationalization process. We will pursue this goal by opposing traditional theories of internationalization to the specificities of both the local economic environment and the companies' strategies in recent decades. In doing so, we follow the perspective taken by previous studies that analyzed the business history of emerging markets as an alternative business history by considering the relevance of different institutional and economic structures (Austin, Dávila, and Jones 2017, 538-544).

The emerging-economy multinational enterprise debate remains a controversial subject in the international business theory. Recent studies reaffirm the central role of the internationalization theory in the emerging multinational enterprise analysis (Verbeke and Kano 2015, 439; Casson and Wadeson 2018, 1); others, however, underline differences in terms of the headquarters design and enterprise organizational structures as a result of emerging countries' market imperfections (da Silva, Casson, and Jones 2018). This special issue will shed light not only in the Brazilian experience, which received a little attention in the international literature, but also will show the institutional specificities that allowed those companies achieved the international market.

Internationalization of companies: from traditional theories to present-day evidence

The significant presence of Brazilian companies among the ranks of internationalized firms is recent - after all, throughout the twentieth century, this process of expansion to the foreign market was chiefly carried out by central economies. This type of direct investments flow on

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foreign markets has proliferated since the 1950s, with the United States leading the way in such process since the other developed capitalist countries, just recently coming out of World War II, were involved in policies of material and economic reconstruction. Direct foreign investments of the United States were of US$ 11.7 billion in 1938, of US$ 32.8 billion in 1960, and of US$ 107.0 billion in 1973. It was a strategy of overseas investment in a phase of deepening post-World War II industrialization for the main countries, which were experiencing the reconstruction of their economies, and for the developing economies, which were enhancing their industrial structures through deliberate protection and incentive government policies, the so-called Import Substitution Industrialization processes. In this sense, direct foreign investment was a way for US companies to conquer markets at a time when governments in both western and developing countries protected their economies from imports[1].

This new trend of investments disseminated by multinationals also gradually instituted a new consumption pattern that became widespread in the developed capitalist countries, as well as in the wealthier circles of less developed countries, during the 1950s. This process led to the dissemination of the modern consumer economy, which increased access to durable consumer goods, leisure, tourism, and fashion products. It also enabled the development of infrastructure and public services and improvements in housing: it was the massification of the American Way of Life, in which multinationals played an important role by establishing new consumption patterns around the world (Van Der Wee 1987, 243).

It was only after the reconstruction of the European and Japanese economies, already visible in the late 1950s, that a new wave of multinationals would compete in the foreign market. The

[1] In order to understand this process with regard to its financial impacts, we suggest reading Mira Wilkins (2013) and Barry Eichengreen (2000). For a more general evaluation of the period: Saes and Saes (2013, Part V).

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effects of this diffusion process of enterprises would become tangible in the following mid-1970s scenario: of the 391 largest multinationals, 180 were from the USA, 135 from Continental Europe and the United Kingdom, 61 from Japan, and 15 were based in other countries (Vernon 1980, 41)[2]. These 391 multinationals maintained a total of 9,601 subsidiaries abroad, with 6,060 active in industrialized countries and 3,541 based in developing countries. The main sectors of activity of multinationals between the 1950s and 1970s were the manufacturing industry and oil exploration; these direct investments were mainly aimed at developed economies in Europe, Canada, Japan, and Australia (about 75% of the total). Latin America, the economy that received most investment among the underdeveloped regions, accounted for 14% of the total (Saes and Saes 2013).

Based on the experiences of the developed countries, the firm internationalization theories have been established since the second half of the 20th century. The first studies, which aimed directly at the internationalization process of companies, sought to demonstrate which strengths allowed for their internationalization, especially within a microeconomic perspective. Penrose (1959) claims that the internationalization process was a result of the expansion and diversification of productive, technological, corporate, and administrative resources. That is, the very expansion of the company alongside its acquired profits induced its internationalization. Another perspective, based on new institutionalism, considers the so-called internalization theory through the transitions costs. These costs were evidenced by the

[2] The relative decline of Britain, a pioneer in this type of investment during the nineteenth century, becomes clearer when its numbers are compared with those of the United States: in 1938, Britain's external investments were in the order of US$ 23 billion (twice as much as the United States); in 1980, they reached US$ 75 billion (nearly half as much as the United States). Japan, which began investing abroad in the late 1960s, had just about US$ 4.5 billion in foreign investments in 1971 (Kenwood and Lougheed, 1992, 250-251).

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organic relationship between the involved agents, either through explicit or implicit contracts (Reid 1983).

In Hymer's (1960) market power theory, on the other hand, the firm's monopolistic character was emphasized, since, according to his view, the firm was the main market power and collusion agent. The author developed the theory according to which firms tended to increase their share in the local market as much as possible, achieving a high degree of monopoly power. When expansion in the local market was no longer possible, a firm used profits made in its country of origin to finance operations abroad. After developing superiority in the domestic market through mergers, acquisitions. and extension of its capacities, the firm took that market power abroad. Therefore, according to Hymer (1960), the internationalization of companies derives from the exclusive privileges of firms obtained in the domestic market, which allow for the return on investments abroad to surpass the costs of being a multinational. Such a perspective resembled the ground argument of Buckley and Casson's (1976) theory. After real-world case studies, these authors reached the conclusion that the larger the firm, the greater its internationalization tendency leaned to be. They verified that these multinationals tended to be horizontally diversified, producing the same commodity in different factories and, in many cases, vertically integrated, producing intermediate products of the production chain.[3]

From a macroeconomic view, the Vernon's (1966) company internationalization process was analyzed in view of the stages or phases of the product. Even if the understanding of the

[3] For Buckley and Casson (1976), there were four relevant factors in the companies' decision to internationalize: i) industry-specific factors: the nature of the product, the structure of the external market, and the relationship between the optimal scales of the activities that are linked by the market; ii) specific geographic factors: the physical and social distances between the involved regions, since the greater these distances, the greater the internalization costs and, consequently, the smaller the incentives for this decision; iii) specific local factors: political and fiscal relations between the involved countries; iv) specific factors of the firms: level of professionalization of their managerial frame.

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internationalization becomes directly evident in the second and third phases (growth and standardization), it is the first phase that generates the possibilities for future internationalization. According to the author, the introduction phase (the first one) only takes place in developed countries, which have the technological mastery, make large sums available for research investment, and have a developed market. From the perspective of Vernon, the internationalization of a company could be verified in two moments. In the first one (product growth), the internationalization would take place in countries with same levels of development. The establishment of a subsidiary would happen due to the difference between the costs of exporting and of opening a subsidiary. In the second moment (standardization), internationalization would occur due to the fact that product and technology were standardized, with no innovation and no need for more qualified labor. Thus, labor, capital and raw material costs gained importance, and, at that moment, less developed countries became attractive for the opening of branches.

Dunning (1977, 1988) combined some of these internationalization theories in his Eclectic Paradigm. The previously conceived theories had a primarily microeconomic focus, that is, the firm-specific factors. By inserting locational variables into the Eclectic Paradigm, Dunning presents an interpretation of the internationalization process in which microeconomic and macroeconomic elements interact. In other words, Dunning was evidencing variables associated with national spaces (market, exchange rate, monetary, fiscal and industrial policies, financing, trade barriers, technology, patents, etc.) that could determine the flow of direct investments. Thus, the Eclectic Paradigm of Dunning was composed of three stands: Ownership, Location and Internalization (OLI).

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In general, these authors can be classified under 'classical theories' of internationalization, since their focus is, above all, to understand the processes of firms connected to the United States, Europe and Japan. Despite occasional criticism of the theories with economic focus, there is widespread criticism that claims they were deterministic, that is, companies would only make rational decisions seeking to optimize their results. Thus, these theories would ignore aspects of learning and decision-making (the manager was seen as a passive element) and would neglect relations between participants in a market, as if companies could make autonomous decisions.

On the other hand, behavioral theories of internationalization, developed in order to overcome the limits of traditional interpretations, began to adopt behavioral factors analysis as drivers of companies' performance in foreign markets. Internationalization depended, then, on the attitudes, perceptions and behavior of the decision makers, who sought risk reduction in decisions about where and how to expand into the foreign market. That way, the Uppsala School sought to demonstrate that the process of internationalization would not be a result of optimal allocation of resources according to economic perspectives, but rather an incremental process. The internationalization of a company would begin when its domestic market was approaching saturation, and it needed new alternatives. Overseas business would be faced by major uncertainties due to ignorance and would seek closer markets to those they are familiar with (assumption of the psychic distance). For behavioral theories, the internationalization process was presented as something gradual and, therefore, often referenced in the literature as 'stage models' or 'step models'. Aside from that, they consider language, cultural differences, low speed for transport and international communication as barriers that hinder the acquisition of information about the foreign market (Dib 2008).

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If there is determinism in economic approach theories, it is also present in the assumption of the gradual process of internationalization. This process could not be irregular contemplating other decisions, such as the strategic and economic ones. The criticism leveled at the Uppsala Model led the Swedish school, especially the Nordic School of International Businesses, to explain the process of internationalization more consistently, focusing on the role of the entrepreneur and on the network. This perspective foresees arrangements or formal contractual character alliances between a limited number of firms linked to each other in an interrelated administrative structure, sometimes referred to as "firms" or virtual companies. This type of arrangement has played an important role in studies of new configurations of the companies considered since 1990, when the new economic opening created the need to understand both the trajectory of the internationalization of firms from 'emerging countries', and those of the firms that were born internationalized.

The internationalization in emerging markets

If it was natural that the placeholder for the Brazilian companies on the list of large multinationals in the world was still very restricted in the mid-20th century, it began to change in recent years. Multinational firms from developing economies only seem to have some expression on the foreign market in the third wave of internationalization, that is, after the first wave led by American multinationals, and the second by European and Japanese companies (Fleury and Fleury, 2012). This third wave is a recent phenomenon of the 2000s, and is a result of the globalization phase of the economy and the very growth of those developing economies[4].

[4] For the internationalization of firms in emerging countries, check: Lall (1983), Rennie (1993), Dunning and Narula (1996), Rasmussen and Madsen (2002), Matthews (2006a, 2006b), Ramamurti and Singh (2009), Goldstein (2009), and Guillén and Garcia Canal (2009).

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Forbes magazine started to include companies from emerging countries among the 500 largest in the world only in 2005: considering the BRIC's (Brazil, Russia, India, and China) companies, there were 27 in 2005 and 56 in 2009 in the list.

Under this context, studies aimed to understand this internationalization process of emerging market companies, such as the so-called multilatinas[5]. This occurred in order to both evaluate the experiences of those companies in light of more traditional firms, as well as to design possible strategies so that new companies could follow the path of conquest of the foreign market[6]. The theoretical perspectives that became representative in the analysis of the rise of multilatinas emphasize how the specificities of Latin American economies induce the companies' development.

Matthews (2006a, 2006b) proposed the concept of challenger multinational enterprise to designate these multilatinas, characterized by an accelerated internationalization process, their capacity for strategic and organizational innovations, and their articulation with the global economy through complex inter-firm links. The author sustained that while the "classic" multinationals operate in relatively closed markets and with subsidiaries with a high degree of autonomy, the new multinationals act in the global market in an integrated way, which favors the creation of value chains whose functions are distributed on a planetary scale. Based on these findings, the author proposes the Linking, Leveraging and Learning Paradigm as the most suitable for understanding the process of internationalization of what he calls the "second global

[5] According to the *Boston Consulting Group*, in 2010 there were 115 Latin-American multinationals, the multilatinas, with revenues of U$ 500 million. See: Wells (1988), Chudnovsky and Lópes (1999), Kosacoff (1999), Martinez, Souza, and Liu (2003), Cuervo-Azurra (2007), Haberer, and Kohan (2007), Casanova (2010), Santos (2012), Dalla Costa (2011), and Barbero (2015).

[6] The list of Brazilian studies is actually quite extensive, so it is noticeable that this subject has received much notoriety this past decade. Some exemples are: Almeida (2007), Almeida and Ramsey (2009), Oliveira Jr (2010), Dalla Costa (2011), Ribeiro (2012), Bemvindo (2014), Dalla Costa (2017).

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economy". The new multinationals gain from the repeated applications of leverage that must be built cumulatively, and it is this construction process that may explain their sudden emergence and success.

Ramamurt and Singh's (2009) interpretation is based both on the analysis of the context of emerging countries (e.g., specific advantages of a given country) and also on the specific advantages of firms, such as products suitable for emerging markets, production and operational excellence, privileged access to resources and markets, advantage of adversity and traditional tangible assets. The generic strategies apply to companies in their early stages of internationalization, whose competitive advantages are based on capabilities and assets built in their home market. As they become more internationalized, their competitive advantages are less dependent on their origins. The five generic strategies proposed by Ramamurti and Singh (2009) are natural resource vertical integrator, local optimizer, low cost partners, global consolidator, and global first-mover.

In this context, Casanova (2016, 29-30) distinguishes four phases in the multilatinas internationalization. The first step arose between 1970 and 1990, with the multilatinas emergence, taking advantage of their natural resources and expanding to neighbor countries. The second step, from 1990 to 2002, corresponds roughly to the so-called Washington Consensus, marked by the company's privatizations on the continent. The third step, from 2002 to 2008, characterized another period of raw materials and agricultural exports, in the context of Chinese economic increase. Finally, 2010 defined changes in the multilatinas strategies because of the international crises.[7]

[7] Dalla Costa, Drumond, and Las Heras (2016, 98-122), on the other hand, discuss the situation of Brazilian multilatinas throughout the 20th century, mentioning their role in the process of national development and highlighting family organization as the multilatinas origin.

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Finally, Rennie (1993, 45) presents a survey identifying a significant number of small and medium-sized enterprises that had not followed a slow and gradual process of international development but were already born global. As a result of the research, these peculiar companies are named Born Global[8]. According to MacDougall and Oviatt (1996, 49), the expression designates an organization that looks for businesses in the external market from the moment of its conception or the beginning of its activities, using its resources and the sale of its products in different countries as tools to create competitiveness.

In this context, the analysis of the internationalization of Brazilian companies has been widely disseminated through the appropriation of both traditional and new internationalization theories[9]. International experiences present in the cases of North American, European, or even Japanese companies could reveal significant indications of their trajectories of success or failure in conquering new markets. However, transferring the theories originated from these experiences to the analysis of the formation of Brazilian multinationals would impose at least two dilemmas: i) The conquest of the foreign market by Brazilian businesses took place in a new historical block, far from the golden age of capitalism of the post-Second World War generation, in a much more dynamic phase of the globalization phenomenon, and ii) The different Brazilian governments, with its different economic policies, presented particular instruments for the formation and promotion of national firms.

[8] For more information on the "born globals", also check: MacDougall and Oviatt (1996), Moen and Servais (2002), and Knight and Cavusgil (2004). Matthews (2006a, 2006b), for example, launched the concept *of challenger multinational enterprise* to designate the multinationals characterized by a process of accelerated internationalization due to its strategic innovations and organizational capacity and to its articulation with the global economy through interfirm connections.

[9] Marinho (2013), for example, after having revisited traditional and new internationalization theories, elaborated a typology of these theories with their respective authors and main characteristics. The author concluded that the great majority of more internationalized companies in Brazil is explained by traditional theories of internationalization.

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Regarding the first dilemma, the work of Além and Cavalcanti is enlightening: "Today, with the greater interdependence of world markets, the companies of a country are affected not only by domestic economic conditions, but also by international competition" (2005, 59). Such a perspective follows evidence from studies of born globals, according which it is necessary to contemplate the new international context of the globalization period to understand the processes of internationalization of those companies. Nevertheless, the authors understand internationalization as a necessary step to ensure and expand the market for the goods and services of national companies, not only as an entrepreneurial challenger, but also as a national policy: "These effects, at firm level, affect the performance of the country as a whole", and as they justify, "a number of developing countries have been able to improve their export performance due to export-oriented activities of national multinationals and local firms associated to them" (Além and Cavalcanti 2005, 59).

This point takes us to the second dilemma: theories of internationalization of firms, which looked mainly at the internal strategies of companies, would be insufficient to understand the global insertion of Brazilian companies in a context of huge international competition. Thus, a relevant determinant to be incorporated to this version of the success of Brazilian companies in the external market is the role played by the State in the process. In recent decades, the Brazilian government supported policies for companies in process of internationalization, such as: i) Liberalization of restrictions on direct investments abroad; ii) Creation of international instruments to facilitate and protect investments abroad; iii) Information and technical assistance; iv) Fiscal incentives; v) Insurance mechanisms for investments; and vi) Financing. In addition, the National Bank for Economic and Social Development (BNDES) has assumed

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a central role in to the implementation of these policies concerning the internationalization of Brazilian companies (Além and Cavalcanti 2005, 66).

The international economic policy led by BNDES has been building instruments for the establishment of national companies in the foreign market. In a sense, this reflected in the process of internationalization of Korean companies in the 1980s and 1990s, a successful case of foreign market conquest in which the role of the State in the promotion of the so-called "national champions" was decisive. Luciano Coutinho, president of BNDES between 2007 and 2016, was a great enthusiast of such experience. Before being appointed, he asserted: "it is argued that the internationalization of nationally based companies is important for increasing exports from already competitive sectors, as well as being a fundamental strategy for the strengthening of several other sectors" (Coutinho, Hiratuka, and Sabbatini 2003, 3).

In this sense, the policy desired – and, later, partly implemented – by Coutinho sought to reconstruct the role of the Brazilian economy in commerce and in the international productive structure. According to the author, the 1990s had a negative impact on the country's positioning in the world market because, despite the open trade discourse, the Brazilian government did not support national companies, and, consequently, Brazil maintained a timid participation in world trade. Therefore, on the way to the 21st century, the international landscape has imposed the strengthening, and in a sense, internationalization, as conditions for the survival of some national groups. If, on the one hand, the new scenario of economic opening set in the 1990s discouraged the existence of a significant number of national industrial sectors, on the other hand, it encouraged the takeoff of others sectors that, in order to compete in the national market, would build a base to place themselves in the foreign market.[10] However, this multinational

[10] According to André Almeida (2007), some cases in this process were: Petrobras, Vale do Rio Doce, Metalúrgica Gerdau, Embraer, Odebrecht, Natura, WEG, Marcopolo, Votorantim.

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formation process did not occur following the marks of pioneering experiences. As we mentioned above, the specificities of the Brazilian economy should also be taken into account as the second relevant characteristic in the analysis of the internationalization of Brazilian companies. After all, in addition to experiencing delayed industrialization, (a result of going through particular paths in order to place itself in a world economy with already industrialized countries) Brazil also had to deal with a competitive scenario. This scenario was possibly much more intense, creating the need for Brazilian companies to develop both technical and financial instruments to accomplish their insertion in the foreign market.

The literature makes it explicit how the successful constitution of a number of Brazilian companies was made possible by their relationship with the State. This either happened due to their traditionally being fully state-owned enterprises or to other experiences in which government support was decisive in the trajectory of some groups. The Brazilian construction companies are good examples of business: their presence in both national and international contexts could only be understood by looking at the military government's policies for hiring contractor's services (Campos 2014)[11]. Alternatively, this issue could be explained by the new dimensions of the companies-government relationship, thinking about the economic landscape of recent decades through the study of the cases of Petrobras, Vale, and BNDES. Mussachio and Lazzarini (2015) consider two new forms of relationship between the State and economic activities. The first one is Leviathan as majority investor, in which the State remains the controlling shareholder, but new forms of governance allow for the participation of private investors. The second one is Leviathan as minority investor, characterized by a lesser control of its companies in favor of private firms, but maintaining its presence through minority

[11] For more information about the Odebrecht case, see also: Cabral and Oliveira (2017).

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shareholding or pension funds and sovereign wealth funds. It is possible to perceive a breakthrough in the debate about dichotomous economy, with a polarization of the visions of State *versus* market. As the authors demonstrate, the privatization process of recent decades has produced varieties of capitalism, which resulted from alternative organization models and hybrids between the polarization of a Leviathan as an entrepreneur and the direct performance of the private companies.

In short, even though business strategies demonstrated by the theory have witnessed global aspects of firm growth and characteristics of the internationalization process present in different experiences, a lighted looking at particular issues and national contexts shows that the study of Brazilian companies adds to the world literature, indicating new forms of relationship between company, state, and society. This special issue of the *Journal of Evolutionary Studies in Business*, about the growth and internationalization of emergent markets, assesses five relevant cases of Brazilian companies.

The first paper shows the relationship between growth and internationalization of Embraer, the main export company of products with high added value. Embraer emerged as a state-owned firm and, after a successful internationalization trajectory, was privatized in the 1990s. However, this did not interfere with its growth and occupation of the world market with small and medium-sized airplanes, always with a strong participation of the State. The second paper deals with the case of WEG, which started producing electric motors in Southern Brazil and became one of the most successful cases of business internationalization in Brazil. Nevertheless, a close look at WEG's growth and internationalization process, especially during military governments and the past decade, indicates that access to government credit was essential to its expansion.

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The following two papers deal with companies that work in sectors that offer Brazil with natural advantages: Expocaccer, an exporter of coffee, and Gerdau, a steel producer. The first paper, entitled "Cooperative Agribusiness History: Organizational aspects for internationalization and the Expocaccer case study" presents a particular model of organization, formed by a cooperative. It sheds light on the difficulties of managing these forms of business organization regarding their internationalization; the paper discusses the case of a commodity product. In turn, the paper dedicated to Gerdau portrays a firm that, after long years of operation in the local and regional market, implemented industrial plants in other states and took advantage of the privatization process of the late twentieth century. In the 1980s, the company began an internationalization process that became more intense in the beginning of the 21th century. The author of the paper presents some hypotheses from a theoretical point of view to explain the phenomena.

Finally, in a country that used to import almost all of its industrialized products until the middle of the twentieth century, the fifth paper tells the history of Romi – a company focused on the production of industrial lathes, agricultural machinery, and equipment. A few decades after its foundation, when Brazil was still living according to a policy of "import substitution industrialization", Romi already exported machinery and equipment, receiving great government support during the years of military dictatorship in Brazil.

Brazilian companies' international competitiveness was a result, therefore, in both of their internal capabilities and by the government plans – the state not only as a public investor but also by driving sector policies. More modern and complex the sector more should be the participation of the state to foster and consolidate the foreign presence of national company. This special issue presents five illustrative examples.

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