REVISTA
Globalización, Competitividad y Gobernabilidad

JOURNAL
Globalization, Competitiveness & Governability

REVISTA
Globalização, Competitividade e Governabilidade

GCG

GEORGETOWN UNIVERSITY universia

Revista cuatrimestral | Four-monthly Journal | Revista Cuatrimestral

Vol. 4 Num. 3
SEPTIEMBRE-DICIEMBRE 2010
ISSN: 1988-7116

http://gcg.universia.net

CARTA DEL EDITOR IN CHIEF

EDITOR IN CHIEF

En el presente número se analiza el estado de la investigación en la Dirección Internacional de la Empresas en Latinoamérica (**Internacional Business Research and Latin America**). Es un número especial que trata un tema relevante y actual ha sido posible gracias al conocimiento, rigor y dedicación del Profesor Alvaro Cuervo-Cazurra (Sonoco International Business Department, Moore School of Business, University of South Carolina and Chair of the Scientific Committee, AIB-LAT Conference 2010). El Comité de Dirección y el Consejo Editorial desean agradecer el magnífico trabajo realizado, así como todo el esfuerzo editorial para identificar a los autores, realizar los procesos de revisión y aceptar los trabajos que reúnen los requisitos establecidos en GCG.

Los artículos reflejan el alto nivel de la investigación en International Business en Latinoamérica, no solo por la calidad académica de los mismos, sino por las aportaciones que realizan a la región. Los artículos del presente número fueron comunicaciones finalistas al mejor trabajo en el 2010 Meeting of Latin America Chapter of the Academy of Internacional Business (AIB), todos ellos pasaron el doble proceso de revisión del congreso así como la valoración del Editor invitado de este especial y el Comité de Dirección. Ello garantiza el alto nivel de los trabajos publicados.

Abrimos el especial con el artículo de los profesores Cuervo-Cazurra (Chair of the Scientific Committee, AIB-LAT Conference 2010) y Liberman (Conference Chair, AIB-LAT Conference 2010), en el cual analizan el estado de la investigación en Internacional Business en Latino América, y presentan todos y cada uno de los artículos. Para los profesores los trabajos abordan diversos aspectos del tópico analizado, y pueden servir como un laboratorio para la identificación de nuevos campos de estudio de las empresas en otras regiones. Los artículos de este número especial reflejan la variedad de una buena investigación que se puede hacer mediante el estudio de las empresas en América Latina.

Los tres primeros artículos estudian el comportamiento de las multilatinas. Muritiba, Muritiba, Alburquerque, Bertoia y Frech analizan la influencia de la distancia psíquica, entendida como un concepto integrado por la distancia cultural, administrativa, económica y geográfica, en la expansión exterior de las multilatinas. Barcellos, Cyrino, Oliveira y Fleury estudian la relación entre la internacionalización y el rendimiento en 73 empresas brasileñas. Ramsey, Alvim, Forteza y Micheloni revisanr la relación entre la internacionalización y el rendimiento en un análisis que combina una revisión de literatura con datos primarios y secundarios.

Los otros tres artículos restantes analizan el comportamiento de los inversores extranjeros en América Latina. Stringer y Ge estudian la expansión de dos empresas de Nueva Zelanda de la agroindustria en América Latina. Zambaldi, Mascarenhas, Bernardes y Neto analizan las relaciones y el comportamiento de un proveedor de servicios offshore en Brasil. Por último, Amal, Tomio y Raboch estudian los determinantes de la inversión extranjera directa (IED) en América Latina, con base en una muestra de 27 países.

De nuevo queremos agradecer a todos aquellos que hacen posible el buen funcionamiento de la revista: miembros del Consejo Consultivo, Consejo Editorial, Editores y Editores Asociados de área, evaluadores, autores, y sobre todo de los lectores.

Editor in Chief

SUMARIO | SUMMARY | SUMÁRIO

DOI SUMARIO: **10.3232/GCG.2010.V4.N3.00** DOI 2010 V4 N3: **10.3232/GCG.2010.V4.N3**

STAFF

De la Torre, José, Dean, Chapman Graduate School of Business Florida International University, EEUU.
Edwards, Sebastian, Henry Ford II Professor of International Business Economics at the Anderson Graduate School of Management at the University of California, Los Angeles (UCLA), EEUU.
Fariñas, José Carlos, Catedrático de Economía Aplicada, Director del Departamento de Estructura Económica y Economía Industrial de la Universidad Complutense de Madrid, España.
Fernández, Ana Isabel (Universidad de Oviedo), Catedrática de Economía Financiera y Contabilidad, Universidad de Oviedo, España.
Fernández Rodríguez, Zulima, Catedrática de Organización de Empresas de la Universidad Carlos III, España.
Garicano, Luis, Professor of Economic and Strategy (Graduate Schools of Business, University of Chicago), EEUU.
Garretón, Manuel Antonio, Departamento de Sociología, Facultad de Ciencias Sociales, Universidad de Chile.
Grosse, Robert, Thunderbird School of Global Management, USA Professor of International Business; Director of Research Contigroup Companies Chair, EEUU.
Guillén, Mauro, Professor The Wharton School, University of Pennsylvania, Director Joseph H. Lauder Institute for Management & International Studies, EEUU.
Haussman, Ricardo. Professor, Kennedy School of Government and Center for International Development, Harvard University, EEUU.
Kaufmann, Daniel, Director of Global Programs at the World Bank Institute, EEUU.
Kliksberg, Bernardo, Profesor Honorario de la Universidad Nacional de Buenos Aires; Instituto Interamericano para el desarrollo social (BID), Argentina.
Lozoya, Emilio, Director para América Latina del World Economic Forum.
O'Donnell, Guillermo, Catedrático Hellen Kellog de Ciencia Política, Universidad de Notre Dame, EEUU.
Pedreño, Andrés, Catedrático de Economía Aplicada y Director del Instituto de Economía Internacional de la Universidad de Alicante, España.
Ramamurti, Ravi, Northeastern University, Professor, International Business, EEUU.
Rojas-Suarez, Liliana, Investigador Principal en el "Center for Global Development".
Santiso, Javier, Director Adjunto y Economista Jefe del Centro de Desarrollo de la OCDE, Francia.
Spiller, Pablo T. Professor, University of California, Berkeley, Haas School of Business, EEUU.
Tansini, Ruben, Catedrático en organización industrial, DECON-FCS, Universidad de la República, Uruguay.
Tomassini, Luciano, Director del Programa, Estudios en Gobierno y Asuntos Públicos, Facultad Latinoamericana de Ciencias Sociales, Sede Chile.
Vargas-Llosa, Alvaro, Senior Fellow and Director of the Center on Global Prosperity, EEUU.

SELECCIÓN | PROCEDURE | PROCEDIMENTO

INSTRUCCIONES PARA AUTORES Y PROCEDIMIENTO DE SELECCIÓN

La revista esta dirigida a quienes tienen la responsabilidad de gobernar empresas o dirigir organismos e instituciones públicas o privadas para proporcionarles ideas originales y propuestas innovadoras que contribuyan a la mejora de la competitividad y gobernabilidad de las empresas y los países iberoamericanos en un mundo globalizado. La revista también aspira a servir a la comunidad universitaria y científica de la región como publicación de referencia sobre nuevas ideas. Para ello facilitará la comunicación entre las distintas comunidades universitarias iberoamericanas, las acercará y las articulará alrededor del estudio de áreas concretas, debidamente analizadas mediante aportaciones teóricas, aplicaciones prácticas y estudio de casos reales.

Miembros del mundo universitario, empresarial e institucional podrán remitir sus trabajos originales, no postulados simultáneamente en otras publicaciones, para que sean evaluados y eventualmente publicados en la revista. Los autores que aspiren a la publicación de sus artículos deberán someterse a las siguientes normas:

- Los artículos deben ser **inéditos.**

- Los trabajos podrán escribirse en **español, portugués o inglés**. Su extensión será entre **4500 y 5000 palabras**. Sin embargo, se admitirá cierta flexibilidad atendiendo a la naturaleza del tema abordado.

- Cada artículo deberá ir precedido de un **resumen ejecutivo de no más de cien palabras** en el idioma en que ha sido escrito originalmente. Adicionalmente se incluirá la **categoría en las que se sitúa el artículo**: una de las seis áreas (6) y perspectiva desde la cual se aborda el tema (Teoría, Aplicación y Casos). Además, se incorporará la clasificación del trabajo conforme a los descriptores utilizados por el **Journal of Economic Literature**.

- **El nombre del autor/es no podrá aparecer** en ninguna de las hojas del artículo. Ello facilita el proceso de evaluación, pues los datos se incorporarán en el formulario digital.

- Los originales deben incorporar el **título del trabajo**. Dichos originales estarán editados electrónicamente en formato “Word” o compatible, y se enviarán por vía electrónica (gcg.universia.net). Los autores rellenarán sus datos en la ficha electrónica, especificando el área de estudio. Tan pronto como los autores introduzcan la información completa en el formulario de gestión de artículos, se les enviará acuse de recibo de la recepción de su trabajo.

- Las **referencias bibliográficas** se incluirán en el texto indicando el nombre del autor, fecha de publicación, letra y página. La letra, a continuación del año, sólo se utilizará en caso de que se citen obras de un autor pertenecientes a un mismo año. Se incluirán, al final del trabajo, las obras citadas en el texto atendiendo a la información requerida en las normas **ISO 690/1987** y su equivalente **UNE 50-104-94** que establecen los criterios a seguir para la elaboración de referencias bibliográficas:

Libros: Dornier, P.P.; Ernst, R.; Fendel, M.; Kouvelis, P; (1998), “Global Operations and Logistics: Text and Cases”, John Wiley & Son, New Jersey.
Artículos: Campa, J.M.; Guillen, M. (1999), “The Internalization of Exports: Ownership and Location-Specific Factors in a Middle-Income Country”, Management Science, Vol. 45, Num. 11, pp. 1463-1478
Artículos con DOI’s: Cuervo-Cazurra, A.; Un, C. A. (2007).- “Regional economic integration and R&D investment”, Research Policy, Vol. 36, Num. 2, pp. 227-246. doi:10.1016/j.respol.2006.11.003

- La revista se reserva la **facultad de editar formalmente los artículos**, y de separar y recuadrar determinadas porciones del texto particularmente relevantes, aunque respetando siempre el espíritu del original. Los autores tendrán oportunidad de autorizar el formato final de los artículos antes de su publicación.

- Los autores deberán estar en disposición de **ceder los beneficios derivados** de sus derechos de autor a la revista.

- Corresponde al **Editor en Jefe** determinar si el artículo es admisible para su publicación. En caso de que así sea, lo enviará al director de área correspondiente, quien iniciará a su vez el proceso de evaluación.

- Cada artículo será sometido a consideración anónima de al menos **2 evaluadores**, expertos externos a la entidad editora de la revista y a su consejo de editorial.

- La revista se compromete a **responder a los autores** con una decisión editorial en un **plazo aproximado de tres meses** (primera evaluación).

- La **lista de evaluadores** se hará pública anualmente.

INSTRUCTIONS FOR AUTHORS AND PROCEDURE

The journal is aimed at the people with responsibility for governing companies or managing public or private sectors and institutions. Its goal is to provide such people with original ideas and innovative proposals to help improve the competitiveness and governability of companies and the Ibro-American countries in a globalized world. The journal also aims to serve the region’s academic and scientific communities by becoming the publication of reference for new ideas. It will do this by facilitating communication among the various Ibero-American academic communities, bringing them closer together and structuring them around the study of specific areas, duly analyzed by means of theoretical contributions, practical applications, and real case studies.

Original papers may be submitted for evaluation and potential publication in the journal by members of the academic, business and institutional spheres. Authors hoping to publish their articles must adhere to the following rules:

- The articles must be previously **unpublished**.

- The papers may be written in **Spanish, English or Portuguese** and must be between **4,500 and 5,000 words long**, although this may be subject to a certain degree of flexibility depending on the nature of the subject.

- Each article must be preceded by an **abstract of no more than one hundred words** in the original language of the article. **The category in which the article is included must also be specified:** area of knowledge (6) and perspective from which the subject is being addressed (theory, application, case study). You must also state how the work is classified according to the **Journal of Economic Literature**'s descriptors.

- **The author's or authors' name(s)** may not appear anywhere in the article. This facilitates the evaluation process since the data will be included in the digital form.

- **The title of the work** must be included in the original. Originals must be presented in digital format – either in Word or in a Word-compatible format – and be sent electronically (gcg.universia.net). Authors must fill out their details on the electronic record, specifying the area under study. Authors will receive an acknowledgement of receipt of their work as soon as they have entered all the information in the article management form.

- **Bibliographic references** must be included in the text, indicating the author's name, date of publication, letter and page. Years must be followed by a letter only when citing works by the same author and from the same year. Works mentioned in the text must be cited at the end of the article as stipulated in the **ISO 690/1987** standard and its equivalent Spanish standard **UNE 50-104-94**, which lay down the criteria for presenting bibliographic references:

> **Books:** Dornier, P.P.; Ernst, R.; Fendel, M.; Kouvelis, P; (1998), "Global Operations and Logistics: Text and Cases", John Wiley & Son, New Jersey.
> **Papers:** Campa, J.M.; Guillen, M. (1999), "The Internalization of Exports: Ownership and Location-Specific Factors in a Middle-Income Country", Management Science, Vol. 45, Num. 11, pp. 1463-1478
> **Papers with DOI's:** Cuervo-Cazurra, A.; Un, C. A. (2007).- "Regional economic integration and R&D investment", Research Policy, Vol. 36, Num. 2, pp. 227-246. doi:10.1016/j.respol.2006.11.003

- The journal reserves **the right to formally edit the articles** and to separate particularly relevant parts thereof and put them in boxes, always in accordance with the spirit of the original. Authors will be given the chance to authorize the final format of their articles prior to publication.

- **Authors must be willing to assign all the benefits** of their copyright to the journal.

- Responsibility for deciding whether the article is fit for publication lies with the **Editor-in-Chief**. If this is the case, the Editor-in-Chief will send it to the relevant area director.

- Each article shall be subject to consideration on an anonymous basis by at least **2 expert assessors** not belonging to the magazine's publisher or to its editorial board.

- The journal undertakes **to notify authors** of an editorial decision within **approximately three months** (first evaluation).

- **The list of referees** will be published on an annual basis.

INSTRUÇÕES PARA AUTORES E PROCEDIMENTO DE SELECÇÃO

A revista é dirigida a quem tem a responsabilidade de administrar empresas ou dirigir organismos e instituições públicas ou privadas para lhes proporcionar ideias originais e propostas inovadoras que contribuam para a melhoria da competitividade e governabilidade das empresas e dos países ibero-americanos num mundo globalizado. A revista aspira igualmente a servir a comunidade universitária e científica da região, como publicação de referência sobre novas ideias. Para isso irá facilitar a comunicação entre as diferentes comunidades universitárias ibero-americanas, irá aproximá-las e articulá-las à volta do estudo de áreas concretas, devidamente analisadas através de contribuições teóricas, aplicações práticas e estudo de casos reais.

Membros do mundo universitário, empresarial e institucional poderão enviar trabalhos originais para serem avaliados e eventualmente publicados na revista. Os autores que desejem publicar os seus artigos deverão submeter-se às seguintes normas:

- Os artigos devem ser **inéditos**.

- Os trabalhos podem ser escritos em **espanhol, português ou inglês**. A sua extensão deverá ser entre **4500 e 5000 palavras**. No entanto, será admitida uma certa flexibilidade, atendendo à natureza do tema abordado.

- Cada artigo deverá ser precedido de um **resumo com o máximo de cem palavras** na língua em que tenha sido escrito originalmente. Adicionalmente será incluída a **categoria na qual se situa o artigo**: uma das seis (6) áreas e perspectiva a partir da qual o tema é abordado (Teoria, Aplicação e Casos). Será, além disso, incorporada a classificação do trabalho de acordo com as descrições utilizadas pelo **Journal of Economic Literature**.

- **O nome do(s) autor(es) não poderá aparece**r em nenhuma das páginas do artigo. Isso facilita o processo de avaliação, pois os dados serão introduzidos no formulário digital.

- Os originais devem conter o **título do trabalho**. Estes originais serão editados electronicamente em formato «Word» ou compatível, e serão enviados por via electrónica (gcg.universia.net). Os autores preencherão os seus dados na ficha electrónica, especificando a área do estudo. Logo que os autores introduzem a informação completa no formulário de gestão de artigos, é-lhes enviado um aviso de recepção do seu trabalho.

- As **referências bibliográficas** serão incluídas no texto, indicando o nome do autor, a data da publicação, título e página. A letra, a seguir ao ano, só será utilizada caso sejam citadas obras de um autor pertencentes a um mesmo ano. Serão incluídas, no final do trabalho, as obras citadas no texto, considerando a informação requerida nas normas **ISO 690/1987** e equivalente **UNE 50-104-94**, que estabelecem os critérios a seguir para a elaboração de referências bibliográficas:

> **Livros:** Dornier, P.P.; Ernst, R.; Fendel, M.; Kouvelis, P; (1998), "Global Operations and Logistics: Text and Cases", John Wiley & Son, New Jersey.
> **Artigos:** Campa, J.M.; Guillen, M. (1999), "The Internalization of Exports: Ownership and Location-Specific Factors in a Middle-Income Country", Management Science, Vol. 45, Num. 11, pp. 1463-1478
> **Artigos com DOI (Identificador de Objecto Digital):** Cuervo-Cazurra, A.; Un, C. A. (2007).- "Regional economic integration and R&D investment", Research Policy, Vol. 36, Num. 2, pp. 227-246. doi:10.1016/j.respol.2006.11.003

- A revista reserva-se a **faculdade de editar formalmente os artigos**, e de separar e reenquadrar determinadas porções do texto particularmente relevantes, embora respeitando sempre o espírito do original. Os autores terão oportunidade de autorizar o formato final dos artigos antes da respectiva publicação.

- Os autores deverão estar disponíveis para **ceder os benefícios derivados** dos seus direitos de autor à revista.

- Incumbe ao **Editor Chefe** determinar se o artigo é admissível para publicação. Caso assim seja, irá enviá-lo ao director da área correspondente que, por sua vez, iniciará o processo de avaliação.

- Cada artigo será submetido a consideração anónima de pelo menos **2 avaliadores**, especialistas exteriores à entidade editora da revista e ao seu conselho editorial.

- A revista compromete-se a **responder aos autores** com uma decisão editorial num **prazo aproximado de três meses** (primeira avaliação).

- A **lista de avaliadores** será tornada pública anualmente.

Enviar los Artículos
/ Submit articles / Enviar os Artigos:
gcg.universia.net

Consultas
/ Suggestions / Consultas:
gcg@universia.net

INDEXACIÓN | INDEXING | INDEXAÇÃO

INDICIOS DE CALIDAD DE LA REVISTA DE GLOBALIZACIÓN, COMPETITIVIDAD Y GOBERNABILIDAD (GCG)

GCG: Revista de Globalización, Competitividad y Gobernabilidad está indexada y presente en los siguientes catálogos y bases de datos:

- EconLit (American Economic Association)
- DICE (Difusión y Calidad Editorial de las Revistas Españolas de Humanidades, Ciencias Sociales y Jurídicas, CSIC-ANECA). Area Economía. Cumpliendo el 100 % de los criterios de calidad auditados
- Directorio, CATÁLOGO e Indice LATINDEX (cumpliendo el 100 % de los 33 criterios de calidad)
- EBSCO Publishing's databases
- Ulrich's Periodicals Directory
- ISOC-Ciencias Sociales y Humanidades (CSIC)
- DIALNET
- DOAJ (Directory of Open Access Journals)

Ciudad Grupo Santander. Avda. de Cantabria, s/n. Edif. Arrecife, planta 00. 28660. Boadilla del Monte. Madrid, España. Telf: (+34) 91 289 59 23. Fax: (+34) 91 257 15 06.

ISSN: 1988-7116

R E V I S T A | J O U R N A L | R E V I S T A
Globalización, Competitividad y Gobernabilidad | Globalization, Competitiveness & Governability | Globalização, Competitividade e Governabilidade

International Business Research and Latin America*

AREA: 2
TYPE: Theory

Estudios de Negocios Internacionales y Latinoamérica
Estudos de International Business e a América Latina

AUTHORS

Álvaro Cuervo-Cazurra[1]
Sonoco International Business Department
Moore School of Business, University of South Carolina, USA
acuervo@moore.sc.edu

Leonardo Liberman
Universidad de los Andes, Chile
lliberman@uandes.cl

1. Corresponding Author: Sonoco International Business Department; Moore School of Business; University of South Carolina; 1705 College Street; Columbia, SC 29208; USA.

This article reviews international business research on Latin America and introduces the articles contained in this special issue on international business research and Latin America. The articles are the finalists for the best paper award given at the 2010 meeting of the Latin American chapter of the Academy of International Business. They reflect the promise of using Latin America as a research laboratory for advancing the theory of international business.

En este artículo se revisan los estudios de negocios internacionales en Latinoamérica y se presenta el resto de artículos incluidos en este especial sobre estudios de negocios internacionales y Latinoamérica. Los artículos son los finalistas al premio al mejor artículo que se entrega en el encuentro 2010 de la sección de Latinoamérica de la Academy of International Business. Reflejan la promesa de usar Latinoamérica como centro de investigación para avanzar en la teoría de los negocios internacionales.

O presente artigo passa em revista os estudos de international business na América Latina e apresenta os artigos contidos nesta edição especial sobre estudos de transacções internacionais e a América Latina. Os artigos são os finalistas do prémio para melhor comunicação atribuído no encontro de 2010 do ramo latino-americano da Academy of International Business. Reflectem a promessa de usar a América Latina como laboratório de investigação para avanços na teoria em international business.

* The first author thanks the Center for International Business Education and Research at the University of South Carolina for providing funding. All errors are ours.

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.01	01.09.2010	30.10.2010

1. Introduction

International business research on Latin American firms is limited but growing[1]. Most of the international business research analyzing developing countries has focused on the study of firms in Asia and transition economies. For example, recent special issues of journals analyzing multinational firms from developing countries have mostly studied firms from Asian and transition economies (e.g., see the articles published in the recent special issues of *Journal of International Business Studies* edited by Luo and Tung, 2007, and of *Journal of International Management* edited by Aulakh, 2007; Gammeltoft, Barnard and Madhok, 2010; as well as the chapters in the books edited by Sauvant, 2008; and by Ramamurti and Singh, 2009). Moreover two reviews of international business research indicate that few studies analyze firms in this region. Elahee and Vaidya (2001) reviewed articles published in the two leading international business journals, *Journal of International Business Studies and Management International Review*, in the period 1987-1997 and found that less than 6% of the articles mention Latin America. More recently, Pérez-Batres, Pisani, and Doh (2010) reviewed articles published in four leading international business journals, *Journal of International Business Studies, Management International Review, Journal of World Business*, and *International Business Review* in 2001-2005, and found that only 0.58% of the scholars who published in these journals were based on Latin America, and that only 2.75% of the articles focused Latin America, and 4.31% had some Latin American content.

Despite the very limited attention that the region has received, there is increasing attention in international business research to the study of Latin American firms. The initial impetus of this research was on the internationalization of Latin American firms using exports. Thus, in this line of research one finds analyses of the exporting strategies of Brazilian companies (Christensen, Rocha and Gertner, 1987), of non-traditional exporters from Costa Rica, El Salvador, Guatemala, Honduras, and Panama (Dominguez and Sequeira, 1993), of companies from Brazil, Chile and Mexico (Aulakh, Kotabe and Teegan, 2000), of Mexican companies that are not *maquiladoras* (export assembly plants) (Thomas and Grosse, 2005). Other studies have analyzed related aspects of the internationalization of Latin American firms such as the impact of pro-market reforms on the exports of Latin American firms (Cuervo-Cazurra and Dau, 2009a), the relationship between the level of internationalization and performance of Mexican companies (Thomas, 2006), the changes that accompany the globalization process (Martínez, Esperanca and Torre, 2005); strategies abroad, particularly by Mexican companies in the United States (Vasquez- Parraga and Felix, 2004), strategies to deal with liberalization and globalization (Anand, Brenes, Karnani and Rodriguez, 2006, Brenes, 2000, Dominguez and Brenes, 1997; Ickis, 2000), the response of Chilean firms to economic liberalization (del Sol, 2010), the relationship between foreign expansion and profitability of Chilean multinationals (del Sol and Kogan, 2007), corporate social responsibility in multilatinas (Casanova and Dumas, 2010), and the relationship between pro-market reforms and profitability of different types of Latin American firms (Cuervo-Cazurra and Dau, 2009b).

A related line of research has focused on the study of the multinationalization process of

Key words
International business, Latin America, multinational companies, multilatinas

Palabras clave
Negocio internacional, Latinoamérica, empresas multinacionales, multilatinas

Palavras-chave
International business, América Latina, companhias multinacionais, multilatinas

JEL Codes
F23; M16

1. This brief, non-comprehensive review of the literature focuses on articles that appeared in leading research books and leading academic journals published in English. It does not review literature published in Spanish or Portuguese.

Latin American companies, that is the process by which firms become multinational companies, or multilatinas[2]. In this line of inquiry one finds the studies on multilatinas in the special issue of *Universia Business Review* edited by Cuervo-Cazurra (2010) and on Brazilian multinationals in the special issue of *Latin American Business Review* edited by da Rocha and da Silva (2009), as well as articles that study the impact of pro-market reforms on the multinationalization of Latin American firms (Cuervo-Cazurra, 2007a), the selection among different types of value-added activities abroad in the initial steps of the firms' multinationalization (Cuervo-Cazurra, 2007b), or the selection of the countries in which to start the multinationalization process (Cuervo-Cazurra, 2008). Also in this line of research one can find descriptions of the process of transformation and international expansion of some major multilatinas such as Cemex (Lessard and Lucea, 2009), Embraer (Goldstein, 2002), Petrobras (Goldstein, 2010), Fallabela (Bianchi, 2009), Arcor (Traverso and Quiroga, 2003), Brazilian multinationals (Fleury and Fleury, 2009; studies in the book edited by Ramsey and Almeida, 2009), and multilatinas from several countries (special issues of the *Journal of Business Research* edited by Brenes and Dominguez, 1997 and Brenes, Ickis and Olsen, 2000, chapters in the book edited by Grosse and Mesquita, 2007, ECLAC, 2006, and Casanova, 2009).

2. Special Issue

The articles in this special issue contribute to international business research by adding to our understanding of the international activities of firms in Latin America. They address diverse aspects of this topic, illustrating how analyzing firms in Latin America can serve as a laboratory for identifying new issues that studies of firms in other regions have missed or have not studied in depth. The six articles of this special issue reflect the variety of good research that can be done by studying firms in Latin America.

Three of the articles study the behavior of multilatinas. Muritiba, Muritiba, Alburquerque, Bertoia and Frech analyze the influence of psychic distance, understood as a concept composed by cultural, administrative, economic, and geographic distance, on the foreign expansion of multilatinas. Their explorative analysis of 6 Brazilian multinational firms based on 12 semi-structured interviews and analyses of 48 company documents indicates that, in contrast to previous studies, cultural distance is not the leading determinant in the selection of markets. Instead, economic and market opportunities were found to influence the market choice. A plausible explanation for this suggested by the authors is that multilatinas are flexible in their ability to adapt to different cultures, which might be supported by the fact that although the directors of the multinational firms reported taking psychic distance into account, they did not consider this to limit their activities abroad. Barcellos, Cyrino, Oliveira and Fleury analyze the relationship between internationalization and performance within 73 Brazilian firms. This study set out to test two hypotheses. The first hypothesis states that the most internationalized

2. For a more extensive review of multilatinas, upon which this article is based, see Cuervo-Cazurra (2010).

companies would perceive that they have obtained greater benefits as a result of internationalization; and the second hypothesis suggests that the most internationalized companies would experience better performance of their international operations in relation to domestic operations. Different from previous studies that have analyzed overall firm performance, the study separates domestic and international performance and reveals that higher levels of internationalization result in lower international performance in comparison to domestic performance, although managers still perceive internationalization as being good for the firm. Ramsey, Alvim, Forteza and Micheloni review the relationship between internationalization and performance in an analysis that combines a litterature review with primary and secondary data. Their study proposes a new international value creation model that includes five dimensions: value proposition, business model, organizational model, talent and leadership, and stakeholder management. The authors illustrate the use of this model with examples of mainly Brazilian multilatinas within each dimension.

The other three articles analyze the behavior of foreign investors in Latin America. Stringer and Ge study the expansion of two New Zealand agri-business firms in Latin America based on semi-structured interviews with company representatives in New Zealand, Chile and Brazil, and government officials and industry personnel in New Zealand and Chile, as well as secondary data. The purpose of their analysis is to explore the following four propositions: 1) South America is a key node in the global value chains of large New Zealand agri-business companies; 2) New Zealand agri-business companies initially enter South America through a market governance structure and over time a shift in their governance occurs; 3) New Zealand agribusiness companies play a key role in reshaping farming and production practices in South America; and lastly, 4) Through their inclusion in New Zealand agri-business global value chains, smaller South American companies are obtaining upgrading opportunities. This study explains the transformation of the operations of foreign firms in the region and the transformation of local practices as a result of the presence of foreign firms. Zambaldi, Mascarenhas, Bernardes and Neto study the relationships and behavior of an offshore service provider in Brazil. The study tests hypotheses about the relationships between cultural sensitivity, relational competence, customer trust and relationship effectiveness between workers and customers. They base their analyses on electronic questionnaires answered by 57 workers at IBM Brazil and the results reveal that cultural sensitivity helps relational competence, which is turns supports customer trust and ultimately improves relations with customers. Moreover, cultural sensitivity is a relevant antecedent of relational competence in the international business arena, and the authors suggest that offshore service providers may achieve benefits from initiatives that promote cross-cultural skills and relational competence of employees. Finally, Amal, Tomio and Raboch study the determinants of foreign direct investment (FDI) in Latin America, based on a sample of 27 countries. In their analysis, the authors test three hypotheses exploring the importance of a country's conditions for economic stability and growth, its degree of trade openness, and the quality of its institutions in its propensity to receive FDI. The results indicate that all the above-mentioned factors help attract FDI into Latin America.

These six articles reflect the quality of research that can be generated by analyzing firms in Latin America. The articles are the finalists for the best paper award given at the 2010 meeting of the Latin American chapter of the Academy of International Business (AIB). This meeting, which was held in Rio de Janeiro on June 25, 2010, marked the beginning of the competitive program of the Latin American chapter of AIB (AIB-LAT). Over 90 submissions were sent to this conference and after the two-stage double-blind review process, 31 papers were included in the final program. This represents an acceptance rate of one third, being below the acceptance rate for the main program of leading business and management conferences. Those papers included in the program that received the highest evaluations by the reviewers were selected as finalists for the best paper award, and six of these papers are included in this special issue. It is our hope that the studies included in this special issue will serve as exemplars of the promise of using Latin America as a research laboratory to advance theory and that a future review of the literature will indicate significant advances on research analyzing firms in this fascinating, fast-growing and integrating region.

Alvaro Cuervo-Cazurra, Chair of the Scientific Committee, AIB-LAT Conference 2010
Leonardo Liberman, Conference Chair, AIB-LAT Conference 2010

References

Anand, J.; Brenes, E. R.; Karnani, A.; Rodriguez, A. (2006): "Strategic responses to economic liberalization in emerging economies: Lessons from experience," Journal of Business Research, Vol. 59, p. 365-371.

Aulakh P. S. (2007): "Emerging multinationals from developing economies: Motivations, paths and performance," Journal of International Management, Vol. 13, p. 338-355.

Aulakh, P. S.; Kotabe, M.; Teegen, H. (2000): "Export strategies and performance of firms from emerging economies: Evidence from Brazil, Chile and Mexico," Academy of Management Journal, Vol. 43, p. 342-361.

Bianchi, C. (2009): "Retail internationalisation from emerging markets: case study evidence from Chile," International Marketing Review, Vol. 26: 5.

Brenes, E. R. (2000): "Strategies for globalizing Latin American Business," Journal of Business Research, Vol. 50, p. 3-7.

Brenes, E. R.; Dominguez, L. V. (1997): "Strategic choices in the new international enterprise in Latin America," Journal of Business Research, Vol. 38, p. 1-2.

Brenes, E. R.; Ickis, J. C.; Olsen, J. (2000): "Case studies on the new global strategies of international business in Latin America," Journal of Business Research, Vol. 50, p. 1-2.

Casanova, L. (2009): "Global Latinas: Latin America's Emerging Multinationals," Palgrave MacMillan: New York.

Casanova, L.; Dumas, A. (2010): "Corporate social responsibility and Latin American multinationals: Is poverty a business issue?," Universia Business Review, Vol. 25, pg. 132-145.

Christensen, C. H.; Rocha, A.; Gertner, R. K. (1987): "An empirical investigation of the factors influencing exporting success of Brazilian firms," Journal of International Business Studies, Vol. 28, 61-77.

Cuervo-Cazurra, A. (2007a): "Liberalización económica y Multilatinas," Globalization, Competitiveness and Governability, Vol. 1, p. 66-87.

Cuervo-Cazurra, A. (2007b): "Sequence of value-added activities in the internationalization of developing country MNEs," Journal of International Management, Vol. 13, p. 258-277.

Cuervo-Cazurra, A. (2008): "The internationalization of developing country MNEs: The case of Multilatinas," Journal of International Management, Vol. 14, p. 138-154.

Cuervo-Cazurra, A.; Dau, L. A. (2009a): "Structural reform and firm exports," Management International Review, Vol. 49, p. 479-507.

Cuervo-Cazurra, A.; Dau, L. A. (2009b): "Pro-market reforms and firm profitability in developing countries," Academy of Management Journal, Vol. 52, p. 1348-1368.

Cuervo-Cazurra, A. (2010): "Multilatinas," Universia Business Review, Vol. 25, p. 14-33.

da Rocha, A.; da Silva, J. F. (2009): "The internationalization of Brazilian firms: An introduction to the special issue," Latin American Business Review, Vol. 10, p. 61-71.

del Sol, P. (2010): "Chilean regional strategies in response to economic liberalization," Universia Business Review, Vol. 25, p. 112-131.

del Sol, P.; Kogan, J. (2007): "Regional competitive advantage based on pioneering economic reforms: the case of Chilean FDI," Journal of International Business Studies, Vol. 38, p. 901-927.

Dominguez, L. V.; Brenes, E. R. (1997): "The internationalization of Latin American enterprises and market liberalization in the Americas: A vital linkage," Journal of Business Research, Vol. 38, p. 3-16.

Dominguez, L. V.; Sequeira, C. G. (1993): "Determinants of LDC exporters' performance: A cross-national study," Journal of International Business Studies, Vol. 24, p. 19-40.

ECLAC (2006): "Foreign investment in Latin America and the Caribbean, 2005," United Nations Publications, New York.

Elahee, M. N.; Vaidya, S. P. (2001): "Coverage of Latin American business and management issues in cross-cultural research: An analysis of JIBS and MIR 1987-1997," International Journal of Organization Theory & Behaviour, Vol. 4, p. 21-31.

Fleury, A.; Fleury, M. T. L. (2009): "Brazilian multinationals: Surfing the waves of internationalization," en Ramamurti, R.; Singh, J. V. (Eds.) "Emerging Multinationals from Emerging Markets," Cambridge University Press, New York.

Gammeltoft, P.; Barnard, H.; Madhok, A. (2010): "Emerging multinationals, emerging theory: Macro- and micro-level perspectives," Journal of International Management, Vol. 16, p. 95-101.

Goldstein, A. (2002): "Embraer: From national champion to global player," Cepal Review, Vol. 77, August, p. 97-115.

Goldstein, A. (2010) The emergence of multilatinas: The Petrobras experience. Universia Business Review, 25: 98-111.

Grosse, R.; Mesquita, L. F. (Eds.). (2007): "Can Latin American Firms Compete?," Oxford University Press: New York.

Ickis, J. C. (2000): "Implementing globalization strategies in Latin America," Journal of Business Research, Vol. 50, p. 9-13.

Lessard, D. R.; Lucea, R. (2009): "Mexican multinationals: Insights from CEMEX," en Ramamurti, R.; Singh, J. V. (Eds.) "Emerging Multinationals from Emerging Markets," Cambridge University Press, New York.

Luo, Y.; Tung, R. L. (2007): "International expansion of emerging market enterprises: A springboard perspective," Journal of International Business Studies, Vol. 38, p. 481-498.

Martinez, J. I.; Esperanca, J. P.; de la Torre, J. R. (2005): "Organizational change among emerging Latin American firms: From Multilatinas to multinationals," Management Research, Vol. 3, p. 173 - 188.

Pérez-Batres, L. A.; Pisani, M. J.; Doh, J. P. (2010): "Latin America's contribution to IB Scholarship," AIB Insights, Vol. 10, p. 3-7.

Ramamurti, R.; Singh, J. V. (Eds.). (2009): "Emerging Multinationals from Emerging Markets," Cambridge University Press, New York.

Ramsey, J.; Almeida, A. (Eds.) (2009): "The Rise of Brazilian Multinationals: Making the Leap from Regional Heavyweights to True Multinationals," Elsevier, Rio de Janeiro.

Sauvant, K. (Ed.). (2008): "The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity?," Edward Elgar, Northampton, MA.

Thomas, D. E. (2006): "International diversification and firm performance in Mexican firms: A curvilinear relationship?," Journal of Business Research, Vol. 59, p. 501-507.

Thomas, D. E.; Grosse, R. E. (2005): "Explaining imports and exports: A focus on non-maquiladora Mexican firms," Multinational Business Review, Vol. 13, p. 25-40.

Traverso, L.; Quiroga, J. (2003): "Luis Pagani, chairman of Grupo Arcor, on the globalization of Argentine firms," Academy of Management Executive, Vol. 17, p. 56-59.

Vasquez-Parraga, A. Z.; Felix, R. (2004): "Investment and marketing strategies of Mexican companies in the United States: Preliminary evidence," Thunderbird International Business Review, Vol. 46, p. 149-164.

R E V I S T A | Globalización, Competitividad y Gobernabilidad
J O U R N A L | Globalization, Competitiveness & Governability
R E V I S T A | Globalização, Competitividade e Governabilidade

GCG
GEORGETOWN UNIVERSITY universia

International Strategy, Cultural Distance and Management Policies in Brazilian Multinational Companies

ÁREA: 2
TIPO: Cases

Estrategia internacional, distancia cultural y políticas de gestión en las empresas multinacionales brasileñas
Estratégia internacional, distância cultural e políticas de gestão nas companhias internacionais brasileiras

AUTHORS

Patricia Morilha Muritiba[1]
Nove de Julho University, Brazil
pmmuritiba@uninove.br

Sérgio Nunes Muritiba
Nove de Julho University, Brazil
snmuritiba@uninove.br

Lindolfo Galvão de Albuquerque
University of Sao Paulo, Brazil
lgdalbuq@usp.br

Natacha Bertoia
Mackenzie University, Brazil
natacha@uol.com.br

John Lawrence French
Virginia Tech University, USA
jlfrench@vt.edu

1. Corresponding Author: Nove de Julho University; 612, Francisco Matarazzo Ave.; Sao Paulo; Brazil, 05001-100.

Cultural distance is a dimension of psychic distance, a term used to explain the multinational's preferences in terms of location to expand their operations. This study explores how cultural distance is taken into consideration when multinational companies choose their markets and its influence on their organizational policies. We present six cases of Brazilian multinational companies. Results show these companies do not always choose their markets taking the cultural distance as the most important factor. Also, companies from emerging economies tend to adapt easily to other cultures because of their history of the country having being colonized in the past.

La distancia cultural es una dimensión de la distancia física, término que se utiliza para explicar las preferencias de las multinacionales en términos de ubicación para ampliar sus operaciones. Este estudio analiza el modo en que se tiene en cuenta la distancia cultural cuando las empresas multinacionales seleccionan sus mercados y su influencia en las políticas de las firmas. Presentamos seis casos de empresas multinacionales brasileñas. Los resultados muestran que estas compañías no siempre eligen sus mercados teniendo en cuenta la distancia cultural como factor importante. Asimismo, las empresas de economías emergentes tienden a adaptarse rápidamente a otras culturas, ya que se trata de países colonizados en el pasado.

A distância cultural é uma dimensão da distância psíquica, um termo usado para explicar as preferências multinacionais em termos de localização para expandirem as suas operações. Este estudo explora o modo como a distância cultural é levado em conta quando as companhias multinacionais escolhem os seus mercados e a sua influência nas respectivas políticas organizativas. Apresentamos seis casos de companhias multinacionais brasileiras. Os resultados mostram que estas companhias nem sempre escolhem os seus mercados considerando a distância cultural como o factor mais importante. Por outro lado, as companhias de economias emergentes tendem a adaptar-se facilmente a outras culturas devido à sua história de país que foi colonizado no passado.

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.02	01.09.2010	30.10.2010

1. Introduction

Globalization has impacted the individual's life and work intensely in the past years. It has been more than ever enriching and challenging to work with different cultures, nations and systems. Companies that have units outside of their home country are not limited to a few huge enterprises anymore; the world has watched the proliferation of multinational companies from many countries, and later from the developing economies (Barcellos *et al.,* 2010).

Those companies have to deal with several differences between their home country and the countries where they have subsidiaries. For example, North-American multinationals working in Asia found a very different work environment, with several differences in language, culture, politics system, educational level and industrial developmental level (Benson and Zhu 2002). In international business, those differences are called psychic distance (Beckerman, 1956, Johanson and Wiedersheim-Paul, 1975). In theory, companies tend to expand their operations to countries with less psychic distance.

It is very complex to comprehend the dimensions of psychic distance; some authors, such as Ghemawat (2001), propose that it is represented by a sum of the geographic, administrative, cultural and economic distances among countries. Cultural distance is one of the most complex dimensions, as the analysis of a culture is subjective and mostly intangible (Schein, 1984). Ghemawat's (2001) model proposes the analysis of the cultural distance from the differences in religion, language and culture.

Therefore, we can imagine that a company's international strategy, in terms of market choice and entry mode implies certain cultural distance - that is a dimension of the psychic distance. The cultural distance implies certain changes in the company's policies, in order to better adapt to the new environment. That is the focus of this research. It has the objective to understand the relation between international strategy, cultural distance and the organizational policies and practices in multinational companies from developing countries.

This study is designed to answer to the questions: How cultural distance is taken into consideration when multinational companies choose their markets? How does it influence the organizational policies and practices once the company has made this choice?
Several studies have aimed to answer these questions before, but mostly considering multinationals from developed countries (Collings, 2008). Very few have explored what happens when the multinational company comes from a developing economy, with its very own culture and history. This research focuses on Brazilian multinational companies with subsidiaries in Latin America, North America, Europe and Asia.

Since this study's objective is to understand deeply the relations between the constructs, we opted for the case study method. Six cases were individually analyzed and then compared using a grounded theory approach.

KEY WORDS
Internationalization, cultural distance, multinational firms, Latin America

PALABRAS CLAVE
Internacionalización, distancia cultural, firmas multinacionales, Latinoamérica

PALAVRAS-CHAVE
Internacionalização, distância cultural, firmas multinacionais, América Latina

JEL CODES
F23; M16

2. Theoretical Background

The term psychic distance was coined by Beckerman (1956) on the basis of his analysis of studies on intra-European trade flows. Psychic distance has been gaining ground in the international business management literature, and some authors have begun seriously developing it as a construct.

In 1977, Johanson and Vahlne proposed the Uppsala Model for internationalization, based on company development as supported by the acquisition, integration, and gradual use of knowledge on foreign markets and operations. This model emphasizes two key aspects of the decision on where to and how the company should go about its internationalization, namely: the psychic distance between the company's home country and its target country for internationalization; and the concept that internationalization is a stagewise process (Hemais, 2004). Johanson and Wiedersheim-Paul (1975) devised a concept that took into account certain factors, such as differences in language, culture, political system, educational background, level of industrial development, etc. According to the Uppsala model, companies tend to expand their operations into countries that are less psychically distant.

Other international business scholars later added other factors to the model, such as dominant religion, business language, system of government, economic development, and level of immigration, in addition to industrial infrastructure.

Understanding psychic distance is therefore related to the possibility of determining the extent of the differences a company stumbles upon when expanding its operations abroad. One of the concepts of psychic distance most widely used in international business studies is that of O'Grady & Lane (1996), who define it as: *"...a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there".*

A frequent debate in academia is whether the terms "cultural distance" and "psychic distance" are synonymous. According to empirical theories and studies, cultural distance is one of the components of psychic distance. In a later study, Dow (2000) found that Hofstede's indicators, when used by themselves or in an isolated manner, are less valid then when used in measuring psychic distance, as the result of a set of factors.

"Psychic distance" is therefore a broader term than "cultural distance", because it includes not only cultural differences, but also structural elements, such as those arising from administrative, economic, and legal system-related differences, as well as language differences (Tanure *et al*., 2009).

Many of the risks and costs of international business are the result of distance barriers. According to Ghemawat (2001), distance is not merely synonymous with geographic separation, although it is important. Distance may also be cultural, administrative, political, and economic, making certain markets more or less appealing than others. Different types of distance influence business in different ways. Geographic distance, for instance, affects transportation and communication costs, whereas cultural difference affects consumer preference for certain products.

Ghemawat (2001) proposes an analysis model known as the CAGE, which stands for cultural, administrative, geographic and economic dimensions. According to this author, culture is the most important component of psychic distance. The culture of a country influences not only its beliefs, but also the way in which it communicates with others and interprets communication. Differences in religious beliefs, ethnicity, social norms, and language are capable of creating a gap between countries.

As for language, the greater the linguistic difference between two distinct markets, the higher transaction risks and costs tend to be (Dow and Karunaratna, 2006).

2.1. The psychic distance between Brazil and other countries

In order to allow reflection on the internationalization process of Brazilian companies and the psychic distance construct, which is the main objective of the present study, we sought out a way of measuring it. We used Ghemawat's model, which sets forth that psychic distance is composed of four main dimensions: cultural distance, administrative distance, economic distance, and geographic distance (Table 1). It bears noting that some adjustments were necessary. In light of the importance of Hofstede's study, our analysis also took its results into account. Very few studies were found within this specific approach. Tanure *et. al.*, (2009) investigated the psychic distance among Brazilian and other countries' expatriates, finding no predominance of countries that are psychically close to Brazil. This result is intriguing, considering Brazil's history of having its population formed by the combination of multiple ethnics.

Table 1. Dimensions of distance

Distances	Dimension	Description
Cultural distance	Language	Considers the distance between the Portuguese language and the language of the other country, as well as the percentage of the Brazilian population that is able to speak the latter.
	Religion	Considers the distance between Catholicism and the dominant religion of the other country, as well as the percentage of the Brazilian population that follows the latter.
	Culture	Composed of four discrete indicators: power distance, individuality, masculinity, and aversion to uncertainty
Administrative distance	Political system	Difference between Brazil and the other country in terms of degree of democracy and political ideology of the currently ruling group.
	Educational background	Difference between Brazil and the other country in terms of adult literacy rate, rate of students who graduate high school, and rate of students who complete undergraduate studies.
Economic distance	Industrial development	Calculated from the distance between Brazil and the other country in terms of several indicators, such as GDP, power consumption, average car ownership rate, urban population, non-rural workers, number of daily newspapers, average radio and TV set ownership.

Source: Adapted from Ghemawat (2001)

3. Research Design

The growing number of multinational companies in emerging markets is a recent fact and therefore, it is still silent on how those enterprises deal with different national cultures. The relationship between international strategy and psychic distance has been largely studied, being relatively new studies that cover the emerging markets. The impacts of the psychic distance on the management policies are still quite silent in the literature. This paper aims to fill those gaps.

Because of the lack of previous tested hypothesis, we applied an exploratory study, aiming the construction of theory. The grounded theory approach explicitly builds in its process changes of social phenomena (Strauss and Corbin, 1990) aiming to construct theory that can be tested in other studies in the future (Eisenhardt and Graebner, 2007). We thus follow a grounded theory approach based on interviews and document analysis. Interviews have been a valued method in cultural studies (Carr and Harris, 2004, Gibson and Zellmer-Bruhn, 2001)

The research was conducted in six Brazilian multinational companies, i.e., companies with majority of national capital and which also have foreign direct investments (FDI). Cases were chosen among a list of less than 100 Brazilian multinational companies found to have subsidiaries abroad in 2009. The chosen cases are some of the biggest and most relevant companies in Brazilian industry. Therefore, they are qualified as good cases to understand how cultural distance relates to the companies' strategies and management policies.

Data was collected through interviews and document analysis. In total, we conducted 12 interviews and analyzed 48 company documents. We also searched and analyzed media discoursed on those companies, summing 108 pieces of news.
In the twelve cases, we interviewed the director responsible for dealing with cultural issues internationally. In four of the cases an international HR director was indicated as the best source for information on this subject; in the two other cases, we interviewed members of the board.

The semi-structured interviews followed a script of open-ended questions based on Ghemawat's framework (Ghemawat, 2001). The cultural dimension was operationalized with Hofstede's model (Hofstede *et al.*, 1990).

Instead of using open coding technique, we coded the sentences according to their potential to explain each of the dimensions of Ghemawat's and Hofstede's models, using the software NVivo. Three researchers coded the information and the inter-rater reliability was calculated as 95%. Discrepant coding was discussed and reviewed by the researchers. As proof for the conclusions, data will be presented below in the form of sentences said by the interviewees or document outlines. Since this was a qualitative approach, we opted not to measure the coding frequency within the documents.

The primary objective of a qualitative study is not exactly the validity and reliability of data (Scandura and Williams, 2000) but providing honest interpretations and authentic information (Creswell, 2008). Therefore, this study has the limitation of being exploratory. The insights it brings into the theory of psychic distance must be further investigated.

3.1. Description of the cases

Six companies were chosen as case studies for the present work. They are among the biggest and most profitable Brazilian MNCs, and therefore, have a longer history of being multinationals. The cases are:

(1) Alpargatas is one of the largest manufacturers of sporting goods, footwear and textiles in Brazil. It is currently controlled by Grupo Camargo Correa, also a Brazilian company. Alpargatas is internationally renowned for its main product, the Havaianas brand of flip-flops. It has subsidiaries in the U.S., Spain (headquartered in Europe with people working in France, England and Italy), Chile and Argentina.

(2) A manufacturer of mini point-of-sale printers, Bematech was founded 16 years ago and now has subsidiaries in the United States, Germany, Argentina and Taiwan.

(3) Metalfrio is one of the world's largest manufacturers of plug-in commercial refrigeration equipment. Its portfolio of products is composed of hundreds of models of vertical and horizontal refrigerators and freezers, including dedicated models for cooling beer, soft drinks, ice cream and frozen foods as well as general refrigeration. Metalfrio currently operates plants in Brazil, Mexico, Turkey, and Russia, and a distribution center in the US.

(4) Politec is one of the largest IT service companies in Brazil, with 15 technology centers located strategically in areas of expertise. It has offices and subsidiaries in Germany, Belgium, China, the US, France, India, England, and Japan.

(5) Sabo is one of the largest manufacturers of auto parts, which it provides for assembly in various countries. It has 6 plants abroad (in Germany, Austria, Hungary, China, the US, and Argentina), in addition to research and development centers in Germany and Japan.

(6) Weg specializes in the manufacturing and sale of electric motors. It has 7 plants outside Brazil, in China, Portugal, Argentina (3 plants), and Mexico (2 plants), as well as 160 employees in representation offices in the US.

Table 2 compares these companies in terms of their number of employees in Brazil and at the foreign subsidiaries, as well as their number of years of internationalization.

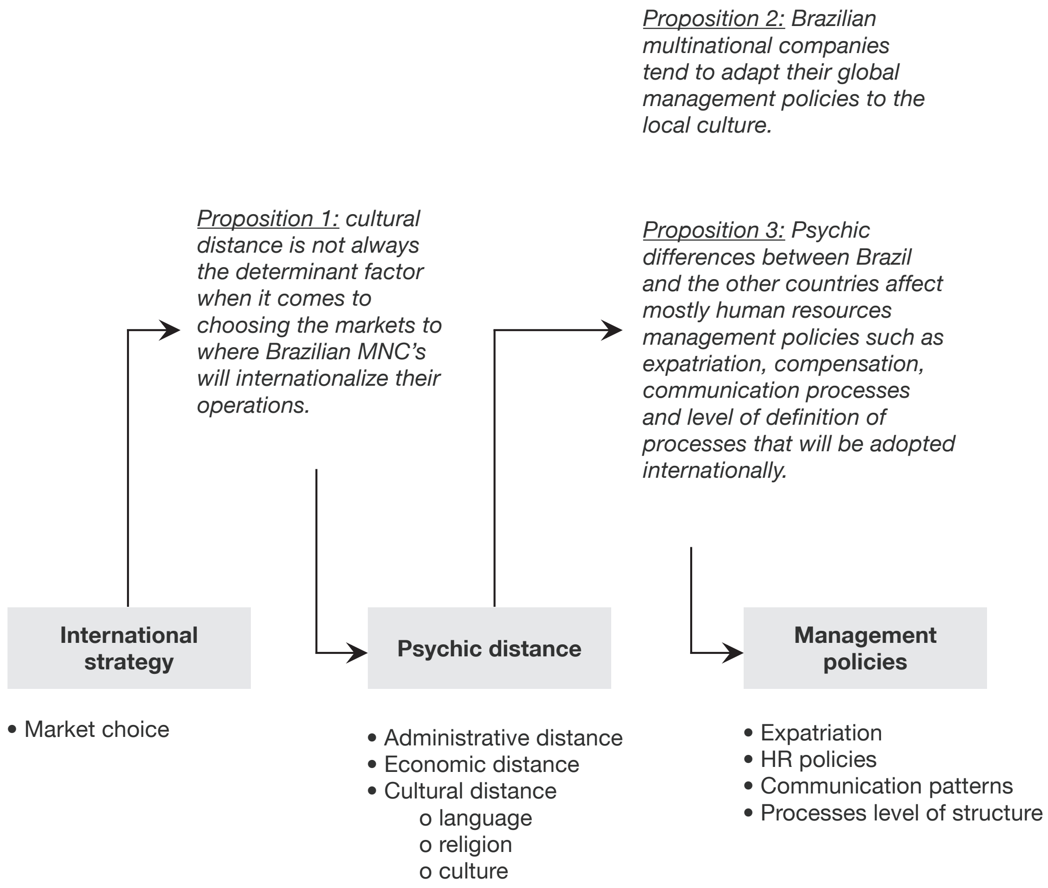
Table 2. Company profile

	Alpargatas	Bematech	Metalfrio	Politec	Sabó	Weg
Total number of employees	17,696	1,300	1,500	5,240	5,400	22,200
Employees in Brazil	13,013	1,000	1,100	5,200	3,500	20,000
Employees in their foreign subsidiaries	4,683	300	400	40	1,900	2,200
Time of internationalization in years	2	8	6	2	16	17

4. Results

The analysis of the case studies led to the development of a conceptual model. To build it, the software NVivo was used to search for words that mean any kind of relationship between the variables "international strategy", "psychic distance" and "management policies". Figure 1 shows the conceptual model derived from our qualitative study.

Figure 1. Conceptual model derived from the qualitative study



The model starts with international strategy influencing the level of psychic distance companies will face in their international operations in Brazilian companies. This opposes to the relationship that could be derived from the theory – where the psychic distance would instead influence the international strategy while being one of the reasons for preferring some countries over others. Then psychic distance is shown as an influence to the management policies of the multinational companies. Though theory shows that multinational companies tend to bring their policies to their foreign business units, in the cases, Brazilian MNCs showed the tendency to adapt their policies to the local units instead. We now describe how we created this model.

4.1. International Strategy

We found that these cases of Brazilian MNCs did not choose their markets according to the countries with the least psychic distance. Instead, economic and market reasons were the main rationale for market choice. In all six of the cases analyzed, the choice of countries in which to operate was based more on market opportunities than on cultural proximity, as seen in Table 3, which shows the interview and document outlines. One of the clearest examples of this approach was Sabó. As an auto parts manufacturer, Sabó depends on automakers for its activities. Its choice of markets in which to operate was based on countries in which automakers are headquartered. Weg was the only case that first established plants in less psychic distant countries, such as Portugal, Argentina and Mexico.

Table 3. Overview of market choice rationale

Case	Interview and document outlines
Alpargatas	Alpargatas was an Argentinean company with a subsidiary in Brazil. Years later, the Brazilian unit acquired the Argentinean plant. Therefore, internationalization to Argentina was part of the company's history and not an international business move. The next move was to Europe, where the market was more inclined to acquire their products.
Bematech	Bematech chose United States, Asia and Europe because of the technology learning and market opportunities.
Metalfrio	Metalfrio bought companies that were economic valuables in other countries.
Politec	Politec chose markets based on their technological advances.
Sabo	"The major automaker development spots are precisely Japan, Germany, and the US, which concentrate practically 80% of automakers".
Weg	Weg looked for countries where the plants could cost less and still acquire technology, such as China. Prior to China, it advanced to countries where it had more knowledge of the market: Portugal, Argentina and Mexico.

How far did these companies take psychic distance into account when setting up their foreign plants? The results were that psychic distance was taken into account, but did not limit activities abroad. Interviews showed that managers were concerned, because they were aware that they were expanding company activities into countries with staunch cultural differences. Nevertheless, companies preferred to tackle these differences later, rather than let any differences restrict international activities before these were even underway.

The most striking statement made during our interviews stressed the importance of prior preparedness for dealing with cultural differences. Prior knowledge of the country can help in preparing to deal with this aspect:

"From the Human Resources standpoint, we need solid planning, solid preparedness. We also need to prepare those people who will be working abroad. Our company was really hit hard on this front when setting up the China plant – they realized they had no one who spoke Mandarin, even though many employees spoke English. Now, they're at no risk of running into the same problem in the other plants." (Weg)

"The nature of the business may also facilitate international operations. When Politec expanded into Japan, it was able to keep software production activities in Brazil and, in its Japanese subsidiaries, take advantage of the local workforce for activities requiring greater familiarity with the country:" (Politec)

"Our company is a provider of offshore services, so countries that host subsidiaries have a very commercial type of activity, a real 'relationship with the client' sort of activity. They generate demand and work is carried out remotely in Brazil. Basically, they are business-generating cores" (Politec)

These interview outlines, as long as the analysis of the other documents showed that the Brazilian international process was someway compelled by the economic situation of the country after the 1990s and some companies felt the need to internationalize without having been prepared for that for long enough to analyzed psychic distance and prepare themselves to the cultural differences.

These finds lead to proposing:
Proposition 1: Cultural distance is not always the determinant factor when it comes to choosing the markets to where Brazilian MNC's will internationalize their operations.

4.2. Psychic distance and management policies

In the present study, the interview was structured according to the parts of the psychic distance in the work of Ghemawat (2001), which were: administrative distance (educational level and politics system); cultural distance (culture, language and religion); and economic distance.

Though we aimed at the cultural distance between Brazil and the countries where the cases have units, some information on the other dimensions of the cultural distance were cited by the interviewees as well. As they were always related to the culture of the company, we opted for including these interview outlines in the results section.

We aimed to understand how cultural distance influences the organizational policies and practices once the company has internationalized.

Results showed, first, that cultural distance does change the organizational policies of the companies once they change from national enterprises to multinationals with operations in psychic distant countries. The following interview outlines, extracted from some of the interviews, were chosen to illustrate this result:

"What's good for Brazil isn't good for other countries." (Alpargatas)

"(…) there is an attempt to standardize processes, even though local culture requires modifications." (Bematech)

"(…) globalization history in Brazil is very recent (…) and our company has grown too fast (…). It is challenging for us to deal with different cultures, and there is a growing need to become better at adapting the policies in the company to those cultures (…) in order to control financial issues, deal with different customers (…) and retain better employees worldwide." (Alpargatas)

As seen in the outlines above, the cultural distance has increasingly changing the policies of the companies in other countries. Research on developed countries show that they tended to adopt globalized policies in their foreign business units. The same thing seems to occur in Brazil, but the intensity is different. Some interviewees manifested the opinion that Brazil tends to adapt to the local culture instead of transferring the Brazilian policies.

"(…) our company sticks much closer to subsidiaries than do US multinationals that set up shop in Brazil. One of the features that makes this easier is the fact that managers have extensive international experience – some even have relatives in Spain – and this makes things much easier in terms of synergy and communication." (Metalfrio)

Second, the results showed that the most important cross-country factors affecting the MNCs policies, according to NVivo index of coverage, were: language differences; political and economic issues; differences in educational background and religion issues.

Language differences were among those most often mentioned by interviewees as a barrier to Brazilian business abroad. Political and economic issues came second in terms of relevance to the company's business dealings. Among these issues, a new aspect found in the course of our study was the amount of times differences in legislation were mentioned. Interviews showed that, although legal frameworks have no impact on strategic aspects of the business, they may complicate ability to operationalize strategy in the company's day-to-day operations.

"Another difficult aspect in terms of legislation is the fact that salaries are very high in Europe. In Denmark, for instance, all salaries are set in stone. A factory employee makes 15000, the employee's boss makes 20000, and the other boss makes 25000. There isn't much difference in terms of pay up and down the hierarchy, and salaries are very high. Here, a factory worker makes 1200 and the manager makes 20000." (Metalfrio)

Differences in educational background were also mentioned as guiding which strategies will be adopted by the company in each country, as coming to rely on the local workforce is inevitable:

"There are several differences among our subsidiaries when it comes to the shift between high creative workers versus high disciplined workers. In Hungary, for example, there is a high level of technical education, but very low creativity for our business. Comparing Brazil, USA and Argentina, Americans have a much stronger tendency towards innovation and entrepreneurship than Brazilians and Argentineans do." (Sabó)

Religious issues were represented more as a factor that affects minor daily workings of the company, such as feasts and holidays, or something that must be considered in terms of diversity by the organization's employees.

"One example is Mexico, which has a party at the end of the year, which is a feast for the patron saint of Mexico. They thought about doing it at the Christmas party, Santa Claus and all that, and you just can't do that over there." (Metalfrio)

Third, results suggested that cultural differences are not only perceived when expanding into distant countries, such as India and China, but also in Brazil's Latin American neighbors, which are often thought of as being culturally close. Not all of the cases had subsidiaries in Latin America or Portugal; but in those which did, the perception of cultural distance as a challenge for adapting the local policies was quite the same as in the other cases. Some probable explanation given by the interviewees is that even the closest country in terms of psychic distance can still have some cultural issues that will influence the day by day operations and the strategy, as seen in the outline below.

"Argentina and Brazil are very close, there is a very strong, intrinsic dispute (the soccer issue certainly comes first, but there is a series of other factors behind it), a very strong cultural change must be effected." (Alpargatas)

In the interviews, we perceived that Brazilians were described as being creative and flexible, which was denoted as both strength and weakness of the country's national culture. The outlines presented below explain better this perception of the interviewees.

"Brazilians are really creative, they have this way of saying "I'm gonna do this", but will not always do it with proper timing and accuracy... and Americans expect them to." (Alpargatas)

"In Brazil, you hire someone for a certain position and they know it will involve multitasking – at any time, you may require them to engage in some other activity, and you can count of them to do it without any issues; people actually feel motivated when asked to do something other than the job they were hired to do. In the US, it's different; if someone's contract says they will carry out certain functions, that's all they'll be doing, and you simply can't ask them to do anything else. In Asia, for instance, people will not leave the office if their bosses are still there. The head of the department over there is Brazilian, and he often works late, even because of time zone issues, so he has to work very long hours at the office to stay in touch with Brazil. While he is at the office, people just won't leave, so he has to push really hard for the other employees to go home. [The] cultural aspect is a critical factor for success – knowing how things work to avoid any attitudes that would be incorrect." (Bematech)

Those findings show that cases tended to show cultural differences among Brazil and other countries, which did not stop the multinationals from having subsidiaries in these countries, but influenced their adaptation of global management policies to the local culture, which was also suggested by other studies (Martinez-Lucio and Ruiz, 2010). That leads to the following proposition:
Proposition 2: Brazilian multinational companies tend to adapt their global management policies to the local culture.

4.3. Impacts of psychic distance on management policies

After analyzing how psychic distance influences management policies, we then analyzed which management policies are most influenced. To make this assumption, we calculated the percentage of coverage of each of the coded topics using NVivo. Results showed that psychic distance affected, mostly: expatriation and human resources processes; HR policies such as compensation, selection, trainee and training programs; communication patterns; and processes level of structure pattern.

First of all, cultural distance will naturally complicate the expatriation process, as seen in the outlines below.

"Expats have this mission of taking the corporate culture from headquarters and taking it overseas, and you just can't learn that in a year or two." (Weg)

"Why expatriate? Because you want to carry the culture of one place into another place –

you want to take knowledge from one place to another. In this case, knowledge in Europe, in the US... there's still very little. It is indeed worthwhile to send people from Brazil over there, taking our knowledge of Brazil with them." (Metalfrio)

Nonetheless, in the cases we studied, there was a concern with reducing the number of expatriate employees, so that companies could rely on a local workforce which understands the culture of their countries of origin.

"Regarding people management policies, the culture of each country mostly affects compensation. And it also affects workaday policies, such as employee selection." (Weg)

"For instance, benefit packages may differ between countries, because in one country, insurance will be valued more highly; in another country, it will be health benefits; in another country it will be a company car. This will be dictated by legislation and by the local market." (Bematech)

"In the US, during a job interview, you can't ask about marital status, or whether someone has children, because this is viewed as bigotry. Conversely, in Argentina, if you don't ask about the candidate's family, they'll think the company is cold-hearted." (Alpargatas)

"Selection takes on a strategic meaning when the company begins internationalization, because you have to look for people in the market in a very fast and very accurate manner. Selection stops being a very basic process, like it usually is in most companies, and starts requiring a proactive stance. And it's still a bottleneck, every time." (Sabó)

Finally, in the companies studied, trainee programs were viewed as useful opportunities for fostering intercultural interchange.

"In order to do this exchange, there have been some experiences with youth, using the AIESEC program, bringing newly minted graduates from countries of interest to the company, such as the US, Canada, India, Japan.

It's an initiative that has students spend some time at the company, to exchange culture, language, technical knowledge." (Politec)

"Therefore, as the main benefits of this project, we have a cultural exchange, a trade in terms of each country's style; the technology part as well, although nothing is new to the company on this front; and also a major gain in Business English (not general English for conversation purposes, but technical jargon), including English as spoken in India, in Canada." (Politec)

These cases also showed the need for establishing a more effective communication system to allow the exchange of information between business units.

"An effective communication system, in which everyone who works with you knows where you are, what are the opportunities for your employees to come and go… it's very interesting, because it helps reduce employee turnover." (Bematech)

Interviewees mentioned the need to define and structure business processes as a necessity in order to deal with cultural differences between countries.

"Organizational policies need to be very well proceduralized [sic], that is, they must be set into very clear processes in order to expand into another country…" (Metalfrio)

"Processes are very well defined in our company, which really reduces cultural issues we would face in other countries." (Sabó)

Findings showed that all those differences in the cultural distance have led the companies to adapt their policies, mostly their human resources practices. That leads us the following proposition:
Proposition 3: Psychic differences between Brazil and the other countries affect mostly human resources management policies such as expatriation, compensation, communication processes and level of definition of processes that will be adopted internationally.

5. CONCLUSIONS

Our study aimed to understand the relation between international strategy, cultural distance and the organizational policies and practices in multinational companies from developing countries.

Our findings first suggest that cultural distance is not always the determinant factor when it comes to choosing the markets to where Brazilian MNC's will internationalize their operations (proposition 1).

One could expect to see Brazilian MNCs establishing subsidiaries mostly in Latin America. On the contrary, they chose mostly countries with more market advantages and later dealt with the cultural differences.

Secondly, our results indicate that Brazilian multinational companies tend to adapt their global management policies to the local culture (proposition 2). In some cases, the cultural dimension was pointed as one of the most difficult challenges to the establishment of the subsidiary, since it was not part of the planning before the market expansion.

Third, findings showed that in regards to operational policies and practices, Psychic differences between Brazil and the other countries affect mostly human resources management policies such as expatriation, compensation, communication processes and level of definition of processes that will be adopted internationally (proposition 3). They had to be modified to reflect cultural characteristics of the employees of the foreign markets.

These results imply that multinational companies from emerging markets should consider cultural distance when planning their international strategies, mostly when revising their human resources policies. As a secondary contribution, the results also suggested that companies from emerging economies tend to adapt easily to other cultures because of their history of being colonized in the past. This is an issue that deservers deeper studies in the future.

As with every study, ours has limitations. Companies studied reflect the reality of Brazil and may have characteristics common to their country of origin (Shen, 2006). Thus, our study and model has to be replicated in other companies, either in Brazil or other emerging markets as a comparison.

For future studies, we suggest that these results are replicated in other countries and that the theoretical model is validated, continuing the development of this theory.

References

Barcellos, E.P.; Cyrino, A.B.; Oliveira-Júnior, M.M.; Fleury, M.T; (2010), "Does internationalization pay off? A study of the perceived benefits and financial performance of the international operations of Brazilian companies", Globalization, Competitiveness and Governability.

Beckerman, W.; (1956), «Distance and the pattern of intra-European trade», The Review of Economics and Statistics, Vol. 38, No. 1.

Benson, John; Zhu, Y.; (2002), "The emerging external labor market and the impact on enterprise's human resource development in China", Human Resource Development Quarterly, Vol. 13, pg. 449-446.

Carr, C.;Harris, S.; (2004), «The impact of diverse national values on strategic investment decisions in the context of globalization», International Journal of Cross Cultural Management, Vol. 4, No. 1.

Collings, D. G.; (2008), "Multinational corporations and industrial relations research: A road less travelled", International Journal of Management Reviews, Vol. 10, pg. 173-193.

Creswell, J.; (2008), «Research design: Qualitative, quantitative, and mixed methods approaches», Sage Publications.

Dow, D.; (2000), «A note on psychological distance and export market selection», Journal of International Marketing, Vol. 8, No. 1.

Dow, D.;Karunaratna, A.; (2006), «Developing a multidimensional instrument to measure psychic distance stimuli», Journal of International Business Studies, Vol. 37, No. 5.

Eisenhardt, K.M.;Graebner, M.E.; (2007), «Theory building from cases: opportunities and challenges.», Academy of Management Journal, Vol. 50, No. 1.

Ghemawat, P.; (2001), «Distance still matters», Harvard Business Review, Vol. 79, No. 8.

Gibson, C.;Zellmer-Bruhn, M.; (2001), «Metaphors and meaning: An intercultural analysis of the concept of teamwork», Administrative Science Quarterly, Vol. 46, No. 2.

Hemais, C.A.; (2004), «O desafio dos mercados externos: teoria e prática na internacionalização da firma», Rio de Janeiro, Editora Mauad.

Hofstede, G.;Neuijen, B.;Ohayv, D.D.;Sanders, G.; (1990), «Measuring Organizational Cultures: A Qualitative and Quantitative Study Across Twenty Cases «, Administrative Science Quarterly Vol. 35, No. 2.

Johanson, J.;Wiedersheim, P.; (1975), «The Internationalization of the Firm–Four Swedish Cases», Journal of Management Studies, Vol. 12, No. 3.

Martinez-Lucio, M; Rodriguez-Ruiz, Óscar; (2010), "Americanization as a global model for research in Human Resources", Universia Business Review, n.27.

O'grady, S.;Lane, H.; (1996), «The Psychic Distance Paradox», Journal of International Business Studies, Vol. 27, No. 2.

Scandura, T.;Williams, E.; (2000), «Research methodology in management: Current practices, trends, and implications for future research», Academy of Management Journal, Vol. 43, No.6.

Schein, E.H.; (1984), «Coming to a new awareness of organizational culture», Sloan Management Review, Vol. 25, No. 2.

Shen, J.; (2006), «Factors affecting international staffing in Chinese multinationals (MNEs)», The International Journal of Human Resource Management, Vol. 17, No. 2.

Strauss, A.L.;Corbin, J.; (1990), «Basics of qualitative research: Grounded theory procedures and techniques», Sage Newbury Park, CA.

Tanure, B.; Barcellos, E.P.; Fleury, M.T.L.; (2009), "Psychic distance and the challenges of expatriation from Brazil", The international journal of human resource management, Vol. 20, pg. 1039-1055.

GCG
GEORGETOWN UNIVERSITY universia

Does Internationalization Pay off? A Study of the Perceived Benefits and Financial Performance of the International Operations of Brazilian Companies

AREA: 2
TYPE: Application

¿Compensa la internacionalización? Un estudio sobre las ventajas percibidas y el rendimiento financiero de operaciones internacionales de empresas brasileñas

A internacionalização compensa? Um estudo dos benefícios percebidos e desempenho financeiro das operações internacionais das companhias brasileiras

AUTHORS

Erika Penido Barcellos[1]
Fundação Dom Cabral, Brazil
erikapbarcellos@yahoo.com.br

Álvaro Bruno Cyrino
Fundação Getúlio Vargas, Ebape-Escola Brasileira de Administração Pública e de Empresas, Brazil
alvaro.cyrino@fgv.br

Moacir de Miranda Oliveira Júnior
University of São Paulo, Brazil
mirandaoliveira@usp.br

Maria Tereza Leme Fleury
Fundação Getúlio Vargas - Escola de Administração de Empresas de São Paulo, Brazil
mtereza.fleury@fgv.br

1. Corresponding Author: Fundação Dom Cabral; Av. Princesa Diana, 760 - Alphaville Lagoa dos Ingleses; 34000-000 Nova Lima, MG; Brazil.

This paper examines the relationship between the financial performance of a company's international operations and the degree of its internationalization in a sample of 73 Brazilian companies. On one hand, the results revealed that companies with a higher performance of their international operations in relation to their domestic operations are less internationalized in revenues, assets, employees, geographic dispersion of markets and value chain activities than their more internationalized counterparts. On the other hand, the analyses showed that more internationalized companies have a greater perception of experiencing the following internationalization benefits: "ability to respond quickly and appropriately to international customers," "strengthening of the competitive position," "geographic diversification and less dependence on the domestic market," "effect of demonstration in the country of origin," and "greater stability in the financial and economic results".

En este documento se analiza la relación entre el rendimiento financiero de las operaciones de una empresa internacional y el grado de su internacionalización en una muestra de 73 empresas brasileñas. Por un lado, los resultados revelan que las empresas con mejor rendimiento en sus operaciones internacionales con respecto a sus operaciones interiores están menos internacionalizadas en cuanto a beneficios, activos, empleados, dispersión geográfica de los mercados y actividades de la cadena de valor que sus equivalentes más internacionalizadas. Por otro lado, los análisis han mostrado que las empresas más internacionalizadas tienen una mayor percepción de los beneficios que se suceden tras la internacionalización: "capacidad para responder rápida y adecuadamente a los clientes internacionales", "afianzar su posición competitiva", "diversificación geográfica y menor dependencia del mercado interior", "efecto de demostración en el país de origen" y "mayor estabilidad en los resultados económicos y financieros".

Esta comunicação examina a relação entre o desempenho financeiro das operações internacionais de uma companhia e o grau da sua internacionalização numa amostra de 73 companhias brasileiras. Por um lado, os resultados revelaram que as companhias com maior desempenho nas suas operações internacionais relativamente às suas operações domésticas são menos internacionalizadas nas receitas, activos, empregados, dispersão geográfica de mercados e actividades de cadeia de valor que as suas homólogas mais internacionalizadas. Por outro lado, as análises mostraram que as companhias mais internacionalizadas têm uma maior percepção de experimentarem os seguintes benefícios da internacionalização: «capacidade para responderem rápida e apropriadamente aos clientes internacionais», «fortalecimento da posição competitiva», «diversificação geográfica e menor dependência do mercado interno», «efeito de demonstração no país de origem» e «maior estabilidade nos resultados financeiros e económicos».

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.03	01.09.2010	30.10.2010

1. Introduction

Transformations in the world economy have led to the gradual unification of world markets for goods, services, labor and capital (Berger, 2005; Ohmae, 1995). Among these changes are the convergence of income per capita in the industrialized nations, the convergence of lifestyles and preferences of customers, the emergence of increasingly cheap and sophisticated communication systems, the establishment of global brands and channels, the continuous pressure for economies of scale, the acceleration of technological innovations, the reduction of trade barriers, the creation of trading blocs, the continuing rise in the level of world trade and the emergence of new competitors that have global aspirations (Yip, 2003).

These changes have driven the globalization of a growing number of industries. According to Fleury and Fleury (2009), "globalization is a process in which barriers to the flow between countries are being reduced." In the process of globalization, companies participate by investing in the internationalization of their activities while seeking to obtain benefits. Dunning (1996) identifies four basic economic motivations for companies to internationalize: (1) the search for new markets (market seeking), (2) the search for new sources of resources (resource seeking), (3) the emphasis on efficiency of global markets (efficiency seeking), and (4) the search for strategic assets (strategic asset seeking). However, there are also risks and costs inherent in the internationalization of companies, such as increases in the costs of coordination and governance and risks relating to the disadvantages of being a foreign company and being new to markets, in addition to political and economic risks to which companies that internationalize are subject.

As with other investment projects, companies expect adequate returns on investments from their international operations by attaining a positive balance between returns and costs/risks. Companies usually take into account several factors when examining the costs/risks and returns of internationalization.

In academic terms, this analysis has focused on assessing the existence of a positive relationship between the variables of "degree of internationalization" and "performance" of companies. Contractor, Kundu and Hsu (2003) point out that the foundation for studies of international business derives from the premise that the increase in the degree of internationalization, or the degree of international diversification (Hitt, Hoskisson and Kim, 1997) or multinationality (Grant, 1987; Gomes and Ramaswamy, 1999) - is beneficial to the performance of companies.

However, the empirical validation of that premise has been controversial, not only because of difficulties related to the criteria used to measure the performance and the degree of internationalization, but also because of the different types of industries and nationalities in the samples of individual companies.

According to Li (2007), most of the studies about the DOI-performance relationship concern relatively large manufacturing companies from the US, United Kingdom, Japan and Germany. There is a restricted number of studies about Latin American companies with this objective. Cuervo-Cazurra (2010) affirms that while knowledge about the multinatio-

Key words
Internationalization, performance, Brazilian multinationals

Palabras clave
internacionalización, rendimiento, multinacionales brasileñas

Palavras-chave
internacionalização, desempenho, multinacionais brasileiras

JEL Codes
F23; M16

nalization process of the "multilatinas" has been developed (Cyrino, Barcellos and Tanure, 2010; Del Sol, 2010; Fleury, Fleury and Reis, 2010; Kosacoff and Ramos, 2010; Muritiba *et al.*, 2010; Ramsey *et al.*, 2010), the implications of this process on the companies' results are still unknown.

In addition, there are few studies that evaluate the specific financial performance of international operations of the companies. Several studies assess the financial performance of international subsidiaries of companies, but without an analysis of the financial performance of international operations in an aggregate way. We were unable to identify any study of Brazilian companies that used this approach. This could be related to the difficulty of obtaining reliable data and a preference to analyzing the performance of the company as a whole.

Given this context, this study aims to verify the existence of a relationship between the financial performance of international operations of Brazilian companies and their degree of internationalization. The relationship between the degree of internationalization and Brazilian companies' perception of the benefits of international expansion will also be analyzed.

This paper is organized as follows: the second part includes the theoretical foundation of the research, the third part explains the methodology, the fourth part includes the presentation and discussion of results and the fifth part gives some final thoughts about the study.

2. Theoretical Foundations

The theoretical foundations of this study involve an understanding of the benefits and costs of the internationalization process, as the balance of benefits over costs will determine the financial performance of companies in their internationalization projects.

The literature on the concept of degree of internationalization will also be addressed in order to ground the choice of indicators of the degree of internationalization of companies. We will also review the literature on the indicators used to measure the performance of companies and their international operations and empirical studies already conducted that address the relationship between degree of internationalization and performance of companies.

2.1. Benefits and costs of the internationalization process

The IB literature has identified several benefits and cost drivers related to the internationalization process. Some of the benefits most commonly associated with internationalization that were identified in the literature are: (1) The economies of scale and scope resulting from a larger and more diversified geographical presence, leading to the dilution of fixed costs, such as administrative and research and development (R & D), among operations in various countries (Contractor *et al.,* 2003; Kobrin, 1991; Tallman and Li, 1996). (2) Greater ability to respond to international customers, as a result of a greater physical proximity, which favors logistical efficiency, and a better understanding of foreign markets and local cultures, which promotes an understanding of the needs of foreign customers (Cyrino and Barcellos, 2006). (3) Higher learning or international experience effects (Cyrino and Barcellos, 2006a; Kobrin, 1991). (4) Access to cheaper or scarce resources in foreign countries, such as labor, technology, or specific competencies in a particular country (Cyrino and Barcellos, 2006; Doz, Santos and Williamson, 2001; Jung, 1991; Porter, 1990). (5) Greater capacity for global monitoring of competitors, markets and other opportunities for profit (Contractor *et al.*, 2003). (6) Improved ability for cross-subsidization and price discrimination and the potential for arbitrage with an increase in the geographic scope of the operation. (7) Benefits of reputation as a result of the demonstration effect that the company achieves in its home markets. This often occurs in emerging countries, where consumers are greatly influenced by imported products and foreign brands. In such cases, internationalized companies are most valued by their customers in their home countries (Cyrino and Barcellos, 2006).

In regards to the expense and risk of internationalization, the IB literature has identified the following costs: (1) An increase in the overall costs of coordination and governance, resulting from the growing complexity and diversity of international operations, which imposes a burden on existing resources - displacement of expatriate professionals, management attention - and the requirement for new specialized resources - in the form of structures and control processes (Cyrino and Barcellos, 2006, Galbraith and Kazanjian, 1986; Grant, 1987). (2) The cost of being a foreign company (liability of foreigness), which includes the lack of knowledge and the difficulty of dealing with market and cultural contexts that are very different from the country of origin (Zaheer, 1995). According to Ghemawat (2003), one of the most important obstacles to international expansion is the distance between the country of origin and the country of destination, measured not only in the physical and geographical dimensions, but also in terms of administrative, cultural and economic differences. Cyrino and Barcellos (2006) point out that this cost, often referred to as cost of international learning, is very important at the beginning of the international expansion of the company, and decreases in importance as the latter learns to operate in foreign markets. (3) The liability of newness, which includes the costs of purchasing and installing facilities, as well as the costs of establishing internal management systems and external business networks. (Lu and Beamish, 2004; Stinchcombe, 1965).

2.2. The degree of internationalization (DOI) of companies

Measuring the DOI of companies has become a widely discussed and controversial topic in the literature of international business (Ramaswamy *et al.*, 1996; Sullivan, 1994, 1996).

Operationally, the DOI has been measured in several ways, usually taking into account the behavioral theories of the internationalization of companies, which assume an internationalization process with a gradual increase in the commitment of companies to international markets, as they gain experience in operating abroad. There is not, however, a consensus measure for assessing the DOI.

The criteria and metrics adopted are based on indicators that can be classified into three types: (1) structural, (2) performance and (3) attitudinal (Dorrenbacher, 2000; Sullivan, 1994). The characteristics and metrics suggested for each of the three groups of indicators are described below:

Structural Indicators. Structural indicators seek to provide a picture of the international involvement of a company at a given time. Several of these indicators are related to external activities, such as the number of countries where the company operates, the number or proportion of subsidiaries abroad, the extent or proportion of involvement in non-equity ventures abroad (e.g., strategic alliances, franchising, etc.), the value or proportion of international assets, the amount or proportion of value-added abroad and the number or proportion of employees abroad (Dorrenbacher, 2000).

Another group of such structural indicators describes the internationalization of the governance structure of the company by such indicators as the number of stock markets in which a company is listed, the volume/proportion of shares held by foreigners, and the number or proportion of foreigners on the Board of Directors (Dorrenbacher, 2000).

Performance Indicators. Dorrenbacher (2000) describes the performance indicators as those that measure “how much the success or failure of a company’s activity during a given period (usually one year) is related to its presence in foreign countries.” According to the author, the two main performance indicators used are sales (to external markets) and operating profit (generated by external subsidiaries).

Attitudinal Indicators. The third group of indicators, according to Dorrenbacher (2000), seek to identify how the multinationals perceive foreign countries and treat their foreign subsidiaries. The purpose of these indicators is to measure the ways by which decisions are made in a multinational company, and, consequently, how executives think when doing business around the world. Despite a general understanding of the importance of these indicators in measuring the degree of internationalization of companies, there are doubts about the likelihood of being able to measure attitudinal aspects with the statistical confidence required. The IB literature has identified several attitudinal indicators that cover different variables and use different measurement scales.

Perlmutter (1969) developed a qualitative indicator that distinguishes four specific orientations of the board of directors of the headquarters in relation to foreign subsidiaries: ethnocentric (orientation to the country of origin), polycentric (orientation to the destination country), regiocentric (regionally-oriented) and geocentric (globally-oriented). According to Perlmutter and Heenan (1979), the degree of internationalization of a company evolves from the ethnocentric orientation to the polycentric, and then from regiocentric to geocentric. The two researchers proposed an aggregate indicator composed of multiple scales for analysis of the international orientation of companies.

An attitudinal indicator that has a greater capacity for statistical measurement was developed by Sullivan (1994). According to the latter, the international orientation of a company increases with the international experience of senior executives and can be measured by the cumulative number of years working abroad divided by the total number of years of work experience of the senior executives.

Indicators of Geographical Intensity and Extensiveness. The structural, performance and attitudinal indicators described above measure the intensity and geographical extensiveness of the internationalization of companies. The intensity indicators seek to assess the degree to which the activities are internationalized in comparison to the activities of the country of origin (or total activities). This is the case with the performance and attitudinal indicators and most of the structural indicators that measure the level of external projection of a certain international dimension, regardless of the number of countries in which the company operates.

According to Ietto-Gillies (2001), the geographical extent of a company's international activities, in addition to the intensity of its international activities, should be considered when analyzing the company's DOI. Certain structural indicators are usually used to measure the geographic scope of the internationalization process, such as the number of countries in which a company operates, the degree of spatial concentration of the company's activities, and the degree of dispersion of the company's activities throughout specific areas and regions (Ietto-Gillies, 2001).

For example, Schmidt (1981) uses the Herfindahl index (concentration index) to evaluate companies' geographical distribution of its operations on a scale that ranges from completely homogeneous distribution to completely heterogeneous distribution of external activities in different countries. A second way to assess the geographic dispersion of corporate internationalization is to consider the number of countries in which a company is present. Ietto-Gillies (1998) developed the so-called "network spread index," which is calculated as the number of foreign countries in which the company has subsidiaries divided by the number of all countries receiving foreign direct investment (FDI) minus one (the company's country of origin). However, based on the premise that important differences between countries affect the behavior of companies in internationalization, Kutschker (1994) proposed that weights be assigned to foreign countries according to their cultural and geographical distances from their countries of origin. Similarly, Sullivan (1994) introduced an indicator called "psychic dispersion." He divided the world into ten zones with different cognitive maps related to management principles. Sullivan's psychic dispersion is calculated as the number of zones in which the company is present divided by 10 (the number of possible zones).

2.3. Performance Measures

An important question in the field of international business is why some companies outperform others in international endeavors. Therefore, performance is a dependent variable of great interest to researchers in this field and should be given sufficient attention. The choice of an appropriate metric of performance in the context of international business, according to Hult *et al.* (2008), is particularly complex, due to differences in accounting standards between countries, the nature of the company's boundaries and the geographical scope of the operations.

Carneiro (2007) points out that "organizational performance is a complex and multifaceted phenomenon that is far more than a simplistic concept." According to Venkatraman and Ramanujam (1986), limitations of time, resources or availability of data, or the specificity of goals and disciplinary guidelines of research, cause each author to decide to emphasize either one or several perspectives under which the phenomenon of performance may be understood.

Hult *et al.* (2008) conducted an analysis of 96 articles on performance measurement in studies in the field of international business. Each item was categorized by type of data source (primary or secondary), type of measure (financial, operational and overall effectiveness) and level of analysis (company, business strategic unit and inter-organizational unit). Included in the category of financial performance were measurements such as the overall profitability (return on investment, return on sales, return on assets, return on equity, profit margin, earnings per share, stock price, sales growth, increase in external sales and Tobin's Q). The operational performance refers to non-financial dimensions that can contribute to improved financial performance, such as market share, efficiency, introduction of new products, innovation and quality of products/services, retention and employee satisfaction. The overall effectiveness measures, on the other hand, reflect a broader concept of performance and include reputation, survival, perceived overall performance, goal achievement and overall performance in relation to those of competitors.

The results of Hult *et al.* (2008) show that most of the analyzed articles focus on the level of analysis of the company and use financial measures of performance. Few studies measure performance in a way that captures the multifaceted nature of the construct.

Table 1 below indicates the measures used more often by level of analysis and type of measure. The measures of financial performance commonly used, regardless of the level of analysis, are based on sales.

Table 1. Frequently used performance measures

	Financial performance	Operational performance	Overall effectiveness performance
Firm	Sales based: 44%	Market share: 47%	Reputation: 30%
	Return on assets: 40%		
Strategy business unit	Sales based: 68%	Market share: 46%	Performance relative to competitors: 50%
	Return on investment: 47%		Perceived overall peformance: 33%
Inter-organization unit	Sales based: 62%	Productivity: 44%	Perceived overall peformance: 71%
	Profitability: 31%	Market share: 33%	
		Product/service quality: 33%	
Total	Sales based: 52%	Market share: 44%	
	Return on assets: 29%	Productivity: 20%	Perceived overall peformance: 47%
	Profitability: 26%		Performance relative to competitors: 20%

a "Sales based" includes sales volume, foreign sales/total sales, sales growth, and growth in foreign sales.

Source: Hult et al., 2008

As Table 1 suggests, there is no universally accepted measure to gauge the performance of companies in international contexts. Most of the empirical studies use performance indicators for the company as a whole (e.g., return on equity [ROE], return on investment [ROI], return on sales [ROS], market value) due to the difficulty of obtaining specific data on the performance of international operations and seek inclusion in the analysis of synergistic benefits of internationalization, such as learning, arbitration and contribution to the efficiency of the company as a whole.

Another study, by Glaum and Oesterle (2007), confirm that the operationalization of the performance variable has been problematic. The authors concur that many researchers have made use of accounting data (such as ROA, ROE and ROS) in empirical studies of the internationalization-performance relationship, although accounting numbers have serious drawbacks for the measurement of firm performance. The argument in favor of using this type of data is related to its easier availability. According to Whittington (1979), accounting data may be used to estimate the “true economic rate of return” of firms if the accounting return is correlated positively to the economic return and differences between the two rates are uncorrelated with the explanatory variable. Glaum (1996 apud Glaum and Oesterle, 2007), however, support the idea that one might expect the first condition to hold, especially if data for longer periods is used, but that it is not clear, a priori, whether the second condition is met, especially in an international context.

Another criticism of the use of accounting data to measure performance of firms was made by Li (2007), who suggests that cost-efficiency measures may be better yardsticks for firm performance, because they contain less ‘noise’, i.e., unexplainable variance, than conventional financial indicators. According to the author, financial indicators can be affected more substantially by accounting practice, financial leverage, tax regimes or investors’ expectations.

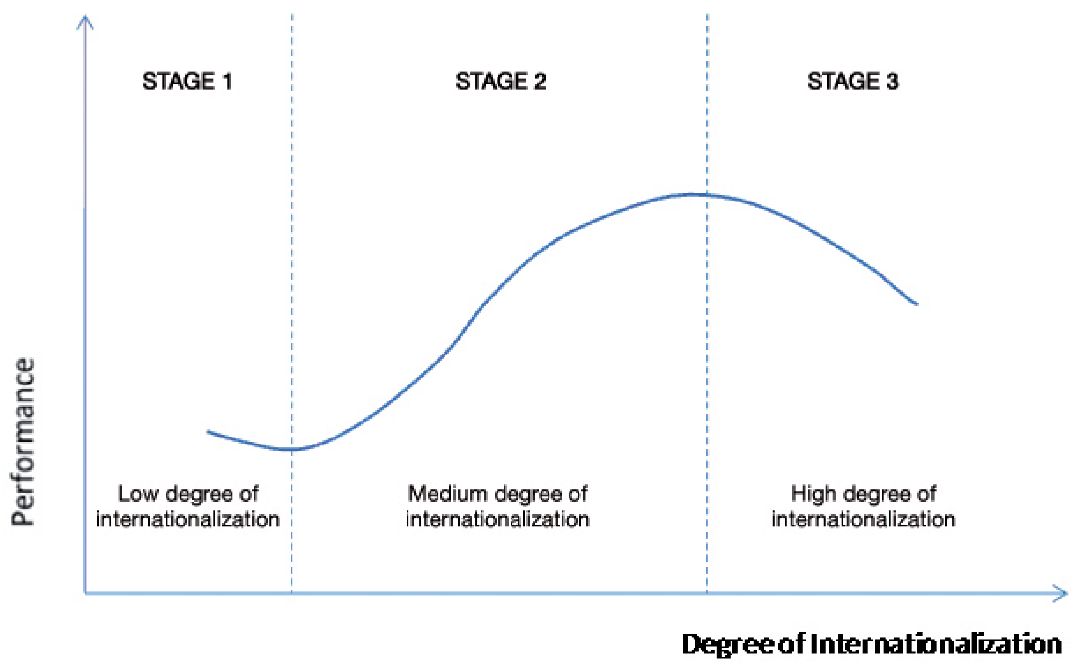
2.4. Empirical studies of the degree of internationalization and performance

Contractor et al. (2003) point out that, while some researchers have found a positive relationship between the degree of internationalization and corporate performance (e.g.: Errunza and Senbet, 1981; Grant, 1987; Grant *et al*., 1988; Kim and Lyn, 1987; Jung, 1991; Han *et al.*, 1998; Vernon, 1971), others have found a negative relationship (e.g., Brewer, 1981; Siddharthan and Lall, 1982; Michel and Shaked, 1986; Collins, 1990). A third group of empirical studies did not find any significant relationship between the two constructs (e.g., Buckley *et al.* (1977, 1984); Kumar, 1984; Morck and Yeung, 1991).

Others (Daniels and Bracker, 1989; Geringer *et al.*, 1989; Sullivan, 1994; Hitt *et al.*, 1994, Ramaswamy, 1995; Al-Obaidan and Scully, 1995), Gomes and Ramaswamy, 1999) found a curvilinear relationship in a “U” shape, which suggests an initial negative effect of internationalization on the performance before positive returns have been achieved from internationalization, or a curvilinear relationship in the shape of an inverted “U,” which suggests an optimal level of degree of internationalization above which internationalization is detrimental to performance.

Considering these different results, Contractor et al. (2003) proposed that the performance/degree of internationalization function may have an "S" shape, which shows positive and negative linear relationships in a "U" or inverted "U" shape, depending on the level of internationalization (Figure 1).

Figure 1. Performance/degree of internationalization function in three stages



Source: Contractor et al. (2003)

While examining representative empirical studies of the internationalization-performance relationship, Li (2007) observed a sampling bias in firm size, industry composition and country of origin. According to the author, the majority of the studies have investigated relatively large firms across manufacturing industries from the US, the UK, Japan and Germany. With few exceptions (Lu and Beamish, 2001; Qian, 2002; Zahra *et al.*, 2000), there is little research on the internationalization-performance relationship of small and medium-sized enterprises (SMEs). Li (2007) also observed that there are few single-industry studies and argues that only by examining the I–P relationship within an industry would one be able to demonstrate more clearly the antecedents and consequences of internationalization. However, this is necessary in order to separate the impact of multinationality on performance from other possible spurious effect.

The number of studies of Brazilian companies that focused on the relationship between the degree of internationalization of large internationalized Brazilian companies and their performance is very small. Obtaining reliable data from Brazilian companies, even if they are listed, is very difficult. Moreover, the limited number of Brazilian companies that have international operations disfavors the statistical validation of the results.

Bezerra (2005) conducted a study that sought to verify the existence of a positive relationship between the degree of internationalization and performance of Brazilian companies. He did not use a composite index to assess the degree of internationalization. Examining data from a sample of 52 companies, Bezerra (2005) analyzed the positive relationship between five variables related to the degree of internationalization and four variables selected for the assessment of the performance of companies. Three of the 36 correlations analyzed were significant and positive.

Another study, by Fleury *et al*. (2007), related the degree of internationalization (measured as "export/total sales) and the performance (measured as" EBITDA/total sales) of Brazilian non-exporting, exporting and multinational companies. The results showed that there is a positive relationship between internationalization and performance up to a certain point, at which the company becomes a multinational company. According to the study, results increase from the level of 15% of exports up to 100%, and precisely when the companies start to engage in foreign direct investment (FDI), an inflexion point appears. The study reinforces the view that the transition process between export and FDI is a major challenge for Brazilian companies.

2.5. Research hypotheses

Based on this discussion, we present the following hypotheses:
Hypothesis 1: The most internationalized companies (in one or more dimensions of internationalization) perceive that they have obtained greater benefits as a result of internationalization.
Hypothesis 2: The most internationalized companies experience better performance of their international operations in relation to domestic operations.

Hypotheses 1 and 2 are consistent with the paradigm called Eclectic Paradigm of International Production (Dunning, 1993), which explains the movement of companies into foreign markets by foreign direct investment to obtain advantages (location, internalization, and ownership advantages). In this practice, the company decides if it should export, form partnerships abroad, invest in factories, develop training centers or take other action abroad in accordance with its desire to achieve greater economic profit. Based on this theory, it is expected that companies that are more internationalized achieve greater benefits from internationalization and deliver better financial performances.

3. Research Design

The issues addressed in this study are based on survey research that was conducted in 73 companies that were selected from the 1,000 largest Brazilian companies - controlled by native investors and corporations in Brazil - representing different sectors in the year 2006.

The population of 1,000 companies does not include Brazilian subsidiaries of multinational companies, since the possible internationalization of these companies tends to be associated with decisions taken at their headquarters in the country of origin. The sample of 73 companies contained both private and state-owned corporations.

The questionnaire sought to assess the degree of current internationalization of the companies and the benefits of internationalization that were perceived by corporate executives, as well as the performance of the international operations of the companies in relation to domestic operations. The percentages of gross revenues, employees, assets and EBITDA abroad were classified according to the following options: 0-2%, 2-5%, 5-10%, 10-20%, 20-30%, 30-40%, 40-50%, and more than 50%.

3.1. Variables and Measures

The operational definitions of variables in this study were based on literature on the subject and took into account the availability of data. Table 2 summarizes the measures used.

The financial performance of the international operations of companies was evaluated in comparison to the financial performance of their domestic operations with the following: “EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) of international operations divided by the company’s total EBITDA” expressed as a percentage /of “revenues from international operations divided by the company’s total revenues”. Due to the fact that the data were collected at intervals, we used the mid-point of each interval to calculate the fraction above.

EBITDA is a measure of operating performance that considers operating revenues minus costs and operating expenses, except depreciation and amortization. It indicates the cash generating ability of the operations analyzed. Since EBITDA disregards the effect of interest, this measure enables one to compare companies that have different capital structures. As shown by Brigham, Gapenski and Ehrhardt (2001), two companies that have different debt levels and, therefore, different financial expenditures may have identical operational performances, but different net incomes. The company that has greater financial expenditures has a lower net income. Thus, net income does not always reflect the efficiency of a company’s operations or the effectiveness of its management. Consequently, we preferred to use EBITDA in this study to measure financial performance.

The ratio of EBITDA/Revenues gives the company’s operating margin. It reflects the company’s capability to sustain a product-market position or to offer a low cost service or a premium price service. It represents the efficiency of operating expenditures in relation to sales, since the smaller the operating expenditures, the greater is the ratio.

The indicators of the degree of internationalization used include structural, attitudinal, of governance and of extension indicators of international activities, as listed in Table 2.

The companies' perception of the benefits obtained from internationalization was analyzed by the degree of agreement on a scale of 1-6, where 1 means I strongly disagree and 6 means I strongly agree. (See in Table 2 the list of benefits analyzed)

Table 2. Variables and measures

Variable	Measures
Indicators of the degree of internationalization	• Percentage of revenues abroad: revenues from international operations (including exports of the headquarters) / total revenues of the company. • Percentage of assets abroad: assets abroad/total assets of the company. • Percentage of employees abroad: employees abroad/total employees of the company. • Percentage of directors who have foreign experience: number of directors who have foreign experience (over 2 years of professional experience in foreign countries)/total number of directors in the company. • Percentage of shares with voting rights held by foreigners: number of shares held by foreigners/total number of shares of the company. • Number of activities in the value chain performed abroad (considering 6 types of activities): 1- exports, 2- sales and after-sales activities, 3- marketing, 4- complete or incomplete manufacture, 5- procurement (purchasing and investor relations), 6- research and development). • Geographic dispersion of markets: number of global regions where the company operates, considering the regions: 1- North America, 2- South and Central America (except Brazil), 3- European Union, 4 -Eastern Europe and Russia, 5- Middle East, 6- Asia, 7- Africa and Oceania. • Period of international experience in years. • Number of stock exchanges where the company´s shares are listed.
Benefits of Internationalization	(Variables analyzed through the degree of agreement in relation to the obtainment of benefits described below, on a scale of 1-6, where 1= Strongly Disagree and 6 = Strongly Agree). • Ability to respond quickly and appropriately to international customers. • Strengthening of the competitive position. • Geographic diversification and less dependence on the domestic market. • Effect of demonstration in the country of origin. • Gains from economies of scale. • Gains from economies of scope. • Access to resources at lower costs. • Arbitrage gains. • Greater stability in the economic and financial results. • Gains in terms of expertise and new technologies. • Accumulation of knowledge, development and/or acquisition of new business skills. • Leverage of business skills to new products and segments. • Market valuation and/or improvement of the economic and financial performance of the company. • Development of people with intercultural skills.

4. Results

Descriptive statistics were obtained that show the distribution, variability and central tendency of variables relevant to the study. (Table 3)

Table 3. Descriptive statistics

Variable	No	Mean	Median	Std. Deviation
Percentage of revenues abroad	69	0.23	0.15	0.22
Percentage of assets abroad	59	0.11	0.04	0.16
Percentage of employees abroad	63	0.1	0.04	0.14
Geographic dispersion of markets	70	3.9	4	1.91
Number of activities in the value chain performed abroad	70	3	3	1.79
Percentage of shares with voting rights held by foreigners	39	0.17	0	0.21
Percentage of directors who have foreign experience	63	0.23	0.17	0.25
Number of stock exchanges where the company's shares are listed	73	0.45	0	0.82
Period of international experience in years	69	21.96	25	14.45
Percentage of EBITDA abroad/percentage or revenues abroad	55	0.84	0.74	0.74

Source: The authors

For each benefit of internationalization, a value between 1 and 6 was assigned to reflect the perceptions of the company directors with 1meaning "I Strongly Disagree" and 6 meaning "I Strongly Agree." Figure 2 shows the means of the values obtained for each benefit and their standard deviations.

Figure 2. Perception of the benefits achieved with internationalization

Benefit	Mean	Standard Deviation
Strenghtening of competitive position	4.97	0.97
Ability to respond more quickly and appropiately to international customers	4.73	1.05
Accumulation of knowledge, development and/or acquisition of new business skills	4.68	1.25
Geographic diversification and less dependence on the domestic market	4.57	1.38
Market valuation and/or improvement of economic and financial performance of the company	4.52	1.13
Development of people with intercultural skills	4.52	1.39
Effect of demonstration in the country of origin	4.42	1.41
Leverage of business skills to new productos and segments	4.34	1.41
Gains in terms of expertise and new technologies	4.27	1.29
Gains from economy of scale	4.26	1.56
Greater stability in the economic and financial results	3.91	1.44
Access to resources at lower costs	3.63	1.61
Gains from economies of scope	3.11	1.69
Arbitrage gains	3.08	1.58

Note: Variables analyzed through the degree of agreement in relation to the obtainment of benefits, on a scale of 1-6, where 1= Strongly Disagree and 6 = Strongly Agree.

Source: The authors

The mean of the financial performance of international operations in relation to domestic (percentage of EBITDA abroad /percentage of gross revenues abroad) of the sample is 0.84 with a standard deviation of 0.74.

4.1. Cluster analysis

In order to identify characteristics that differentiate groups of companies in DOI, cluster analyses were performed. First, a hierarchical cluster analysis using Ward´s method indicated the possible existence of two or three clusters. Consequently, K-means cluster analyses were performed for two and three clusters. After evaluating the solutions, we opted for the one which differentiates two clusters, given its greater ease of interpretation.

The selection of DOI indicators used in this analysis was based on data availability, since a higher number of companies answered the questions that asked for these indicators. Those were standardized for the cluster analyses. Other indicators of the DOI, such as "percentage of directors with international experience," "period of international experience," "percentage of voting shares owned by foreigners" and "listings on stock exchanges" were analyzed separately.

The characteristics of the two groups identified through the K-means cluster analysis appear in Table 4.

Table 4. Indicators of the degree of internationalization (Means for each cluster)

Variable	Cluster	
	1	2
Percentage of revenues abroad	0.19	0.61
Percentage of assets abroad	0.07	0.44
Percentage of employees abroad	0.06	0.40
Geographical dispersion of markets	3.87	4.63
Number of activities in the value chain performed abroad	2.89	3.75
Number of companies	8	45

Source: The authors

The results allow us to classify the first cluster as the less internationalized one, and the second cluster as the more internationalized one for the dimensions of internationalization that are being considered.

4.2. Non-parametric comparison tests of means and medians

Non-parametric comparison tests of means and medians were conducted to assess whether the companies from different clusters (cluster 1 – less internationalized; cluster 2 – more internationalized) had different "performances of international operations in relation to domestic operations". Non-parametric tests were also conducted to verify whether the more internationalized cluster had stronger perceptions of having obtained benefits from internationalization.

The results support hypothesis 1, showing that the cluster of more internationalized companies (in percentage of revenues abroad, percentage of assets abroad, percentage of employees abroad, geographical dispersion of markets, and value chain activities performed abroad) have a stronger perception of having received many of the benefits provided by internationalization.

The Kruskal Wallis comparison test of means indicated that the perception of the benefits of "strengthening of the competitive position" and "geographic diversification and less dependence on the domestic market" achieved through internationalization is more pronounced for the cluster that has a higher degree of internationalization (DOI). The median tests indicated a significance difference at a 95% confidence level between the medians of the first and the second clusters in perception of the following internationalization benefits: "ability to respond quickly and appropriately to international customers," "strengthening of the competitive position," "geographic diversification and less dependence on the domestic market," "effect of demonstration in the country of origin," and "greater stability in the financial and economic results". (Table 5)

Table 5. Perception of internationalization benefits by clusters

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Ability to respond more quickly and appropiately to international customers					0.0649	**0.0099**
Cluster 1 - Less internationalized	4.65	5	1.07	45		
Cluster 2 - More internationalized	5.43	6	0.98	8		
Strenghtening of the competitive position					**0.0077**	**0.0171**
Cluster 1 - Less internationalized	4.91	5	0.95	45		
Cluster 2 - More internationalized	5.86	6	0.38	8		
Geographical diversification and less dependence on the domestic market					**0.0122**	**0.0115**
Cluster 1 - Less internationalized	4.58	5	1.37	45		
Cluster 2 - More internationalized	5.86	6	0.38	8		
Effect of demonstration in the country of origin					0.0754	**0.0058**
Cluster 1 - Less internationalized	4.28	4	1.35	45		
Cluster 2 - More internationalized	5.14	6	1.57	8		
Greater stability in the economic and financial results					0.0991	**0.019**
Cluster 1 - Less internationalized	3.88	4	1.52	45		
Cluster 2 - More internationalized	4.86	5	0.9	8		

Source: The authors

Companies with a percentage of directors with international experience that is equal to or greater than 35% had a stronger perception of achieving the following benefits at a 95% confidence level: "strengthening of the competitive position," "arbitrage gains," "greater stability in economic and financial results," and "market value and/or improvement of the financial and economic performance of the company". (Table 6)

Table 6. Perception of internationalization benefits versus the percentage of directors who have foreign experience

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Strenghtening of the competitive position					**0.0484**	0.1608
Percentage of directors who have foreign experience equal to or higher than 35%	4.8	5	1.07	44		
Percentage of directors who have foreign experience lower than 35%	5.43	5.5	0.65	14		
Arbitrage gains					**0.0207**	**0.0283**
Percentage of directors who have foreign experience equal to or higher than 35%	2.81	3	1.65	43		
Percentage of directors who have foreign experience lower than 35%	3.92	4	1.19	13		
Greater stability in the economic and financial results					**0.0117**	**0.0121**
Percentage of directors who have foreign experience equal to or higher than 35%	3.51	4	1.46	45		
Percentage of directors who have foreign experience lower than 35%	4.62	5	0.96	13		
Market valuation and/or improvement of the economic and financial performance					**0.0184**	**0.0146**
Percentage of directors who have foreign experience equal to or higher than 35%	4.22	4	1.13	46		
Percentage of directors who have foreign experience lower than 35%	5	5	0.88	14		

Source: The authors

Regarding the governance dimension of internalization, the companies that were listed in at least two stock exchanges had a greater perception of having achieved the benefit of “ability to respond quickly and appropriately to international customers”. (Table 7)

Table 7. Perception of internationalization benefits versus listing on stock exchanges

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Strenghtening of the competitive position					**0.0053**	**0.0049**
Listed in more than 1 stock exchange	5.71	6	0.49	60		
Listed in less than 2 stock exchanges	4.62	5	1.04	7		

Source: The authors

At a 90% confidence level, the international experience of the company, measured as the period of international operation (in years) proved to be relevant to the perception of the benefits of "geographic diversification and less dependence on the domestic market" and "effect of the demonstration in the country of origin." This perception is significantly higher for companies that have operated for at least 13 years abroad, according to the Kruskal Wallis text (Table 8).

Table 8. Perception of internationalization benefits versus period of international experience

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Geographical diversification and less dependence on the domestic market					**0.0555**	0.2746
It has been operating for at less 13 years abroad	4.86	5	1.17	43		
It has been operating for less than 13 years abroad	4.09	4	1.59	23		
Effect of demonstration in the country of origin					**0.07**	0.3627
It has been operating for at less 13 years abroad	4.68	5	1.35	42		
It has been operating for less than 13 years abroad	4	4	1.48	23		

Source: The authors

We also noticed significant positive correlations at a confidence level of 95% between the perception of the achievement of some benefits of internationalization and indicators of the degree of internationalization (Table 9).

By using an aggregated variable calculated as the mean of perception of all of the benefits obtained with internationalization (Cronbach's alpha of 0.83), we found significant positive correlations between this variable and the variable of geographic dispersion of markets (0.276) and percentage of directors with international experience (0.313). Thus, for the companies analyzed, the greater the geographic dispersion and the percentage of directors with international experience, the greater was the perception of benefits achieved through internationalization.

The results of this study allow us to reject hypothesis 2 at a confidence level of 95%. The median test indicated lower financial performance of the international operations in relation to domestic for the cluster of more internationalized companies. The average "% of foreign EBITDA/% of foreign revenues" of the firms in the first cluster (less internationalized firms) is 0.91, while this ratio is 0.55 for the second cluster (more internationalized firms) (Table 10).

Table 9 - Significant correlations between perceived benefits of internationalization and indicators of the degree of internationalization

Benefit of internationalization	Percentage of revenues abroad	Percentage of assets abroad	Percentage of employees abroad	Geographic dispersion of markets	Number of activities performed abroad	Period of international experience	Percentage of directors with international experience	Listing on stock exchanges
Ability to respond more quickly and appropiately to international customers	0.42			0.277	0.291	0.292		0.254
Strenghtening of the competitive position	0.283							
Geographic diversification and less dependence on the domestic market	0.497	0.403	0.322	0.35				
Gains from economy of scale				0.261				
Gains from economy of scope							0.272	
Greater stability in the economic and financial results	0.357				0.378			
Market valuation and/or improvement of economic and financial performance of the company	0.303			0.323		0.263		
Development of people with intercultural skills				0.251				
Overall awareness of the benefit (Mean of benefits)				0.276			0.313	

Source: The authors

Table 10. Degree of internationalization versus relative performance of international operations in relation to domestic

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Percentage of EBITDA abroad/ percentage of revenues abroad					0.155	**0.014**
Cluster 1 - Less internationalized	0.91	0.87	0.82	45		
Cluster 2 - More internationalized	0.55	0.74	0.25	8		

Source: The authors

The results show a significant negative correlation (-0.303) at a confidence interval of 95% between the performance of international operations in relation to national operations and the geographic dispersion of international operation of the companies.

We also observed a significant negative correlation (-0.287) at a confidence interval of 95% between the overall perception of the benefit of market valuation and/or improvement of the economic and financial performance of the company and the performance of international operations in comparison to domestic operations.

5. Conclusions

In contrast to the less internationalized companies, companies that had a higher degree of internationalization had worse financial performances of their international operations in relation to domestic operations, even if their managers have the perception that they are achieving greater results, including new international management competencies. One possible explanation is that Brazilian companies could be overextending their resources, and incurring greater coordination, governance and learning costs than their less internationalized counterparts.

In fact, some of the results point in this direction. For instance, an analysis of the data of companies in the sample that obtained the lower results in their international operations in relation to domestic operations indicates that they operate on a larger number of continents and perform a higher number of international activities than do the companies that obtained better results in their international operations in relation to domestic operations.

One of the possible reasons for the better results of the less internationalized companies may be that they are still cherry-picking their international targets, with lower investments in, and commitments to, foreign markets, so that they can easily leave them if the results are not adequate.

This exploratory study should encourage other studies that assess not only the financial performance of international operations in relation to domestic, but also the financial performance of these operations in absolute terms and the overall financial performance of companies, observing their relationship with the degree of internationalization.

One of the limitations of this study is the absence of an analysis of the risks involved in the internationalization process and the costs related in the process, which is required to assess the balance between risk and return. Another restriction is the fact that only one executive per company has expressed his/her perception of the benefits by completing the questionnaire. The sample's lack of representativeness in relation to the population prevents us from drawing more robust statistical generalizations about the ensemble of internationalized Brazilian companies.

The use of EBITDA margin metrics as the only measure for assessing the performance of international operations is another limitation of the study.

As a whole, one of the contributions of this study is to raise and attempt to answer one provocative question regarding the I-P relation: is internationalization helping to improve the financial performance of Brazilian companies as a whole? The analysis of the relative performance of international operations of Brazilian companies in relation to their domestic operations suggests that the answer may be negative, although we recognize that this measure ignores the synergistic benefits of internationalization (such as market diversification and less dependence on domestic markets, learning and others) and, in particular, the arbitrage gains that companies obtain with internationalization. The perceptions of companies suggest that these synergistic benefits may be compensating poor financial performances of international operations, although further empirical studies are needed to prove this hypothesis.

References

Al-Obaidan, A.M., & Scully, G.W. 1995. The theory and measurement of the net benefits of internationalization: the case of the international petroleum sector, Applied Economics, 27(2): 231–239.

Bezerra, R. 2005. Internacionalização e desempenho das maiores empresas brasileiras. In Hemais, C.(Ed.), O desafio dos mercados externos, v.2: teoria e prática na internacionalização da firma. Rio de Janeiro: Mauad.

Brewer, H.L. 1981. Investor benefits from corporate international diversification, Journal of Financial and Quantitative Analysis, 16: 113–126.

Brigham, E., Gapenski, L., & Ehrhardt, M. 2001. Administração financeira: teoria e prática. São Paulo: Atlas.

Buckley, P.J., Dunning, J.H., & Pearce, R.B. 1977. The influence of firm size, sector, nationality, and degree of multinationality in the growth and profitability of the world's largest firms', Weltwirtschaftliches Archiv, 114: 243–257.

Buckley, P.J., Dunning, J.H., & Pearce, R.B. 1984. An analysis of the growth and profitability of the world's largest firms 1972 to 1977, Kyklos, 37: 3–26.

Carneiro, J. 2007. Desempenho de exportação de empresas brasileiras: uma abordagem integrada. PhD Dissertation – Instituto COPPEAD de Administração, Universidade Federal do Rio de Janeiro, Rio de Janeiro.

Collins, J.M. 1990. A market performance comparison of US firms active in domestic, developed and developing countries, Journal of International Business Studies, 2: 271–287.

Contractor, F., Kundu, S., & Hsu, C-C. 2003. A Three-Stage Theory of International Expansion: The Link between Multinationality and Performance in the Service Sector. Journal of International Business Studies, v.34, n.1, p.5-18.

Cuervo-Cazurra, A. 2010. Multilatinas, Universia Business Review, 25:14-33.

Cyrino, A.B., & Barcellos, E.P. 2006. Benefícios, riscos e resultados do processo de internacionalização das empresas brasileiras In Almeida, A. (Ed.), Internacionalização de empresas brasileiras.1a ed. Rio de Janeiro: Campus/Elsevier, v.1, p. 79-117.

Cyrino, A.B., Barcellos, E.P., & Tanure, B. 2010. International Trajectories of Brazilian Companies: Empirical Contribution to the Debate on the Importance of Distance. International Journal of Emerging Markets, v.5, n. 3-4, p.358-376.

Daniels, J.D., & Bracker, J. 1989. Profit performance: do foreign operations make a difference? Management International Review, 29(1): 46–56.

Del Sol, P. 2010. Chilean Regional Strategies in Response to Economic Liberalization, Universia Business Review, 25:112-131.

Dorrenbacher, C. 2000. Measuring Corporate Internationalisation: A review of measurement concepts and their use. Intereconomics, 35 (3): 119-126.

Doz, Y., Santos, J., & Willianson, P. 2001. From Global to Metanational: How Companies Win in the Knowledge Economy. Boston, MA, Harvard Business School Press.

Dunning, J. H. 1993. Multinational Enterprises and Global Economy. Workhingan: Addison-Wesley.

Dunning, J.H. 1996. The geographical sources of the competitiveness of firms: some results of a new survey. Transnational corporations, 5(3): 1-29.

Errunza, V.R., & Senbet, L.W. 1981. The effect of international operations on the market value of the firm: theory and evidence, Journal of Finance, 36: 401–417.

Fleury, M.T., Borini, F., Fleury, A., & Oliveira Júnior, M. 2007. Internationalization and performance: a comparison of Brazilian exporters versus Brazilian multinationals, Economia e Gestão, Belo Horizonte, 7(14): 1-178.

Fleury, A., Fleury, M.T. & Reis, G. 2010. El camino se hace al andar: La trayectoria de lãs multinacionales brasileñas, Universia Business Review, 25: 34-55.

Galbraith, J.R., & Kazanjian, R. 1986. Strategy Implementation, West Publishing: St Paul.

Geringer, J.M., Beamish, P.W., & DaCosta, R.C. 1989. Diversification strategy and internationalization: implications for MNE Performance, Strategic Management Journal, 10(2): 109–119.

Ghemawat, P. 2003. Globalization: The Strategy of Differences, Harvard Business Review, November 10.

Glaum, M.; Oesterle, M-J. 2007. 40 Years of Research on Internationalization and Firm Performance: More Questions than Answers? Management International Review, 47(3): 307-317.

Gomes, L., & Ramaswamy, K. 1999. An empirical examination of the form of the relationship between multinationality and performance. Journal of International Business Studies 30(1): 173-88.

Grant, R. 1987. Multinationality and Performance among British Manufacturing Companies. Journal of International Business Studies, 18(3): 79-89.

Grant, R.M., Jammine, A.P., & Thomas, H. 1988. Diversity, diversification and profitability among British manufacturing companies, 1972–1984, Academy Management Journal, 31: 771–801.

Han, K., Lee, S., & Suk, D. 1998. Multinationality and firm performance, Multinational Business Review, 6(2): 63–70.

Hitt, M., Hoskisson, R., & Ireland, R. 1994. A mid-range theory of the interactive effects of international and product diversification on innovation and performance, Journal of Management, 20(2): 297–327.

Hitt, M., Hoskisson, R., & Kim, H. 1997. International diversification: effects on innovation and firm performance in product-diversified firms, Academy Management Journal, 40(4): 767–798.

Hult, GTM et al. 2008. An assessment of the measurement of performance in international business research. Journal of International Business Studies, 39: 1064-1080.

Ietto-Gillies, G. 1998. Different conceptual frameworks for the assessment of the degree of internationalization: an empirical analysis of the various indices for the top 100 transnational corporations. Transnational Corporations 7(1): 17–39.

Ietto-Gillies, G. 2001. Assessing the degree of internationalization. Some conceptual issues. Workshop paper. South Bank University, London.

Johanson, J., & Vahlne, J. E. 1977. The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments. Journal of International Business Studies, 8(1): 23-32.

Johanson, J., & Vahlne, J-E. 1992. Management of internationalization. RP 92/2. Institute of International Business, Stockholm School of Economics.

Jung, Y. 1991. Multinationality and profitability, Journal of Business Research, 23: 179–187.

Kim, W.S., & Lyn, E.O. 1987. Foreign direct investment theories, entry barriers, and reverse investments in US manufacturing industries, Journal of International Business Studies, 18(2): 53–67.

Kobrin, S.J. 1991. An empirical analysis of the determinants of global integration, Strategic Management Journal, 12: 17–37.

Kosacoff, B., & Ramos, A. 2010. Tres fases de la internacionalización de las empresas industriales argentinas. Una historia de pioneros, incursiones y fragilidad, Universia Business Review, 25: 56-75.

Kumar, M.S. 1984. Growth, Acquisition and Investment: An Analysis of the Growth of Industrial Firms and their Overseas Activities, Cambridge University Press: Cambridge, U.K.

Li, L. 2007. Multinationality and performance: A synthetic review and research agenda, International Journal of Management Reviews, 9 (2): 117-139.

Lu, J.; Beamish, P. 2004. International Diversification and Firm Performance. Academy of Management Journal, 47 (4): 598-609.

Michel, A., & Shaked, I. 1986. Multinational corporations vs. domestic corporations: financial performance and characteristics, Journal of International Business Studies, 17(3): 89–101.

Morck, R., & Yeung, B. 1991. Why investors value multinationality, Journal of Business, 64(20): 165–187.

Muritiba, P., Muritiba, S., Albuquerque, L., Bertoia, N., & French, J. 2010. International Strategy, Cultural Distance and Management Policies in Brazilian Multinational Companies, Globalization, Competitiveness and Governability, references. Ohmae, K. 1995. Managing in a Borderless World, Harvard Business Review, 67(3): 152-61.

Perlmutter, H.V. 1969. The Tortuous Evolution of the Multinational Corporation. Columbia Journal of World Business, 4: 9-18.

Perlmutter, H.V., & Heenan, D.A. 1979. Multinational Organization Development. Massachusetts: Addison-Wesley Pu. Co.

Porter, M. 1990. The Competitive Advantage of Nations. New York, Free Press.

Qian, G. 2002. Multinationality, product diversification, and profitability of US emerging and medium sized enterprises. Journal of Business Venturing, 17(6), 611–634.

Ramaswamy, K. 1995. Multinationality, configuration, and performance: a study of MNEs in the US drug and pharmaceutical sector, Journal of International Management, 1: 231–253.

Ramaswamy, K. et al. 1996. Measuring the degree of internalization of a firm: a comment. Journal of International Business Studies, 27(1): 167–177.

Ramsey, J., Alvim, F., Forteza, J., & Micheloni Junior, J. 2010. International Value Creation: a New Model for Latin American Multinationals, Globalization, Competitiveness and Governability, references.

Siddharthan, N.S., & Lall, S. 1982. Recent growth of the largest US multinationals, Oxford Bulletin of Economic Statistics, 44: 1–13.

Stinchcombe, A. L. 1965. Social Structures and Organizations, in Handbook of Organizations, J. G. March (Ed.), 142-193. Chicago: Rand McNally.

Sullivan, D. 1994. Measuring the degree of internationalisation of a firm, Journal of International Business Studies, 25(2): 325-342.

Sullivan, D. 1996. Measuring the degree of internalization of a firm: a reply. Journal of International Business Studies 27(1): 179–192.

Tallman, S., & Li, J.T. 1996. Effects of international diversity and product diversity on the performance of multinational firms, Academy Management Journal, 39: 179–196.

Venkatraman, N., & Ramanujam, V. 1986. Measurement of business performance in strategy research: A comparison of approaches. Academy of Management Review, 11(4): 801–814.

Vernon, R. 1971. Sovereignty at Bay: The Multinational Spread of US Enterprises, Basic Books: New York.

Whittington, G. 1979. On the Use of the Accounting Rate of Return in Empirical Research. Accounting and Business Research, 9: 201-208.

Yip, G. S. 2003. Total global strategy II. Upper Saddle River, NJ: Pearson Education.

Zaheer, S. 1995. Overcoming the liability of foreignness. Academy of Management Journal, 38(2): 341-363.

Zahra, S.A., Ireland, R.D.; Hitt, M.A. 2000. International expansion by new venture firms: international diversity, mode of market entry, technological learning, and performance. Academy of Management Journal, 43, 925–950.

REVISTA Globalización, Competitividad y Gobernabilidad | JOURNAL Globalization, Competitiveness & Governability | REVISTA Globalização, Competitividade e Governabilidade

GCG GEORGETOWN UNIVERSITY universia

International Value Creation: An Alternative Model for Latin American Multinationals

AREA: 2
TYPE: Cases

Creación de valor internacional: Un modelo alternativo para multinacionales latinoamericanas
Criação de valor internacional: Um modelo alternativo para as multinacionais latino-americanas

AUTHORS

Jase R. Ramsey[1]
Fundação Dom Cabral, Brasil
Jase@cba.ua.edu

Flavia de Magalhães Alvim
Fundação Dom Cabral, Brasil
Flavia.Alvim@fdc.org.br

Jorge Héctor Forteza
Universidad de San Andrés, Argentina
Jhforteza@gmail.com

José Francisco Figueiredo Micheloni Junior
Fundação Dom Cabral, Brasil
Josemicheloni@hotmail.com

1. Corresponding Author: Fundação Dom Cabral; Av. Princesa Diana, 760; Alphaville, Lagoa dos Ingleses; 34000-000, Nova Lima, MG; Brasil.

Recently, there has been considerable research on the great rise of Emerging Market Multinationals (EMNEs). Yet very few EMNEs are generating a significant portion of their profits abroad, and there is a growing list of failures associated with these firms' internationalization efforts. This paper summarizes traditional thought on international strategy, explains the historical trajectory of EMNCs, and highlights how EMNCs have adapted to mainstream IB strategy theories. The paper develops a new model of international value creation based on primary and secondary data from the largest firms in Latin America. Specific examples of how to operationalize the model are offered.

Muchos han sido los estudios recientes centrados en el auge de las multinacionales de mercados emergentes (Emerging Market Multinationals - EMNEs). Aun así, muy pocas EMNEs están generando una parte significativa de sus beneficios más allá de sus fronteras y la lista de fallos asociados a los esfuerzos de internacionalización de estas firmas no deja de crecer. Este artículo resume conceptos tradicionales sobre la estrategia internacional, explica la trayectoria histórica de las EMNCs y destaca cómo las EMNCs se han adaptado a las teorías de transacciones internacionales más convencionales. El artículo desarrolla un nuevo modelo de creación de valor internacional basado en datos principales y secundarios de las firmas más importantes de Latinoamérica. Se incluyen ejemplos específicos sobre cómo aportar operabilidad al modelo.

Recentemente, houve considerável investigação sobre a grande ascensão das Empresas Multinacionais Emergentes (EMNEs). No entanto, poucas EMNEs estão a gerar uma parte significativa dos seus lucros no estrangeiro e há uma lista crescente de fracassos associados aos esforços de internacionalização destas firmas. A presente comunicação sintetiza o pensamento tradicional sobre estratégia internacional, explica a trajectória histórica das EMNCs e ilustra o modo como as EMNCs se adaptaram às principais teorias de estratégia de transacções internacionais. O artigo desenvolve um novo modelo de criação de valor internacional com base nos dados primários e secundários das maiores firmas da América Latina. São apresentados exemplos específicos sobre o modo de operacionalizar o modelo.

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.04	01.09.2010	30.10.2010

1. Introduction

Over the past number of years, there has been considerable work on the rise of Emerging Market Multinationals (EMNEs), and stories about how these firms are going to reshape the world are almost an assumption within business circles (Agtmael, 2007; Guillén & García-Canal, 2009; Mathews, 2006). Unfortunately, reality is a bit more sobering. Very few EMNEs are generating a significant portion of their profits abroad, and there is a growing list of failures associated with these firms' internationalization efforts (Burt, Mellahi, Jackson, & Sparks, 2002; Pauwels & Matthyssens, 1999; Peltier, 2004). Yet it appears that internationalization is here to stay. Following the recovery of the global financial crisis, emerging market firms are now attempting to adopt a number of golden rules in order to create value through internationalization. However, are traditional International Business (IB) theories adequate for this purpose?

This paper reviews the available literature on global strategy and international organization as a foundation of a five-step model, which attempts to utilize available theory in order to create value through international expansion. Specifically, the focus is on the main issues to be considered by Latin American MNEs' during their internationalization process. Latin America was selected as the focus of analysis not only because there has been a relative lack of studies on the region (Cuervo-Cazurra, 2008) and hosts many world-class EMNEs (Agtmael, 2007), but also because it has a unique historical context which has contributed to their international strategy (Cuervo-Cazurra, 2010).

Recent advances in global strategy can be very insightful for Latin American MNEs. The metanational organization proposed by Doz, Santos and Williamson (2001), as well as Ghemawat's (2007a, b) aggregation, adaptation, and arbitrage (AAA) strategies, discussed in the next section, highlight that the traditional projecting strategies of incumbent multinationals are no longer adequate for the current stage of globalization. On the other hand, they bring to light that emerging multinationals have to deal with a rather complex scenario, one that presents new opportunities but also demands a deeper understanding of the world. Bearing this in mind, we analyze how the ownership, location, and internalization (OLI) advantages (Dunning, 2001) of EMNEs in general, and of Latin American firms specifically, condition their possibilities of creating value through internationalization. We take into consideration the most recent developments of the OLI paradigm which account for the importance of institutions both in the home and host markets, as well as, its extended view that embraces asset-augmenting strategies (Dunning, 2001, 2006a, 2006b).

The theoretical approach of the paper is complemented with primary and secondary data from Latin American and Brazilian MNEs and provides the basis for the development of our model on international value creation. The model is grounded on the assumption that differences across countries and regions should not be seen as a constraint, but rather as a source for creating value through knowledge creation opportunities (Doz *et al*., 2001; Ghemawat, 2007a). Hence, we argue that Latin American MNEs can take advantage of such differences by deconstructing the reasons for their success at home and building new approaches abroad. We suggest that the leaders and researchers of these firms should focus their decisions on five interconnected dimensions: value proposition, bu-

KEY WORDS
Developing countries, multinational firms, performance, internatioanlization, Latin America

PALABRAS CLAVE
países en desarrollo, firmas multinacionales, rendimiento, internacionalización, Latinoamérica

PALAVRAS-CHAVE
Países em desenvolvimento, firmas multinacionais, desempenho, internacionalização, América Latina

JEL CODES
F23; M16

siness model, organizational model, talent and leadership, and stakeholder management. Although not exhaustive, the proposed model is an attempt to codify a process and develop a practical tool that Latin American MNEs can use on strategic, organizational, and institutional issues related to the internationalization process. Finally, the last section draws the argument together and presents suggestions for future research based on the propositions and limitations of the paper.

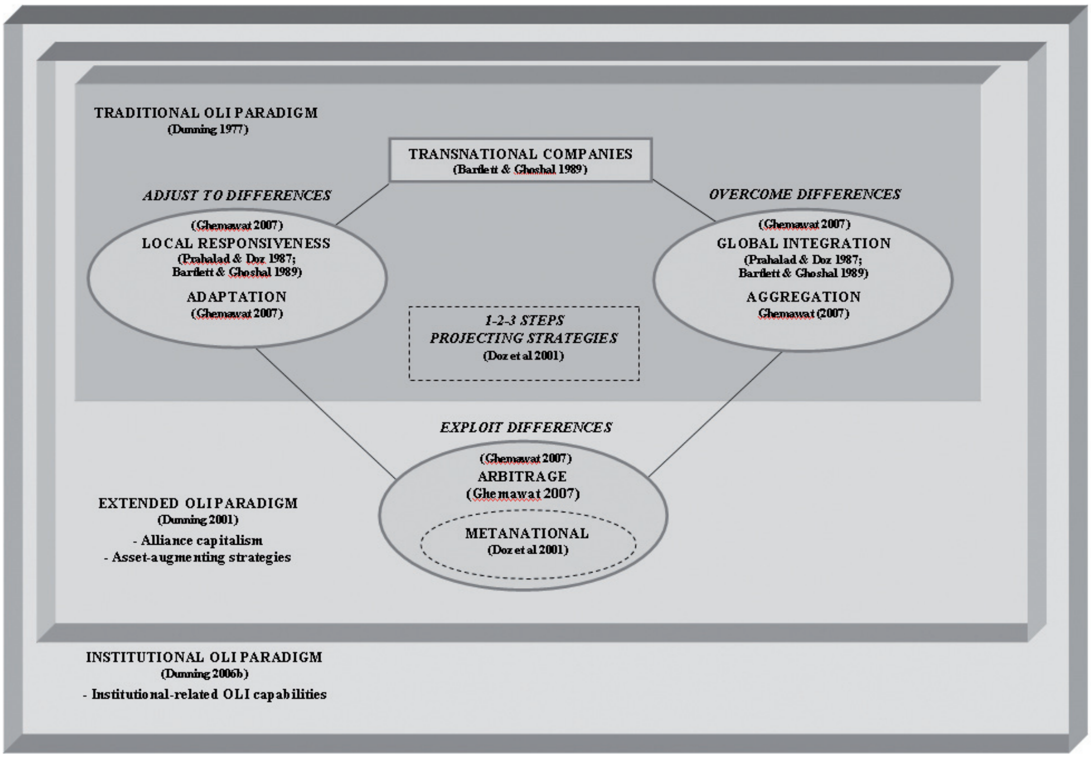
2. Literature Review

The International Business (IB) literature has offered different explanations for why and how firms become multinationals, yet the Eclectic Paradigm proposed by Dunning (1977) is considered one of the most encompassing frameworks for research in the field (Dunning, 2000). Dunning (1977) asserts that the international production of companies is determined by the configuration of: firm-specific competitive advantages (ownership), comparative advantages existing at the host country level (location), and the advantages attained by generating assets internally rather than obtaining them from the markets (internalization). The OLI paradigm has been criticized by several scholars, either because it is too optimistic, tautological, static, or with limited explanatory power for emerging market firms (Dunning, 2001). Although it is not within the scope of this paper to review these criticisms, we suggest that the extended OLI paradigm presented by Dunning in his more recent writings (Dunning, 2001, 2006a, 2006b) does provide a relevant basis for framing key aspects related to global strategy, international organization, and institutional influences, which are all key aspects for addressing the research question of this paper, namely: How can Latin-American MNEs create value through internationalization? Taking the OLI paradigm as a framework for reviewing the available literature, the literature review section is thus divided into three main topics:1) global strategy from a traditional MNE perspective, 2) the internationalization of EMNEs, and 3) the internationalization of Latin American MNEs.

2.1. Global Strategy from a Traditional MNE Perspective

From a firm-level strategy point of view, scholars such as Doz *et al.* (2001) have highlighted that most mainstream IB theories are based on the experiences of traditional MNEs, firms based in developed countries which became international in the 70s, 80s and 90s. The authors point out that the early history of these MNEs have a number of marked similarities which have been termed the "1-2-3 steps": 1) "build on the core strengths from homeland to gain international advantage"; 2) "project these strengths into the global arena along the product life cycle"; and 3) "balance local responsiveness with global integration" (Doz *et al.*, 2001: 37-39) (see the inner frame of Figure 1). These steps can be regarded as a summary of the theoretical evolution of IB, as it combines the traditional ownership advantages of Dunning's OLI paradigm (step 1) with other theories such as Vernon's (1966) product life cycle (step 2), and Prahalad and Doz's (1987) trade-off between local responsiveness and global integration, further discussed in Barlett and Ghoshal's (2001) transnational design (step 3). While not all developed country firms have precisely followed this multinationalization pattern (especially if one compares the Anglo-Saxon MNEs with those from Scandinavia and Japan), the core of their strategies is similar. Traditional MNEs have all tried to find ways of building ownership advantages at home (or in their most important subsidiaries) so as to transfer them abroad according to the location advantages offered by countries and the internalization advantages encountered by firms.

Figure 1. Global Strategy Literature Review



These traditional strategies of MNEs led to the configuration of global companies seeking economies of scale, multidomestic companies targeting local adaptation, and transnational companies attempting to overcome the trade-off between scale and adaptation. Although each type of firm gives different strategic prescriptions and thus follow distinct internationalization patterns, they have the same orientation of seeing difference as a problem. So they try to find solutions to this problem either in the headquarters or in the subsidiaries. The key point is that despite the persistence of several successful MNEs that have primarily adopted projecting strategies, the validity of this approach in the current globalized scenario has been questioned by a number of scholars. For example, Doz *et al.* (2001) argue that in order to create value in the global knowledge economy firms need to become metanationals and learn from the world. The metanational ideal is an organization "finely tuned to sense, mobilize, and leverage pockets of specialist knowledge dispersed around the world" (Doz *et* *al.*, 2001:74). Contrary to multidomestic or transnational firms, metanationals access unique local knowledge in order to exploit this very uniqueness, without seeing it only as a solution to local adaptation, or as a deviation from blueprint. For instance, Nokia challenged the world leader Motorola by adopting highly innovative approaches from all corners of the world, such as shifting to digital mobile telephony and integrating email and other internet capabilities into its phones (Doz *et al.*, 2001).

Ghemawat's (2007b, 2008) propositions on global strategy, the Cultural-Administrative-Geographic-Economic (CAGE) framework as well as his aggregation, adaptation and arbitrage (AAA) strategies also focus on being able to take advantage of differences between countries to create value. All of the aforementioned frameworks shed light on the current discussion. First of all, Ghemawat (2007a, 2007b) argues that we live in a semi-globalized world, where differences across countries should be taken into account just as much as the similarities. Ghemawat's (2007a) CAGE framework allows practitioners to measure the distance among countries in terms of cultural (e.g., language, interests, and traditions), administrative (e.g., laws, regulations, and policies), geographic (e.g., climate and temperature), and economic (e.g., cost of labor, local income level, and tax compositions) differences. How multinationals deal with these differences informs their global strategies, which are the components of Ghemawat's (2007b, 2008) AAA. While adaptation (or local responsiveness) means adjusting to differences, aggregation (or global integration) means overcoming differences so as to achieve scale and scope economies. The distinguishing point is that Ghemawat goes beyond the traditional responsiveness-integration dualism not by suggesting ways of achieving them both, but rather by adding a third vertical strategy, arbitrage, which is grounded on exploiting differences (see Figure 1). Choosing a strategy based on arbitrage means pursuing "absolute economies through international specialization" (Ghemawat, 2008:200). Although IBM, for example, has chosen an adaptation strategy throughout most of its history, it has recently exploited an arbitrage opportunity found in wage differentials, especially in India, as a way to reduce costs (Ghemawat, 2007a). Consequently, IBM tripled its employees in emerging markets over a three year period.

For the purposes of this paper, the similarities of the studies of Doz *et al.* (2001) and Ghemawat (2007b, 2008) are fundamental. Ghemawat (2008) argues that his model goes beyond Doz *et al.*'s (2001) because he is not focused only on international knowledge transfer for value creation. He suggests that the metanational strategy is one kind of arbitrage (see Figure 1). However, a pivotal point here is that both of the constructs highlight how multinational firms are facing new challenges as a consequence of their traditional projecting strategies, which do not seem to adequately fit the current stage of globalization. These authors and their paradigms also demonstrate that emerging multinationals are now dealing with a much more complex business environment. One that presents new opportunities for emerging players yet demands a deeper understanding of the world to harness them. These two points are essential when taking into consideration how EMNEs can create value through internationalization.

Subsequently, Dunning (2006a, b) has recently proposed that the Eclectic Paradigm should be extended in light of the new global economy. Instead of owning assets which are transferred through internationalization and thus provide multinationals competitive advantages, firms should be viewed as organizers of a collection of created assets, some of which are generated internally and others which are accessed from other firms through some kind of influence or control (Dunning, 2001). Therefore, firms can create value through internationalization with strategies focused not only on asset-exploiting objectives, but also with an asset-augmenting goal. In other words, Doz *et al.*'s (2001) pockets of scattered knowledge and Ghemawat's (2008) CAGE differences harnessed by arbitrage can be seen as different configurations of an updated OLI framework, as summarized in Figure 1.

These and other renowned scholars have thus drawn our attention to the need of incumbent MNEs to adjust their global strategies to the current globalized business environment (Doz & Kosonen, 2008; Sirkin, Hemerling, & Bhattacharya, 2008). But the current global economy has also witnessed the emergence of new multinationals from emerging countries, some of which are now leaders of their industries (Agtmael, 2007). This rise of EMNEs leaves with the following questions to be addressed: 1) To what extent do mainstream theories explain the rise of EMNEs? 2) Are EMNEs different from traditional MNEs? 3) Are the existent theoretical frameworks suitable to inform EMNEs on strategies for value creation through internationalization? The next section addresses these questions.

2.2. The Internationalization of Emerging Markets Firms

During the 1990s, Yeung (1994) called attention to the fact that theories of MNEs need to be more dynamic. By doing so, they could incorporate the processes in which these firms are articulated within places and societies, as MNEs are embedded in social, historical and institutional contexts. Aulakh (2007) highlighted that eight different studies found similar motivations and paths of EMNEs' internationalization, but they also revealed considerable diversity related to national context and industry conditions. Dunning (2006a) also realized that there was a need to include institutional content to the theories of MNE activity, especially in the case of Third World MNEs. He has extended his OLI paradigm to address the influence of institutions in all three of its components (the basis of the outer frame of Figure 1) (Dunning, 2006b). Thus, it is important to have a brief historical overview of the internationalization process of MNEs from emerging countries and also bring to light their distinctive OLI characteristics. This will reveal the dynamic interplay of the OLI components, which ultimately condition EMNEs' potential to create value through internationalization.

• *Historical overview of the emerging market phenomenon.* The study of the emergence of multinational firms from developing countries dates back to the 1970s, when the debate was focused on the key role that they could play in the development of their home countries (Aulakh, 2007; Heenan & Keegan, 1979). It was only in the following decade that scholars paid greater attention to the firm-specific characteristics of these multinationals. Yet many studies were based on casual empiricism (Lall, 1983) and anecdotal evidence (Aulakh, 2007), resulting in misleading stereotypes of EMNEs (Yeung, 1994), which may only be appropriate to explain the first wave of MNEs from developing countries. In the 1980s and especially after the 1990s, developing country MNEs were no longer the same as in the 1970s, as they went through two more waves which must be acknowledged in order to better understand their current drivers of internationalization.

The second wave of EMNEs was propelled by the liberalization of markets in the 1980s, which facilitated the globalization of production and changed the international business landscape. Firms in developing countries were confronted with foreign competition but also had the chance to participate in the global economy by being part of the outsourcing and offshoring strategies of established MNEs (Agtmael, 2007; Aulakh, 2007). As Agtmael (2007) points out, this was a fundamental step towards the development of their firm-specific advantages, and some firms went from producers of cheap low-tech parts to suppliers of entire designs. In other words, changes in the institutional environment of their home countries impinged on their location as well as on their ownership advantages. This kind of upgrade is thus believed to be the cornerstone of the third wave of EMNEs. After the second wave, many developing country MNEs, especially from Asia, aimed at becoming leaders of their industries, and since the 1980s they have been further developing their skills to catch-up or even overtake their traditional competitors from advanced countries (Agtmael, 2007; Aulakh, 2007; Guillén & García-Canal, 2009). These new global competitors have become widespread around the globe, entering into more developed markets and pursuing higher value added activities (Aulakh, 2007). The key factors for the success of world-class EMNEs in the third wave are primarily man-made, such as unconventional thinking, the ability to adapt to crises, a global mindset, and a disciplined ambition (Agtmael, 2007). Thus, these EMNEs are survivors that have thrived in adverse conditions through a process of learning and creative adaptation, and have been moving beyond infant-industry protection to understanding the need for quality, technology, and brand. The institutional instability that could have been interpreted as location-disadvantages of developing countries in fact triggered advances in the ownership-advantages of EMNEs.

• *Firm-specific characteristics of EMNEs and value creation opportunities.* If one compares current EMNEs with those of the 1970s, it is clear that firms in the third wave have developed remarkable firm-specific skills which have allowed them to engage in the world economy as high-level players. Such observations have led scholars to ask if the ownership advantages of EMNEs are similar to those of established MNEs and also whether these advantages precede or follow EMNEs' internationalization. Mathews (2006) believes that EMNEs have a new way of becoming multinational because they do not depend on prior possession of resources for their international expansion, as was the case of most traditional MNEs from advanced countries. The internationalization of new multinationals is believed to have allowed them to access resources that would otherwise not be available (Mathews, 2006). Hence, EMNEs are considered more adapted to the "interlinked" new global economy because they use "linkage" and "leverage" strategies (such as alliances and acquisitions) to tap into resources around the world, and the subsequent learning process facilitates an accelerated international expansion when compared to traditional MNEs (Mathews, 2006:22). This LLL framework (linkage, leverage, and learning) is thus presented by Mathews (2006) as an alternative to the OLI paradigm, although Dunning (2006a) responds that it is in fact complementary. Dunning (2006a) acknowledges that some ownership advantages of firms indeed follow rather than lead their internationalization, and that the competitive advantages of EMNEs are very likely to be different from traditional MNEs. However, he stresses that all MNEs have to possess "*some* unique and sustainable resources, capabilities or favoured access to markets", which are protected or augmented through FDI (Dunning, 2006a).

Therefore, we argue that the opportunities for EMNEs to create value through internationalization seem to be in line with the most recent discussions on international strategy presented in the previous section. As Agtmael (2007), Aulakh (2007), Guillén, García-Canal (2009), and several other scholars have noted, in the current global scenario EMNEs have used their existing resources or capabilities to internationalize and have also sought the acquisition of new ones. Indeed, many successful EMNEs have adopted traces of a metanational strategy to learn from different pockets of knowledge around the world, as suggested by Doz *et al.* (2001), and have leveraged arbitrage opportunities based on differences among countries, as envisioned by Ghemawat (2007a, 2008). The Brazilian aircraft producer Embraer, for example, chose to outsource operating activities to its international partners and assemble the jets in Brazil because of the lower cost of labor found in its home country (Ghemawat, 2007a).

One important issue raised at the industry-level is that traditional MNEs usually lead knowledge and brand intensive sectors in emerging markets, while EMNEs prevail in businesses where production and logistics are more relevant, as Ghemawat and Hout (2008) indicate using evidence mainly from China. This is believed to happen because established MNEs are better fit to succeed in advertising and R&D-intensive sectors due to their aggregation strategies, while EMNEs that thrive overseas normally rely on arbitrage (or less frequently on adaptation) to environments which are somewhat similar to their home market (Ghemawat, 2008). In other words, these findings underline that EMNEs typically have less brand power and access to capital to invest in R&D, but benefit from being more adaptable for emerging markets. However, Ghemawat and Hout (2008) also call our attention to the fact that although industry has been a destiny thus far, it is unlikely that it will remain so, as there are several examples of both traditional and emerging MNEs which have adopted appropriate strategies to prosper in industries that would not be expected. All the remarks made above on the third wave of leading EMNEs support this assertion, pointing towards paths that new EMNEs can follow in their quest for international value creation.

Since the organizational structure of EMNEs is considered less path-dependant than traditional MNEs (Guillén & García-Canal, 2009), we assert that they are more *flexible*. Incumbents tend to have “ingrained values, culture, and organizational structure”, which makes adaption to the conditions of the current globalized world more difficult (Guillén & García-Canal, 2009:28). Conversely, it is easier for EMNEs to challenge “legacy thinking” and thus be more open to “unconventional thinking”, creativity, and innovation (Agtamel, 2007:50). This flexibility of EMNEs contributes to the task of becoming a metanational, since it makes it easier for companies to sense, mobilize, and leverage pockets of knowledge around the world (Doz *et al.*, 2001), and also to manage vertical coordination arrangements necessary to manage arbitrage strategies (Ghemawat, 2007a, 2008). Based on these arguments, the following proposition is formulated:
Proposition 1: The flexibility of EMNEs is a competitive advantage that increases value creation opportunities throughout the internationalization process.

Another differentiating point between traditional MNEs and EMNEs is the “institutionally-related competitive advantages” of EMNEs transpiring from the fact that all three OLI components are influenced by institutions (Dunning, 2006b:201). The emergence of a new paradigm of development and globalization has compelled MNEs to re-examine their relationship with their stakeholders in home and host countries (Dunning, 2006b). Yet firms from emerging nations have been dealing with institutions and other stakeholders since their inception. And while it is the totality of ownership advantages of firms that define their internationalization pattern, the metanational strategy of many EMNCs may be a way to accumulate and assimilate further institutionally-related capabilities. Therefore, we suggest that along with the flexibility of EMNEs, the *adaptation* ability that resulted from their experience in turbulent institutional contexts can also be seen as a facilitator for international value creation (Agtmael, 2007; Aulakh, 2007; Guillén & García-Canal, 2009). Therefore it is suggested that:
Proposition 2: The institutionally-related adaptability of EMNEs is a competitive advantage that increases value creation opportunities throughout the internationalization process.

In summary, new theories of IB do provide a reasonable assessment of EMNEs and their road forward for international value creation. It is interesting to note that EMNEs seem to hold unconventional capabilities which are gradually being considered advantageous to the new globalized world (Guillén & García-Canal, 2009; Mathews, 2006). Capabilities such as flexibility, knowledge of emerging market consumers, political ability, and capacity to manage stakeholders (Agtmael, 2007; Doz *et al*., 2001; Ghemawat & Hout, 2008; Guillén & García-Canal, 2009), are all very salient, especially after the financial crisis of 2008-2009. However, traditional MNEs also typically outperform EMNEs in other key issues which are important for internationalization, such as brand power, access to capital, ability to attract and maintain talent, and knowledge of consumers of advanced countries. These conclusions are the foundation of our proposed model of international value creation for Latin American MNEs, but before presenting the model we will pinpoint key facts about the historical context of Latin America and highlight specificities of EMNEs from the region in order to further contextualize the process.

2.3. Latin American Multinationals

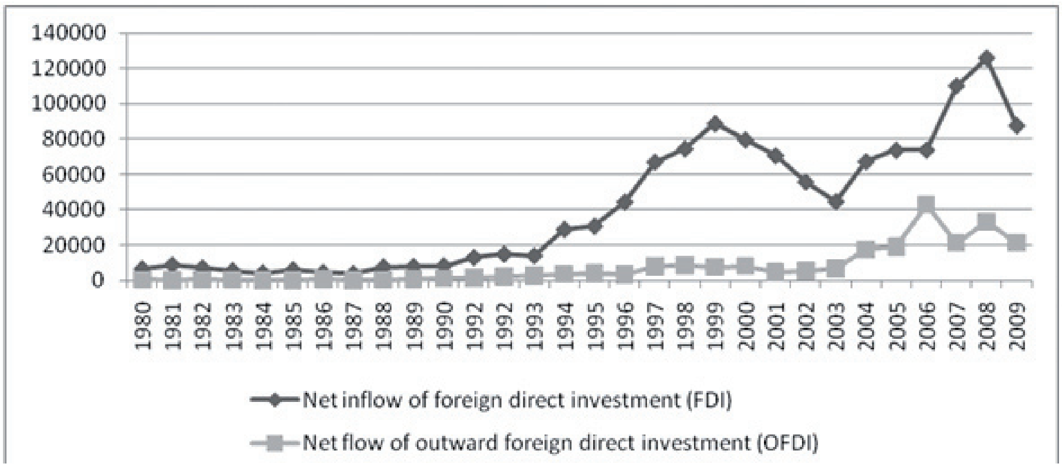
Among the 25 world-class EMNEs studied by Agtmael (2007), 10 are based in Latin America. The region also hosts 18 out of the 100 Boston Consulting Group's (2009) global challengers and 12 of UNCTAD's (2009) top 100 emerging transnationals. Brazil, for instance is expected to become the world's fifth-largest economy in the next decade, overtaking Britain and France (The Economist, 2009). Nevertheless, Cuervo-Cazurra (2008) and Casanova (2009) note that the accumulated knowledge on emerging multinationals from Latin America is considerably scarcer than from other regions, notably Asia. Despite the acknowledgement of the greater presence and importance of EMNEs in recent years, little attention has been given to issues like how Latin American MNEs establish their FDI, or the drivers and challenges of their international paths (Cuervo-Cazurra, 2008). Hence, we believe it is crucial to further investigate the internationalization process of these companies, shedding new light on how Latin American firms can create value through internationalization and keep pace with its Asian peers, which are still leading the trends.

• *Historical overview of Latin American Multinationals.* The vast majority of Latin American firms followed patterns of international expansion similar to most EMNEs. However, a few marked differences should be highlighted. A review of the literature indicates that Latin American multinationals - henceforth called Multilatinas - went through four instead of three phases of international expansion ,(Alvim, 2010; Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999; ECLAC, 2009; Fleury, Fleury, & Reis, 2010; Khanna & Palepu, 2002; Kosacoff & Ramos, 2010) (Alvim, 2010; Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999; ECLAC, 2009; Fleury, Fleury, & Reis, 2010; Khanna & Palepu, 2002; Kosacoff & Ramos, 2010). The first phase concerns the period between 1970 and 1982 and is characterized by the establishment of the first movement of OFDI from Latin American emerging economies, mainly to their neighbors in the region. Many Latin American firms were already exporters at this time, so this move in becoming multinationals is considered a consequence of the need to adapt and develop sophisticated ownership advantages in order to be able to establish operations abroad (Cuervo-Cazurra, 2008).

The second phase is more specific to Latin America, as it concerns the period when the region went through what has been called the "lost decade", from 1982 to 1990. After the two oil shocks and throughout the credit recession, Latin American countries witnessed a great shrinking of their national production, leading to a series of reforms towards the liberalization and deregulation of national markets in the late 1980s (Casanova, 2009; Dominguez & Brenes, 1997). These structural adjustments were condensed in the Washington Consensus agenda and were consecrated in phase three, from 1990 until 2002. As a result, Latin America attracted a great amount of inward FDI in the 1990s, especially during the privatization of state owned companies. This resulting in local firms being exposed to a new competitive ecosystem to which they believed they would not survive (Grosse, 2001). Traditional MNEs had well-known advantages such as access to capital markets, worldwide consolidated brands, advanced technology, scale, talented people, and the best managerial practices worldwide (Khanna & Palepu, 2002). Conversely, local groups were still finding their way after a long period of import substitution policies, characterized by strategies based on diversification (Casanova, 2009; Fleury *et al.*, 2010; Kosacoff & Ramos, 2010).

Against the odds, one of the outcomes of this new scenario was that local firms restructured themselves in order to improve their competitiveness and underwent a great learning experience (Cuervo-Cazurra, 2010; del Sol, 2010). Many local competitors survived by defending their local brands, importing managerial practices, and winning the talent war against foreign competitors. In fact, successful Latin American firms experienced a sharp international expansion in this period, when large groups from the region became true multinational corporations, some of them leaders in their sectors (Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999). As in the case of other emerging markets, these changes triggered in 2002 the beginning of a new phase of Latin American international expansion. This fourth phase is characterized by a greater presence of Multilatinas worldwide, some distinguished mergers and acquisitions, and the rise of OFDI from the region, which reached a peak of US$43 billion in 2006 (ECLAC, 2009). Figure 2 illustrates the evolution of inward and outward FDI flows in the region from 1992 to 2009.

Figure 2. Latin America and the Caribbean Inward and Outward Foreign Direct Investment from 1980 to 2009 (Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean - ECLAC (2010)

• *Ownership-specific and location characteristics of Multilatinas.* The historical overview presented above brings to light that the institutions of Latin America have had a considerable influence on the internationalization process of its firms (Cuervo-Cazurra, 2008). This is especially the case with regards to government policies towards protectionism up to the 1970s and liberalization after 1980s. Dunning (2001, 2006b) has already highlighted that the OLI components dynamically affect each other, and in the case of Latin America the location characteristics of the region are a key factor to explain much of the ownership-advantages of Multilatinas.

First of all, some of the same regional characteristics that held back Multilatinas from international expansion later became sources of competitive advantages (Casanova, 2009; Haberer & Kohan, 2007). The ability to navigate through turbulent waters turned out to be a major institutionally related ownership advantage of Latin American firms (Casanova, 2009). The presence of “demanding but price-sensitive consumers, a challenging distribution infrastructure, and volatile political and economic environments” forced Multilatinas to build up special capabilities that could be used when going abroad (Haberer & Kohan, 2007:2). Furthermore, Latin American firms found that international expansion was a way to balance risk in their turbulent domestic market (Casanova, 2009).

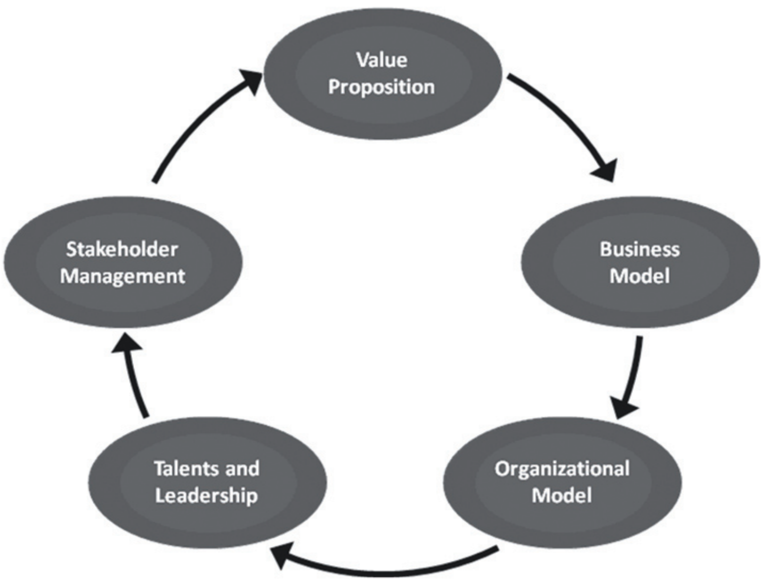
Furthermore, throughout their growth process, Multilatinas have developed a strong survival instinct which has been very important to their success. Multilatinas have learnt that the best defense is offense (Casanova, 2009), so they have often adopted a contender behavior in which the firm “focuses on upgrading capabilities and resources to match multinationals globally, often by keeping to niche markets” (Dawar & Frost, 199:122). The competition with traditional MNEs after the liberalization of markets in the 1980s was an incentive for Multilatinas to reorganize and go abroad. In other words, successful Multilatinas invested in their ownership advantages and also sought arbitrage opportunities to engage in the world economy as global players.

Finally, it is important to emphasize that although these factors are all competitive advantages identified as key explanations for the success of some Multilatinas, not all Latin American firms have been able to harness them. Several companies face challenges specific to Latin America. For instance, the institutional constraints of the region are not easily transformed into advantages, as highlighted by studies on Brazil (Fleury *et al.*, 2010), Argentina (Kosacoff & Ramos, 2010), and Latin American in general (Cuervo-Cazurra, 2010). On the other hand, underscoring the successful paths taken by Multilatinas that have become leaders in their industries helps to identify how Latin American firms can use the location characteristics of the region to improve their ownership advantages. The model presented in the next section draws these issues together and aims to provide an empirically testable model, as well as help practitioners add value to their internationalization process.

3. International Value Creation Model

How can Multilatinas effectively create value through internationalization in the current business environment? Even though we acknowledge that the answer to this question is highly context-specific, we propose a five-step model to guide Multilatinas in the identification of the principal issues to be considered during their internationalization process. The international value creation model (IVCM) draws together the main discussions presented in the literature review and is grounded on Ghemawat (2007a, b) and Doz *et al*.'s (2001) assertions that differences across countries and regions should not be seen as a constraint, but rather as a source of value creation. It is exactly such diversity that allows for new knowledge to be created. We suggest that value can be maximized when knowledge creation takes place through five inter-connected dimensions, which can be seen in Figure 3: value proposition, business model, organizational model, talent and leadership, and stakeholder management.

Figure 3. The International Value Creation Model

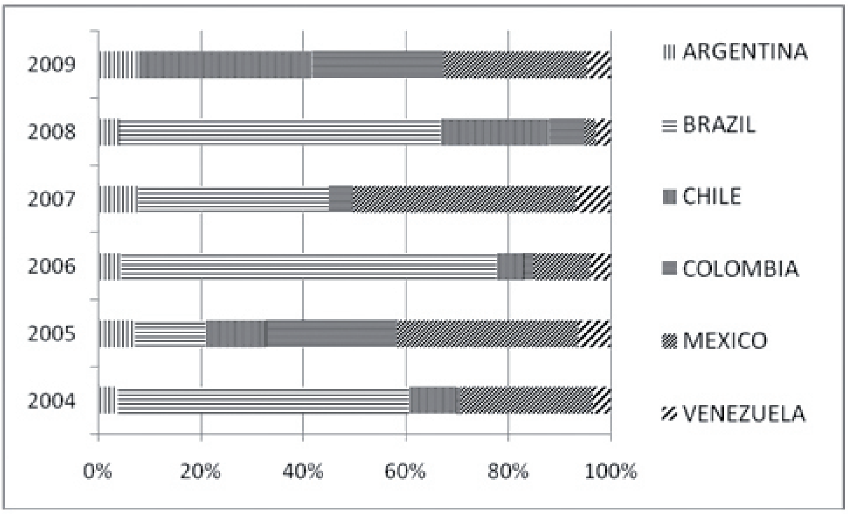


Successful domestic companies in general have already figured out the best way to manage these five dimensions in their home markets. The IVCM is thus a tool for Multilatinas to deconstruct the source of their success at home so that they can better analyze the extent to which their international operations require adaptation while also harnessing arbitrage opportunities abroad. The flexibility of Multilatinas is the underlying mechanism through which adaptation and arbitrage are made possible. As the previous section highlights, the historically turbulent context that these firms underwent has made the concept of being flexible a potential competitive advantage. And thus, the IVCM presented here attempts to capitalize on this rare and inimitable resource, as defined by Barney, Wright & Ketchen Jr., (2001), in order to add value to the firms.

3.1. Methodology

Before going through each of the five dimensions mentioned above, we note that the model was built based on primary and secondary data on Multilatinas, mainly from Brazil. We have given a primary focus to Brazil for two main reasons. First, the authors had the unique opportunity to hold conversations with a group of 12 CEOs of top Brazilian MNEs. This provided access to primary data on their internationalization process and thus contributed to in-depth understanding of relevant specificities. In line with Jones (2005), this is especially relevant for a study focused on Latin America, where analyses require sensitivity to cultural differences, often only identifiable by face-to-face conversations with the top decision makers. Second, a focus on Brazil was considered especially relevant given the fact that Brazil is the leading Latin American foreign investor. As can be seen in Figure 4, the country had US$20 billion of OFDI flows in 2008, representing 61% of the total amount invested by the region (ECLAC, 2009).

Figure 4. Latin America and the Caribbean Main Investors (in % of OFDI by country)



Source: Economic Commission for Latin America and the Caribbean - ECLAC (2010)

3.2. The Five Dimensions of the IVCM

• *Value Proposition.* The value proposition dimension is fundamentally linked to the company's strategic decisions on which products/services it offers, to whom, and where (Toulan, 2002). The first question a firm needs to ask when going to a different country or region is whether its domestic value proposition is adequate for the new locality. As noted before, Multilatinas face several challenges in this regard, such as tough competition with incumbent MNEs that have more brand power, and/or limited access to capital necessary to invest in R&D. They can also end up falling into strategic traps if their products/services are not good enough for wealthy consumers or irrelevant for other emerging consumers. Furthermore, the strong need for tailoring or adaptation may destroy its original competitive advantage. Therefore, in order to create value, Multilatinas have to deeply understand why its products/services are doing well in their domestic market (e.g., price, quality, reputation) so as to investigate if they are of value in the target foreign market (Collis & Rukstad, 2008; Porter, 1996). It requires thus a deeper examination of the firms' ownership advantages along with market research to analyze the location advantages of the destination. Most likely, Multilatinas will have to adapt their products/services to increase the perceived value in the target country, or create new solutions which require related expertise so as to exploit arbitrage opportunities in neglected niches. If they adopt a metanational strategy, Multilatinas become ready to sense, mobilize, and operate new knowledge, which can be discovered by analyzing the CAGE differences.

The experience of Embraer is an emblematic example of the creation of international value when leveraging unique local knowledge via arbitrage strategies (Travesso, 2007). The value proposition of the Brazilian aircraft manufacturer in the international market is the outcome of market research, which allowed the company to achieve a distinguished position in a sector of high value-added products. Embraer was created by the Brazilian government in 1969 to promote the national aeronautics industry, and its main products were small commercial and military aircraft for national use. After its privatization in 1994 the company adopted a new market strategy by identifying the continuous growth of regional aviation in Europe and in the United States. With this new demand in mind, Embraer developed a new breed of aircraft in order to respond to two distinct demands: regional companies that needed jets with more seats (medium sized aircrafts) and network carriers that wanted to update the old fleet for new models with greater capacity, reach, and possibility of more frequent flights. The company also innovated in the positioning of the E-Jets family, by prioritizing the comfort of passengers, something unusual in the segment so far. The preceding discussion and example of how a firm adapted its domestic value proposition to worldwide demand leads to the following proposition:

Proposition 3: Latin American firms that adjust their domestic value proposition to the demands of the foreign market will outperform those that project their domestic value proposition.

• *Business Model.* After defining the value proposition, firms need to evaluate the most adequate way of establishing its international operation (Amit & Zott, 2001). The business model dimension is organized around two pivotal questions: who is responsible for each value-adding activity, and where are the activities located (Zott & Amit, 2008)? Some firms choose a business model that maintains all functions internal to the company, which is the cornerstone of the projecting strategy traditionally used by developed country multinationals (Cappelli, 2009). However, Multilatinas have been more successful when choosing business models based on local partnerships, outsourcing some of their production steps, and relying less on internalization. These business model decisions are crucial for the creation of value through the internationalization process of Multilatinas, as they can enhance the likelihood of upgrading the position of the firm in the global value chain. The first step in defining the international business model of a firm is thus to deconstruct its domestic model. Then, the location-advantages of the target markets should be analyzed, taking into account issues as factor conditions and regulation restrictions. These steps can lead to a redesign of the business model depending on the characteristics of the foreign market in which a firm decides to establish itself. This analysis will bring to light which production stages should be internal and which should be provided by an outsourcer.

Marcopolo's experience illustrates the advantages of having learning mechanisms that support the company's international expansion. The Brazilian bus manufacturer has factories in countries such as China, India, Russia, South Africa, Egypt, Argentina, Mexico, and Portugal. As the company's CEO stated, at first Marcopolo's business model for internationalization was similar to its domestic model, based primarily on a projector strategy of operating alone in foreign markets. The firm used to export the components and parts and assemble them abroad, but the high costs of freight and taxes made this model unsustainable. The executives decided to alter their internationalization strategy by implementing a new business model based on the export of knowledge and know-how only. The company realized that finding a local partner (e.g., Tata Motors in India) to participate in its operations would reduce the investment of time, energy, and financial resources. In line with what has been noted by Dunning (2001), Marcopolo had previous ownership advantages and found a way to increase them by taking part in joint-venture agreements, which have increased the institutionally-related ownership advantages of the company. Furthermore, Marcopolo has been able to exploit new business opportunities as a consequence of administrative arbitrage. For example, Tata Motors helped the company become the supplier of buses to be used in the public transport system in India. Based on these discussions, following two propositions are formulated:
Proposition 4a: Latin American firms that adjust their domestic business model to the demands of the foreign market will outperform those that project their domestic business model.
Proposition 4b: Latin American firms that choose foreign business models based on local partnerships outperform those that rely more on internalization.

• *Organizational Model.* The organizational model is also relevant to the value creation strategy, since the way the company organizes itself may inhibit or enhance knowledge creation (Boudreau, Loch, Robey, & Straud, 1998). For instance, does the company create mechanisms for transforming tacit knowledge based on experience into explicit knowledge that can be shared throughout the organization? Moreover, does the organization promote some sort of interaction between individuals based in different countries, which would allow the creation of new knowledge from the previous shared explicit knowledge? The organizational model is defined considering three critical dimensions: leadership and management, logistics and production, and relationships with clients (Guillén & García-Canal, 2009). To generate good results abroad, firms should first deconstruct their domestic organizational model focusing on these three dimensions. Then, it is crucial to identify the local conditions of external markets that can influence business decisions, given that the OLI dimensions constantly influence each other (Malhotra & Hinings, 2010). Only after a thorough understanding of the local environment can firms redesign their organizational models so as to maximize its ownership advantages via knowledge creation. This is a considerable organizational challenge faced by Multilatinas in their internationalization processes (Fleury *et al.*, 2010).

Gerdau has developed a sophisticated organizational model called the "Gerdau Business System" (GBS), which is considered one of the key success factors of the international expansion of the Brazilian steel company (Miranda, 2009). For Gerdau executives, the organizational model of the company has a great strategic value and it gives the company traces of a metanational firm. The knowledge that Gerdau accumulated through its several interna-

tional mergers and acquisitions helped the company to identify best practices in 16 macro processes such as marketing, transport, logistics, and corporate social responsibility. The macro processes are incorporated into the GBS and used in all global operations with one worldwide manager for each. These managers stay alert for the possibility of creating and sharing new knowledge, contributing thus to a structure which favors corporate learning. This process of sharing best practices is a key element of the aggregation tactic (Ghemawat, 2008). The foregoing arguments lead to the following proposition:
Proposition 5: Latin American firms that adjust their domestic organizational model to the demands of the foreign market will outperform those that project their domestic organizational model.

• *Talent and Leadership.* Successful international expansion demands a stock of talented executives and a staff able to deal with cultural differences worldwide (Mäkelä, Björkman, & Ehrnrooth, 2010). A company seeking to expand internationally also needs to constantly evaluate the best balance between the number of expatriates and local employees (Toh & DeNisi, 2003). Hence, one important point that should be taken into consideration is whether the firm can attract talented people at home and abroad (Ready, Hill, & Conger, 2008). The creation of international value takes place when both the original corporate culture of the firm and the culture of the target countries are taken into account and assimilated in a way to create a new culture that provides unity within the corporation. The main purpose of this approach is to increase the competitiveness of Multilatinas in the international talent market, as they tend to have less advantage when compared to traditional MNEs or local companies. Haberer and Kohan (2007:4) noted that "one of the main factors restricting the overseas growth of many Latin American businesses is a shortage of managers who can work effectively abroad". Concordantly, several Brazilian executives affirmed that leadership and people management are amongst the greatest challenges in the internationalization process of their firms.

The internationalization of WEG, a Brazilian worldwide producer of electric motors, illustrates the challenges of managing people across different cultures. The CEO of the company commented that the entrance of WEG into China in 2004 was a very difficult experience. The company decided to buy a small state-owned firm to improve its operational and commercial logistics and thus enhance its presence in the Asian market. At first, WEG leaders adopted a strategy of making the fewest changes possible in the Chinese subsidiary. All the former Chinese managers were maintained, and a Brazilian was sent to be the CFO. No Chinese employees were fluent in English though, and ultimately this strategy did not work as well as expected. In a second phase, the firm decided to hire a local general manager fluent in English with multinational experience. This considerably improved communication, but the subsidiary continued to experience problems. In a next step, WEG hired a local with years of experience working in a Brazilian MNE, a strategy that is still currently in place. Thus WEG is attempting to be a metanational by learning from its foreign management. This local adaptation is not considered a deviation from plan, but rather an integral part of its talent management strategy. A strategy based on flexibility, the cornerstone of successful Multilatinas. These discussions on talent and leadership suggest the following proposition:
Proposition 6: Latin American firms that adjust their domestic policies of leadership and people management to the demands of the foreign market will outperform those that project their domestic policies of leadership and people management.

• *Stakeholder Management.* As Dunning (2006b) has highlighted in his recent writings, the private sector also performs a fundamental role for the development of society, either through job creation, adoption of sustainable practices, or investment in local communities. Global-reach companies may have a different set of stakeholders, defined as any group or individual who has a vested interest in the project and may exert influence over that project (Antonioni, 2009), in every location in which they operate. It is thus important to assess if the relationship between the multinational and the stakeholders that it interacts with is positive and constructive. Socially responsible corporations have realized that by serving the common good, they may also serve themselves (Porter & Kramer, 2006). Previous studies highlight that Multilatinas have built important competitive advantages in this regard (Casanova & Dumas, 2010). In other words, investing in stakeholders at the beginning of an international expansion effort will increase the institution-related capabilities of the company and create value for it in the future (Harrison, Bosse, & Phillips, 2010). This process begins with an examination of the firm's domestic stakeholders, and then analyzing what differences exist abroad.

The case of Vale's operation in Mozambique is a clear example of how stakeholder-related capabilities are important for value creation. Since its privatization, Vale has focused on its mining core business with the aim of becoming a one-stop-shop for the steel industry. As stated by Vale's CFO, the company goes where the mines are, thus the decision of where to establish its international operations is directly related to the availability of natural resources worldwide. This has taken Vale to politically unstable and infrastructure-lacking countries, where the management of political and institutional risks is a crucial dimension of the internationalization process (Yongqiang, 2009). The establishment of a Greenfield project for coal exploration in Mozambique is considered by the company a benchmark regarding the management of stakeholders. Given the extractive nature of Vale's operation, one of its key stakeholders in Brazil is the national government. While the national government is also important in Mozambique, the local community plays a central role because of local traditions and the need to engage the inhabitants. Thus, Vale has invested in the development of human capital, infrastructure, and a sustainable livelihood for its employees. These measures have been well received in the country so far. This can be seen as a result of institutionally-related capabilities developed by Vale throughout its history, based on flexibility, as well as a consequence of an assertive position of using adaptation and arbitrage strategies given the limitations of a natural-resource based industry. Based on these arguments, the final proposition is:
Proposition 7: Latin American firms that adjust their domestic policies of stakeholder management to the demands of the foreign market will outperform those that project their domestic policies of stakeholder management.

3.3. Final Remarks

The five elements of the IVCM presented here all work together with the aim of providing sustainable performance to Multilatinas in the context of international expansion. A pivotal element of this model is that it is dynamic. As the diagram (Figure 3) illustrates, the model is a process and thus not static. For instance, adjustments to the firm's business model affect its organizational model, and how it attracts talent in the foreign markets. And this process of adjustment continues to circulate until the firm establishes a plan of entry.

Yet, as the OLI, AAA, and LLL paradigms illustrated in the literature review section, managing the knowledge gained by going through this process is critical to the long-term success of the firm. For instance, if a Multilatina codifies the elements of the IVCM during an expansion into a foreign market, it will have established a rare form of tacit knowledge (Barney *et al.*, 2001). This knowledge should be built upon when the firm considers going into a second (and so forth) market. The firm that is able to accumulate this tacit knowledge will have an greater competitive advantage in the global marketplace, as Dunning (2006b) and Doz *et al*. (2001) emphasize.

Finally, while Multilatinas have been able to use their competitive advantages which they built in their domestic markets to find niches in the international marketplace, these advantages may not be enough to survive as competition abroad intensifies. For example, the institutional history of Brazil has forced firms to learn to be flexible. This flexibility has helped firms to adapt to some of the most difficult business environments around the world. Yet the Chinese, Indians, and Russians also share elements of this capability, and are also competing in the same growing markets (e.g., Africa). By building on their ability to be flexible by learning through the IVCM, Multilatinas will continue to profit abroad.

4. Conclusion

This paper has developed a model that attempts to guide Multilatinas towards value creation in the internationalization process. The review of the IB literature on global strategy revealed that the current global scenario requires that MNEs move beyond traditional strategies of projection and adaptation to harness sources of value creation offered by differences among countries. This is especially relevant for Multilatinas, since they face considerable challenges competing against traditional MNEs that typically have more brand power, access to capital, and attractiveness in the talent market. On the other hand, the literature review has also shown that EMNEs hold ownership-advantages that can play important roles in their internationalization process, such as ability to manage stakeholders, and better knowledge of emerging market consumers. Furthermore, recent studies on leading EMNEs show that their "unconventional" thinking has led to further improvements of their ownership-advantages which sometimes place them at the same level of incumbent MNEs.

This study extends traditional global strategy theories by underscoring how Multilatinas can take advantage of the opportunities offered by the current global economy, combining recent findings of Dunning (2001; 2006b), Ghemawat (2007b), Doz *et al.* (2001), and other scholars. The theoretical approach of the paper has combined a brief contextual overview of Multilatinas with primary and secondary data, providing the basis for the development of the IVCM. The model highlights that companies from Latin America that decide to operate internationally must overcome a set of challenges that are intrinsically different from what they face in their home markets. Once Multilatinas deconstruct the reasons for their success at home, the model can guide firms towards the identification of the main issues to be considered during their internationalization process. Flexibility is a key comparative advantage of Multilatinas, and the five dimensions discussed here are especially relevant to the design of successful international strategies. The Brazilian cases presented in the paper illustrate that the challenges faced in the internationalization process are not easy to overcome, yet value creation is possible.

In conclusion, although the model has been presented here through the lens of a Latin American viewpoint, it might also be customized for MNEs from other regions, especially from other emerging markets. A limitation of this paper is that the model has not been empirically tested and its boundaries still need further development. Exposing the model to other Latin American firms could provide additional insight into these limitations. Future research could also derive empirically testable variables from the frameworks and propositions presented here so as to improve and extend the explanatory power of the model. Nevertheless, the model provides practitioners as well as academics with an important process to enhance international value creation.

References

Economist. 2009. Brazil takes off. (cover story), Economist, Vol. 393: 15-15: Economist Newspaper Limited.

Agtmael, A. 2007. The Emerging Markets Century: How a New Breed of World-Class Companies Is Overtaking the World. New York: Free Press.

Alvim, F. J., super long name. 2010. Amazing IB Model, RAC, Vol. 2: 78-90.

Amit, R., & Zott, C. 2001. Value Creation in E-business. Strategic Management Journal, 22(6/7): 493.

Antonioni, D. 2009. Crafting the art of stakeholder management. Industrial Management, 51(1): 18-22.

Aulakh, P. S. 2007. Emerging multinationals from developing economies: Motivations, paths and performance, Journal of International Management, Vol. 13: 235-240.

Barney, J., Wright, M., & Ketchen Jr, D. 2001. The resource-based view of the firm: Ten years after 1991. Journal of Management, 27(6): 625-641.

Bartlett, C. A., & Ghoshal, S. 2001. Managing Across Borders: The Transnational Solution, 2nd Edition (Hardcover). Harvard Business School Press Books: 1.

Boudreau, M.-C., Loch, K. D., Robey, D., & Straud, D. 1998. Going Global: Using information technology to advance the competitiveness of the virtual transnational organization. Academy of Management Executive, 12(4): 120-128.

Burt, S. L., Mellahi, K., Jackson, T. P., & Sparks, L. 2002. Retail internationalization and retail failure: issues from the case of Marks and Spencer. International Review of Retail, Distribution & Consumer Research, 12(2): 191-219.

Cappelli, P. 2009. The Future of the U.S. Business Model and the Rise of Competitors. Academy of Management Perspectives, 23(2): 5-10.

Casanova, L. 2009. Global Latinas : Latin America's emerging multinationals. New York: Palgrave Macmillan.

Casanova, L., & Dumas, A. 2010. Corporate Social Responsability and Latin American Multinationals. Universia Business Review, Q1: 132-148.

Collis, D. J., & Rukstad, M. G. 2008. Can You Say What Your Strategy Is? Harvard Business Review, 86(4): 82-90.

Cuervo-Cazurra, A. 2008. The multinationalization of developing country MNEs: The case of multilatinas. Journal of International Management, 14(2): 138-154.

Cuervo-Cazurra, A. 2010. Multilatinas. Universia Business Review, Q1: 14-33.

Dawar, N., & Frost, T. 1999. Competing with GIANTS. Harvard Business Review, 77(2): 119-129.

del Sol, P. 2010. Chilean Regional Strategies in Response to Economic Liberalization. Universia Business Review, Q1: 112-131.

Dominguez, L. V., & Brenes, E. R. 1997. The Internationalization of Latin American Enterprises and Market Liberalization in the Americas: A Vital Linkage. Journal of Business Research, 38(1): 3-16.

Doz, Y. L., & Kosonen, M. 2008. Fast Strategy: How strategic agility will help you stay ahead of the game. United Kingdom: Pearson Education Limited.

Doz, Y. L., Santos, J., & Williamson, P. J. 2001. From Global to Metanational: How Companies Win in the Knowledge Economy (Hardcover): 1.

Dunning, J. H. 1977. Trade, location of economic activity and the MNE: a search for an eclectic approach. In B. Ohlin, P. Hesselborn, & P. Wijkman (Eds.), The International Allocation of Economic Activity: 395-431. London: Macmillan.

Dunning, J. H. 2000. The eclectic paradigm as an envelope for economic and business theories of MNE activity. International Business Review, 9(2): 163.

Dunning, J. H. 2001. The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. International Journal of the Economics of Business, 8(2): 173-190.

Dunning, J. H. 2006a. Comment on Dragon multinationals: New players in 21st century globalization. Asia Pacific Journal of Management, 23(2): 139-141.

Dunning, J. H. 2006b. Towards a new paradigm of development: implications for the determinants of international business. Transnational corporations, 15(1): 173-227.

ECLAC. 2009. Foreign Direct Investment in Latin America and the Caribbean: UN Publications.

Fleury, A., Fleury, M. T., & Reis, G. G. 2010. The Path is Made by Walking: The Trajectory of Brazilian Multinationals. Universia Business Review, Q1: 34-55.

Ghemawat, P. 2007a. Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter (Hardcover). Harvard Business School Press Books: 1.

Ghemawat, P. 2007b. Why the World isn't Flat. Foreign Policy(159): 54-60.

Ghemawat, P. 2008. Reconceptualizing international strategy and organization, Vol. 6: 195-206.

Ghemawat, P., & Hout, T. 2008. Tomorrow's Global Giants. Harvard Business Review, 86(11): 80-88.

Grosse, R. 2001. International Business in Latin America. In A. M. Rugman (Ed.), Oxford Handbook of International Business: 652-680: Alan M. Rugman.

Guillén, M. F., & García-Canal, E. 2009. The American Model of the Multinational Firm and the «New» Multinationals From Emerging Economies. Academy of Management Perspectives, 23(2): 23-35.

Haberer, P. R., & Kohan, A. F. 2007. Building global champions in Latin America. McKinsey Quarterly: 43-49.

Harrison, J. S., Bosse, D. A., & Phillips, R. A. 2010. Managing for stakeholders, stakeholder utility functions, and competitive advantage. Strategic Management Journal, 31(1): 58-74.

Heenan, D. A., & Keegan, W. J. 1979. The rise of third world multinationals. Harvard Business Review, 57(1): 101-109.

Jones, V. 2005. The Rhythms in Latin America: A Context Guide for Qualitative Research. In R. Marschan-Piekkari, & C. Welch (Eds.), Handbook of qualitative research methods for international business. . Elgar: Cheltenham.

Khanna, T., & Palepu, K. G. 2002. Emerging Giants: Building World-Class Companies in Emerging Markets. Harvard Business Review, 57: 101-109.

Kosacoff, B., & Ramos, A. 2010. Three Phases in the Internazionalization of Argentinian Manufactoring Firms. A History of Pioneers, Raids and Fragility Universia Business Review, Q1: 56-75.

Lall, S. 1983. The New Multinationals: The Spread of Third World Enterprises. New York: John Wiley & Sons Ltd.

Mäkelä, K., Björkman, I., & Ehrnrooth, M. 2010. How do MNCs establish their talent pools? Influences on individuals' likelihood of being labeled as talent. Journal of World Business, 45(2): 134-142.

Malhotra, N., & Hinings, C. R. 2010. An organizational model for understanding internationalization processes. Journal of International Business Studies, 41(2): 330-349.

Mathews, J. 2006. Dragon multinationals: New players in 21st century globalization. Asia Pacific Journal of Management, 23(1): 5-27.

Miranda, M. 2009. Knowledge Sharing in Brazilian Multinational Corporations. In J. Ramsey, & A. Almeida (Eds.), The Rise of Brazilian Multinationals: Making the leap from regional heavyweights to true multinationals: 89-110. Nova Lima: Fundação Dom Cabral.

Pauwels, P., & Matthyssens, P. 1999. A Strategy Process Perspective on Export Withdrawal. Journal of International Marketing, 7(3): 10-37.

Peltier, S. 2004. Mergers and Acquisitions in the Media Industries: Were Failures Really Unforeseeable? Journal of Media Economics, 17(4): 261-278.

Porter, M., & Kramer, M. 2006. Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review(December): 78-92.

Porter, M. E. 1996. What Is Strategy? Harvard Business Review, 74(6): 61-78.

Prahalad, C., & Doz, Y. L. 1987. The Multinational Mission: Balancing Local Demands and Global Vision. New York: Free Press.

Ready, D. A., Hill, L. A., & Conger, J. A. 2008. Winning the Race for Talent in Emerging Markets. (cover story). Harvard Business Review, 86(11): 62-70.

Sirkin, H. L., Hemerling, J. W., & Bhattacharya, A. K. 2008. Globality: Competing with Everyone from Everywhere for Everything. New York: Business Plus.

Toh, S. M., & DeNisi, A. S. 2003. Host Country National Reactions to Expatriate Pay Policies: A Model and Implications. Academy of Management Review, 28(4): 606-621.

Toulan, O. N. 2002. The Impact of Market Liberalization on Vertical Scope: The Case of Argentina. Strategic Management Journal, 23(6): 551.

Travesso, D. 2007. Como as empresas brasileiras estão enfrentando os desafios da internacionalização. In A. Almeida (Ed.), Internacionalização de Empresas Brasileiras: Perspectivas e Riscos: 119-140. Rio de Janeiro: Elsevier.

UNCTAD. 2009. The World Investment Report 2009.

Vernon, R. 1966. International investment and international trade in the product cycle. Quarterly Journal of Economics, 80(2): 190-207.

Yeung, H. W.-C. 1994. Third World multinationals revisited: A research critique and future agenda. Third World Quarterly, 15(2): 297-317.

Yongqiang, G. 2009. Managing Political Risk in Cross-national Investment: A Stakeholder View. Singapore Management Review, 31(1): 99-114.

Zott, C., & Amit, R. 2008. The fit between product market strategy and business model: implications for firm performance. Strategic Management Journal, 29(1): 1-26.

R E V I S T A | J O U R N A L | R E V I S T A
Globalización, Competitividad y Gobernabilidad | Globalization, Competitiveness & Governability | Globalização, Competitividade e Governabilidade

GCG
GEORGETOWN UNIVERSITY universia

New Zealand Agri-business Investment in South America: A Global Value Chain Perspective*

AREA: 2
TYPE: Cases

Inversión agroindustrial de Nueva Zelanda en Sudamérica: Una perspectiva de la cadena de valor global

Investimento agro-industrial da Nova Zelândia na América Latina: Uma perspectiva de cadeia de valor global

AUTHORS

Christina Stringer[1]
Department of Management and International Business.
The University of Auckland, New Zealand
c.stringer@auckland.ac.nz

Gloria Ge
Department of Management and International Business.
The University of Auckland, New Zealand
g.ge@auckland.ac.nz

1. Corresponding Author: Department of Management and International Business; The University of Auckland; Private Bag 92019; Auckland; New Zealand.

Using the global value chain analysis as a theoretical framework, this paper examines investment by New Zealand agri-business companies in South America. Of key importance within the global value chain analysis is the role that lead firms within an industry play in establishing and maintaining production links. Two of New Zealand's leading agri-business companies actively engaged in South America are Fonterra Co-operative Limited, the fifth largest dairy company globally, and PGG Wrightson, New Zealand's largest rural service provider. Our study indicates that by integrating South America in their global value chain, New Zealand agri-business companies are shaping production linkages and developing new markets, meanwhile, they are adding value to local farming practices.

A partir del análisis de la cadena de valor global como marco teórico, este artículo analiza la inversión realizada por empresas agroindustriales neozelandesas en Sudamérica. Una importancia vital dentro del análisis de la cadena de valor global la tienen las firmas líder de un sector para establecer y mantener vínculos de producción. Dos de las empresas agroindustriales más importantes de Nueva Zelanda con relación activa con Sudamérica son Fonterra Co-operative Limited, la quinta empresa de productos lácteos más grande del mundo, y PGG Wrightson, el proveedor de servicios rurales más grande de Nueva Zelanda. Nuestro estudio indica que al integrar a Sudamérica en su cadena de valor global, las empresas agroindustriales neozelandesas están dando forma a vínculos de producción y desarrollando nuevos mercados, mientras siguen aportando valor a las prácticas agrarias locales.

Usando a análise de cadeia de valor global como enquadramento teórico, o presente artigo examina o investimento das companhias agro-industriais neozelandesas na América do Sul. De importância chave na análise de cadeia de valor global é o papel que as principais firmas de uma indústria desempenham no estabelecimento e manutenção das relações de produção. Duas das grandes companhias agro-industriais da Nova Zelândia activamente empenhadas na América do Sul são a Fonterra Co-operative Limited, a quinta maior companhia leiteira do mundo, e a PGG Wrightson, o maior fornecedor neozelandês de serviços agrícolas. O nosso estudo indica que, ao integrarem a América do Sul na sua cadeia de valor global, as companhias agro-industriais neozelandesas estão a formular relações de produção e a desenvolver novos mercados, ao mesmo tempo que adicionam valor às suas práticas agrícolas locais.

* We would like to thank the reviewers and conference attendees at the AIB-LA conference for their constructive feedback. We also would like to thank the industry personnel we interviewed as well as our research assistant Fiona Natusch for researching and translating Spanish sources.

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.05	01.09.2010	30.10.2010

1. Introduction

Over the last few decades, South American countries have increasingly become efficient agricultural producers. As such they are spearheading a "global shift in food production" (Rother 2004). Advances in agronomy, the introduction of new technologies and techniques, coupled with macroeconomic reforms are reasons behind the increase in agricultural productivity in the region. Argentina, Brazil and Chile, in particular, are key suppliers of agricultural products, from raw materials through high value added products, to international markets. In 2007 Argentina and Brazil produced approximately 43.8 percent of the world's soybean production (Masuda and Goldsmith 2008). In turn, Uruguay and Argentina are key suppliers of beef to international markets (Mathews and Vandeveer2007).As the agricultural sector in countries in this region has developed, so has the demand for agricultural inputs and expertise. New Zealand companies, leaders in world agricultural technology and agricultural business areas, are building on firm and industry specific advantages to invest in the region and gain access to resources and markets. In particular, the dairy industry in South America is not as well developed as the New Zealand industry and provides a number of opportunities for New Zealand dairy investors.

Progressively more New Zealand companies are recognising opportunities in South America and are actively seeking new ways of engaging in the region as part of their global strategy. Two leading New Zealand companies actively engaging in South America are Fonterra Co-operative Limited and PGG Wrightson Limited (hereafter Fonterra and PGG Wrights on respectively). Both companies have undertaken a number of initiatives in South America. Fonterra is New Zealand's largest company in terms of contribution to GDP and globally is the fifth largest dairy company. Fonterra trades in over 140 countries, has processing facilities on four continents and has entered into strategic partnerships with multinational food companies, such as, Nestlé and Arla (Stringer, Tamásy, Le Heron and Gray 2008). Globally, Fonterra has a competitive advantage through in-market presence and global production and supply networks. As part of Fonterra's global strategy to obtain fresh milk supplies and service markets, the company has a local production growth strategy. Fonterra's investments in South America include a 99.8percent stake in Soprole, the largest milk processor in Chile, and Dairy Partners America (DPA) a strategic alliance with Nestlé, which operates 13 joint ventures in South America. PGG Wrightson is New Zealand's largest agricultural provider, with interests in livestock, wool, seeds, animal nutrition, farm supplies, finance, real estate, insurance, irrigation, consultancy and training (PGG Wrightson 2008a). PGG Wrightson has vertically diversified investments, ranging from seed to animal husbandry, in South America with a concentration in Uruguay. The company initially entered South America through the exporting of stock seed to Argentina, Chile and Uruguay. Key markets were developed in South America, and in particular, the Southern Cone as this region has similar climatic conditions to those found in New Zealand. Through their diversified investments, Fonterra and PGG Wrights on are integrating South America into their global value chains. They are adding value to farming practices in the region through local educational and market development initiatives.

A key focus of the global value chain analysis is the emphasis on cross-border linkages between firms as a determinant of competitiveness and upgrading (Bair 2008) and in particular how individual chains are governed through inter-firm linkages (Gibbon and Ponte 2008).This research draws upon the global value chain literature to examine New Zealand

Key words
Agriculture, Multinational firms, New Zealand, South America, Fonterra, PGG Wrightson

Palabras clave
Agricultura, firmas multinacionales, Nueva Zelanda, Sudamérica, Fonterra, PGG Wrightson

Palavras-chave
Agricultura, firmas multinacionais, Nova Zelândia, América do Sul, Fonterra, PGG Wrightson

JEL Codes
F23; M16

agri-business investment in South America. Particularly this paper seeks to answer the following questions. First, which role is South America playing in the global value chain of New Zealand agri-business? Second, which governance structure is adopted by New Zealand agri-business companies in South America? And third, what impact does New Zealand agri-business investment bring to the local agri-business sector?

The paper is organised as follows. In the next section we discuss the global value chain analysis and its applicability to agri-business research. Based on this theoretical background, four propositions are developed. We then discuss methodology before examining the development of major New Zealand agri-business value chains in South America with a particular focus on Fonterra and PGG Wrightson. The findings are discussed in section five. The paper concludes with implications and suggestions for future research directions.

2. Global Value Chains

The global value chain analysis seeks to understand how “global industries are organised” (Bair 2005, 157) and views the global economy as comprising a series of “product-specific ‘value chains’ rather than of liberalised markets” (Gibbon and Ponte 2008, 366). Key to the analysis is the understanding of where and how value is created along the chain (Bair 2005). In his conceptualisation of the global value chain analysis, Gereffi (1994) sought to explain changing trends in global manufacturing and specifically the growing influence of retailers and brand-names companies in “creating production, distribution and marketing networks” (Humphrey and Memedovic 2006, 7). Increasingly key companies were beginning to play a strategic role in design and value coordination while not owning manufacturing production. Gereffi(1994)identified four dimensions to global value chains: 1) an input-output structure consisting of a set of products, services and resources which are necessary to “bring a specific product from its conception to its end use” (Gibbon and Ponte 2005, 77); 2) a geographical dimension encompassing a concentration of firms in different production and distribution networks; 3) a governance or coordination mode; and, 4) an institutional context which includes government, multilateral agencies and regulatory bodies which shape the rules in which a value chain is embedded.

Gereffi (1994) introduced the geographical or territoriality dimension describing it as “spatial dispersion or concentration of production and distribution networks, comprised of enterprises of different sizes and types” (p.97). Firms are increasingly spreading their production chains over various geographical locations, so that they can benefit from the advantages provided by different locations. Inputs are shipped in ever more complex pattern, and intra-firm trade makes up an increasing share of worldwide trade flow.

In recent years the agri-business value chain has gone through dramatic changes in terms of “how food is produced, distributed, consumed and controlled – and by high levels of concentration of market share” (Lang 2003, 555). There has been a marked shift from sourcing food at the local and regional levels to sourcing globally by lead firms. Large New Zealand

agri-companies have transformed themselves from exporters of New Zealand products into global players operating a global network of suppliers and firms, and supplying products to global markets. The increasing agricultural productivity and demand for agri-products in South America has made the region an important sourcing place and market for New Zealand agri-companies. Therefore we propose:
Proposition 1: South America is a key node in the global value chains of large New Zealand agri-business companies.

In his initial work on global commodity chains, Gereffi identified two key governance models: producer-driven and buyer-driven. Producer-driven chains are characterised by companies who control product and process technologies in capital-intensive industries (e.g. automobile industry).The buyer-driven chains, in contrast, are comprised of large retailers, brand-name merchandisers and trading companies which can control design and marketing but are not actually involved in the production process. The relationship between buyer-driven retailer firms, who “call the shots” and the firms and suppliers they manage in an external contracting relationship is largely characterised by non-equity ties (Bair 2008, 349). Gereffi’s dichotomy has been disputed as it was seen to miss new types of governance structures which were emerging or chains with no clear “drivers” and the governance concept has been debated and refined several times (see for example, Henderson, Dicken, Hess, Coe and Yeung 2002; Dicken 2003; Gereffi, Humphrey and Sturgeon 2005).In later work, Gereffi in collaboration with other researchers (Gereffi *et al.* 2005) outlined five types of value chain coordination modes: market in which the relationship is governed by arms-length market transactions; modular wherein lead firms will supply full packages with limited monitoring; relational value chains highlighting a mutual dependency between supplier and buyer firms; captive value chains where the supplier is dependent on the buyer; and hierarchal or vertical integration where the buyer develops design and production skills as these are too complex for suppliers.

The inter-firm relationships that typify the global value chain governance structure are also applicable in agribusiness value chains (Humphrey and Memedovic 2006; Gibbon 1999; Fold 2002; Ponte 2002) where governance may occur through arms-length transactions or non-market relationships (Giuliani, Pietrobelli and Rabellotti 2005). Standardised agricultural products are characterised by arm-length transactions and operate largely under market forces. In contrast, small scale producers dependent on large companies which exercise control – for example through access to markets and resources – operate under a captive governance scheme. The third category, relational governance, reflects strategic alliances between agri-business firms. Under the modular governance arrangement, specifications are easy to transfer and buyers can easily switch between one supplier and another (Humphrey and Schmitz 2008). The hierarchical mode, or vertical integration, occurs when a firm ensures coordination through ownership (Gereffi, Lee and Christian 2009). According to Dolan and Humphrey (2004), the governance costs are lowest for market and modular value chains and highest for relational and captive chains.

Governance in the global value chain literature is a dynamic concept. Gereffi *et al.* (2005) suggest some possible patterns of evolution of governance, and relate them to the change of the complexity of transactions, of the codifiability of transactions, and of the competence of suppliers. When New Zealand agri-companies first entered South America, a market governance structure was normally chosen. They sourced agri-products from South America through arms-length market relationship. In order to better control the quality of their supplies and to protect their technological know-how, New Zealand agri-companies gradually moved to more hierarchical governance model, in which they exercise a great deal of control over other firms in the value chain. This includes specifying the characteristics of products to be produced, the process and the control mechanism to be followed. Therefore, we propose:

Proposition 2: New Zealand agri-business companies initially enter South America through a market governance structure and overtime a shift in governance in their operations will occur.

The global value chain analysis seeks to understand the asymmetrical power of lead firms in organising and structuring value chains and consequences for local producers entering into global value chains (Humphrey and Schmitz 2002; Gereffi *et al.* 2005). The governance of value chains encompasses both coordination and market power and refers explicitly to the "coordination mechanism that facilitates exchange between two particular links in the chain" (Bair 2008, 353). Lead firms can also be involved in production upgrading, process upgrading, and as well as being involved in quality control systems and labour conditions. According to Humphrey and Memedovic (2006) agri-business value chains are dominated by lead firms exercising vertical coordination. "Lead firms in value chains are able to make key decisions about inclusion and exclusion of particular suppliers, the distribution of particular activities between different actors in the chain and even the structure of production (for example, whether small firms are incorporated into value chains or not)" (Humphrey and Memedovic 2006, 13).

The decision by lead firms to incorporate local firms into their global value chain can provide opportunities for local producers to "generate and retain more value" (Bair 2005, 161). So as to ensure local firms meet product and quality standards, lead firms establish parameters outlining what will be produced and the way in which it will be produced (Bair 2005). One of the most significant trends in the agri-business value chain in recent years has been the requirements of lead firms in terms of supply and standards as the customization of production is increasingly being shaped by lead firms. Lead firms may transfer up-to-date knowledge and technology to the producer thus benefiting not only themselves but also the local firm. Knowledge transfer may occur through a deliberate mechanism as well as through unintended spill over mechanisms (Altenburg 2006). The transfer of knowledge and technology is not however guaranteed and can vary considerably between lead firms and producers. Humphrey and Memedovic (2006) identify that lead firms will invest in local firms when three conditions are satisfied: "the buyer must need better capabilities than are currently available; the product cannot be sourced collectively from other suppliers; and the benefits from the investment in the supplier must be appropriable by the buyer" (p. 584). Notwithstanding, the local firm's ability and competence to undertake upgrading is a critical factor. New Zealand's small domestic market coupled with the country's geographical distance from principle markets such as the European Union and North America has meant that New Zealand agri-business companies continually need to invest in technology in order to maintain global competitiveness. As such, New Zealand companies have developed "state-of-the-art processing, packaging, agri-tech equipment, machinery and software" (Vitalis 2007, 5).Therefore, we propose:

Proposition 3: New Zealand agribusiness companies play a key role in reshaping farming and production practices in South America.

As discussed above, the incorporation of a local firm into a lead firm's global value chain can provide access to knowledge and technology that allows local producers to develop new competitive advantages (Altenburg 2006).Lead firm demands in terms of product quality and standards may lead to substantial upgrading being necessary (Altenburg 2006). The global value chain literature identifies three types of upgrading that can occur: process, product and functional upgrading. Process upgrading occurs when a company seeks a more efficient way of transferring inputs into outputs. Product upgrading refers to when a company moves from producing at the low end of the market to producing more value-added products within the same sector. In contrast, functional upgrading occurs when a company shifts into a different value chain activity or acquires superior functions within the chain (Humphrey and Schmitz 2000; 2002; Kaplinsky 2000). As leaders in the agri-business field, New Zealand companies provide scope for a number of upgrading possibilities for South American farmers. New Zealand companies have invested significantly over the years in productivity improvements and technology and hence can offer local firms incorporated into their value chain, access to substantial advantages in technology and productivity. Hence, we propose:
Proposition 4: Through their inclusion in New Zealand agri-business global value chains, smaller South American companies are obtaining upgrading opportunities.

3. Methodology

Despite recent high profile investments by New Zealand companies in South America, it is still a relatively new phenomenon for New Zealand companies to invest in South America. Therefore, we chose to use the case study method approach in this paper. The case study method provides rich information that will allow us to more fully understand the dynamics underpinning strategies New Zealand companies are implementing in South America. Such information cannot be easily obtained through a general quantitative analysis.

The methodology comprises in-depth semi-structured interviews undertaken with company representatives in New Zealand, Chile and Brazil as well as with New Zealand and Chilean government officials and industry personnel. There are three rounds of interviews in total. The two authors carried out their first round interviews with company representatives of the two case companies discussed in this paper as well as with other leading New Zealand agri-business companies with key interests in South America from August to October 2008. The second round of interviews were undertaken in Chile and Brazil in November 2008. From February to July 2009, a third round of interviews were taken out in New Zealand for additional information and clarification regarding the case companies.

The interviewees from the two case companies and other New Zealand agri-business companies hold top managerial positions and have been directly involved in their companies' operations and strategy making in South America. For each company, there is more than one interviewee, by which we believe we can obtain a more complete picture about a company's operation in South America. New Zealand government officials that we interviewed include the Director of New Zealand Trade and Enterprise (NZTE), the New Zealand Government's economic development agency, in South America and First Secretary of New Zealand Embassy in Chile. Senior government officials from the Chilean Economic Development Agency (CORFO) were also interviewed regarding Chilean government's policies and strategies in facilitating the trade and investment opportunities between New Zealand and Chile. All the interviews were carried out by the two authors together. Whenever permitted, the interviews were audio taped and transcribed. After each interview, the two authors compared notes and had detailed discussion on the interviewees' responses to our interview guideline.

Secondary data from newspapers and databases such as Global Market Information Database and Factiva was also collected for each company as well as the company's annual reports. As both Fonterra and PGG Wrightson's are leaders in the agri-business sector in New Zealand, in-depth information was readily available on the Internet and an extensive Internet search was undertaken. Research was also undertaken using Spanish language sources.

4. New Zealand Agribusiness Companies in South America

For many years New Zealand was viewed as Britain's overseas farm and agricultural production, in particular New Zealand's meat and dairy industries, was shaped by the demands of the British market. Following the admittance of Britain into the European Economic Community (EEC) (later to become the European Union) in the 1970s, New Zealand farmers were forced to diversify and expand their geographical markets. By the early 1980s, Australia had replaced Britain as New Zealand's principal trading partner and by the mid-1990s Japan, Korea and Taiwan were key export markets for New Zealand. However, it wasn't until the late 1990s that New Zealand companies seriously began to consider South America as a strategic node in their global value chain and began to look for and create opportunities in South America, especially in the dairy industry.

The expansion and diversity of export markets following Britain's admittance to the EEC reshaped New Zealand's agri-business chains as companies along the value chain strategically laid the foundation for further expansion and control of value added nodes along the chain. This, in turn, resulted not only in the reshaping of production but also the reshaping of inter-company linkages. New Zealand is a small country and companies internationalize in order to remain competitive. New Zealand's economy remains dominated by the agricultural sector with over 90 percent of agricultural production exported. Agriculture and horticulture exports contribute to over 50 percent of merchandise export earnings (ABARE and MAF 2006). In 2008, agricultural and horticulture exports earned $NZ23.4 billion in revenue; over 50 percent of which was from the dairy industry (Statistics New Zealand 2010).

Investment by New Zealand companies in South America is in line with an increased focus by the New Zealand government towards the region. In 2000, the New Zealand government launched the Latin America Strategy, an initiative to enhance New Zealand's political and economic relations in recognition that the "region holds great, but unrealised, potential for New Zealand" (Ministry Foreign Affairs and Trade 2008). The Strategy was reaffirmed in

2006, signalling an on-going commitment. Part of this Strategy was the implementation of the Trans Pacific Strategic Economic Partnership Agreement (P4) with Chile, Brunei, and Singapore. In 2007, the Minister of Trade led a Trade Mission to Argentina, Brazil, Chile and Uruguay in recognition of investment interests by New Zealand companies in these countries and to encourage continuing collaboration by New Zealand agri-business companies in this region.

The rapid growth and development of the agricultural sector in South America is opening up new opportunities. New Zealand agri-business companies are engaging in South America in order to supply local and regional markets in addition to developing South America as an export platform. New Zealand companies have developed a competitive advantage in knowledge dissemination at the primary production and processing levels; this advantage has been facilitated, in part, by educational institutions in New Zealand. The educational and cultural importance of the agricultural sector has not been facilitated to the same extent in South American countries and this provides an opportunity for New Zealand companies to export knowledge. Geographical and climatic similarities, particularly in the Southern Cone, means that New Zealanders undergo less of an adjustment period when investing in this area.

Recognising the increasing importance of South America to New Zealand agribusiness companies, NZTE implemented a Food Value Chain project. The objective of this project is to promote investment and commercial collaboration by New Zealand agribusiness companies in Argentina, Brazil, Chile, and Uruguay. A core focus of the project is educating local farmers about New Zealand pastoral farming techniques as an essential part of market development. In Chile, local monitor farms have adopted the New Zealand programme, known as TechnoKiwi (Oram 2008).The Chilean Economic Development Agency (CORFO) also recognises the potential for New Zealand agri-business farmers to add value in Chile and has actively sought to identify New Zealand companies "seeking new locations for research and development or investment projects" (NZTE 2008a, 2).

Examples of New Zealand companies and investors active in South America include Novazel, the Chilean subsidiary of the New Zealand company Flowerzone. Novazel is applying New Zealand agriculture technology in Chile and within a five year period grew from simply being a bulb breeding operation to become one of the largest flower exporting companies in Chile. In the dairy sector, Manuka and Chilterra, two small New Zealand companies, have purchased dairy farms in Chile and introduced New Zealand farming systems as well as invested in technological infrastructure. In 2008, Manuka was "placed with the top producers" in Chile (NZTE 2008b, 2).In Argentina, Ten Cows Club, a New Zealand company was established to provide the opportunity for smaller investors to invest in South America. As the name suggests, each investor purchases shares equivalent to ten cows. New Zealand farmers are bringing knowledge and experience into all stages of the value chain in South America. They have been successful in increasing production rates, improving pasture performance, and identifying the capacity and capability of the dairy industry.

The remainder of this section discusses Fonterra and PGG Wrightson's operations in South America. Increasingly South America plays an important role in both companies' global value chains as each has a number of strategic investments in South America (refer Table 1 for key financial indicators and Table 2 for an overview of Fonterra and PGG Wrightson's interests in South America).

Table 1: Key Financial Indicators

	Fonterra Co-operative Limited Year ended 31 July 2010 ($NZ million)	PGG Wrightson Limited Group Year ended 30 June 2010 ($NZ million)
Operating Revenue	16,726	1,151
EBITDA	1,078	70
Profit after Tax	685	23
Total Assets	14,169	1,526
Total Liabilities	8,502	891
Total Liabilities and Equity	14,169	1,526
Earnings per share	0.19 cents	0.04 cents

Source: Fonterra 2010a; PGG Wrightson 2010. In mid 2010, 1 NZ$ was about 0.70 US$

Table 2: Fonterra and PGG Wrightson's Interests in South America

	Fonterra	PGG Wrightson
Argentina	• DPA: 50 percent joint venture with Nestlé. Three manufacturing sites.	• Alfalfares: 51 percent interest in a seed business. • R&D alliance.
Brazil	• Fonterra (Brasil). • DPA: 50 percent joint venture with Nestlé. Six manufacturing sites with the announcement in 2008 of a new plant to be built.	• NZ Rural co Participacoes Ltd: 100 percent ownership in a seed company.
Chile	• Fonterra Brands Soprole: 99.4 percent joint venture with Fundación Isabet Aninat. Five manufacturing sites. • Prolesur: 86.2 percent direct shareholding. Three manufacturing sites. • Two model farms.	• R&D alliance.
Colombia	• DPA: 50 percent joint venture with Nestlé.	
Ecuador	• Ecuajugos S.A: 25 percent. In December 2008 DPA del Ecuador S.A. was consolidated into Ecuajugos S.A.	
Uruguay		• Romualdo Rodriguez: 51 percent shareholding in a real estate, wool and livestock company. • Veterinaria Lasplaces: 51 percent shareholding in an animal health business. • Agar Cross Uruguay: 100 percent ownership of a seed company. Agar Cross Uruguay owns Agrosan company and trademark. • Wrightson Pas SA Ltd: 100 percent ownership of a seed company. • Rural Co: 100 percent ownership. • Riegoriental: 70 percent ownership. • New Zealand Farming Systems Uruguay: 11 percent shareholding, and fund management and farm management contracts. NZFSU owns 18 farms. • R&D alliance. • Seed exported to New Zealand and Australia.
Venezuela	• Corporacion Inlaca CA 25 percent joint venture.	

Source: Authors compiled from company websites, company annual reports and company news releases

4.1. Fonterra Co-operative Limited

Fonterra was formed in 2001 from the merger of the New Zealand Dairy Board, the sole authorised exporter for the dairy industry, and two major dairy co-operatives – the New Zealand Dairy Group of Companies and Kiwi Co-operatives Dairies Limited (Gray, Le Heron, Stringer and Tamásy 2007; Stringer *et al.* 2008). Fonterra is co-operatively owned by 10,537 supplying dairy farmers (Fonterra 2010b). The company processes approximately 92 percent of New Zealand milk of which 95 percent is exported within Fonterra's global networks. In turn, the 95 percent exported represents 40 percent of all milk traded across borders.

Fonterra's involvement in South America dates back to the 1970s when the New Zealand Dairy Board (NZDB), Fonterra's predecessor, undertook large government tenders for commodities. South America was considered an emerging market, and in particular Chile was developed as an export market. Offices were established in Chile, Mexico and Venezuela. In 1988, the NZDB entered into a joint venture with Soprole of which Fonterra held the majority shareholding of 56.85 percent. The joint venture partner is Fundación Isabet Aninat, the charitable foundation of the Chilean Catholic Church. By 2010, Fonterra had increased its shareholding in Soprole to 99.8 percent; the increased stake allowed Fonterra to integrate Soprole's ingredients business, milk powder production, into its global networks. Soprole, the leading consumer dairy business in Chile, controls around one third of the domestic market, and exports milk powder and cheese products (Fonterra 2009).

In Chile, dairy companies have actively engaged milk production across all seasons in order to flatten out the milk production peak curve and to meet increasing demand. Farmers have been meeting this demand as a result of price signals. This, however, resulted in increased costs for the farmers. In comparison, the New Zealand system is one of seasonal production. Fonterra has established two model farms in Chile in order to educate farmers on the New Zealand farming model: seasonal farming practices, maximising productivity per hectare and farm management techniques. Chilean farmers have the potential to triple productivity through the adaptation of New Zealand farming techniques such as pasture management as the climatic conditions are very similar (pers. comm. 1 August 2008).Milk supply in Chile currently is greater than domestic demand and Fonterra has invested in a new dryer in order to convert surplus milk to milk powder; the output has been incorporated into Fonterra's ingredients business and sold on the international market. Milk produced on the Fonterra's farms is processed by Prolesur, a subsidiary and the manufacturing arm of Soprole of which Fonterra holds 86.2 percent direct shareholding. Soprole and Prolesur have invested in capacity development, through the Pradera Project, in order "to attain adequate competitive levels [in processing capacity] to enter the world dairy market on a sustainable long term basis" (Soprole 2009, 8).

Elsewhere in South America, Fonterra's position in the Brazilian market has traditionally been that of supplying the domestic market but there has been a strategic shift and today the company is exporting from their base in Brazil to other South American markets, in particular, Venezuela and Cuba (pers. comm. 1 August 2008). Furthermore, South America has a geographical alignment with North Africa and the Middle East. The Middle East, in particular, is a significant growth region due to the increasing wealth from petrodollars and both regions have limited potential to be able to increase domestic supply.

In 2002, Fonterra entered into a joint venture with Nestlé to form Dairy Partners of Americas (DPA). This was an interesting strategic alliance as Nestlé is one of Fonterra's largest customers as well as a fierce competitor in certain geographical markets. DPA has joint ventures in the Americas: Argentina, Brazil, Colombia, Ecuador, and Venezuela with the aim "to secure cost competitive supply of fresh milk and milk ingredients, to build strong positions in chilled and liquid milk businesses and to realize a wide range of synergies in dairy operations to become the cost leader of this part of the milk sector" (Nestlé 2004). According to Andrew Ferrier, CEO Fonterra, the establishment of DPA was a strategic decision by the company to focus on growth behind borders: "We started focusing on growing behind borders when we formed Dairy Partners of America (DPA) in 2002 with Nestlé in South America...That was for the most part an internal play in South America. We are in Brazil, Argentina, Colombia, Ecuador and Venezuela. And for the most part we are collecting local milk and it's going right up through the supply chain and we're selling it as consumer products" (Janes, n.d.). Through DPA, Fonterra gained a manufacturing base in South America and access to markets for chilled and liquids in this growth region. In return, Nestlé could use the capital to focus on their competitive strength, the consumer side of the business. Nestlé also gained access to Fonterra's technology and assistance (pers. comm. 1 August 2008). In 2008, DPA was the largest collector of milk in Brazil controlling around 10 to 12 percent of the market while in Argentina DPA had a 6 to 8 percent market share (pers. comm. 1 August 2008).Nevertheless, Nestlé and Fonterra are strong competitors in Chile.

In Argentina, Fonterra has a sales agreement with SanCor Co-Operativas Unidas Limited, Argentina's largest dairy co-operative. Fonterra exports SanCor's bulk commodity ingredients through their global networks. In turn, SanCor gained "value from our in-market presence and the proximity we have with our customers" (pers. comm. 1 August 2008). SanCor also has a co-operation agreement with DPA in Argentina; both companies had limited market share in fresh and chilled products and the agreement allows the two companies to become stronger players in the domestic market.

4.2. PGG Wrightson Limited

In order to further develop the Uruguayan seed market as well as obtain better returns from the market, in 1999, PGG Wrightson formed a joint venture with Semillas Pas, a company specialising in the production and sale of seeds. In 2005, PGG Wrightson increased its ownership from 51 percent to 100 percent and the company's name was changed to PGG Wrightson Pas. From 2001 to 2002, the company's profitability was seriously impacted by an outbreak of foot and mouth disease in Uruguay, and the subsequent export ban resulted in farmers buying less seed. The financial situation in Uruguay was worsened by the Argentina economic crisis which saw Uruguay record negative economic growth. During this period of time, Wrightson Pas were concerned about their operational viability and considered divesting from the market. The situation was eased by the willingness of local staff to take a 50 percent wage cut and furthermore they initiated a trading and bartering system for the benefit of the company (pers. comm. 14 August 2008).

PGG Wrightson remained in Uruguay and has subsequently undertaken further investments in vertically integrated operations (seed, real estate, veterinary, fund management). They have been actively involved in developing the local agricultural industry. For example, farmers attributed poor productivity to the low quality of the seeds whereas in fact, they had not used appropriate farming practices and technology. In 2002, PGG Wrightson established a demonstration farm to teach local farmers New Zealand farming practices, which led to increased sales of both seeds and farming systems.

A key development for PGG Wrightson was the recognition that dairying in Uruguay was underdeveloped compared to New Zealand and therefore Uruguay provided significant growth opportunities. Farm development and operating costs are significantly lower than in New Zealand; for example, the cost of establishing a dairy farm is 25 percent less in Uruguay (NZFSU 2007). In 1999, PGG Wrightson established NZFSU Limited, a large scale dairying operation using New Zealand style intensive grazing practices and in 2006, NZFSU was floated separately. PGG Wrightson retained an11 percent shareholding in the newly listed company and sold three Uruguayan farms to NZFSU. PGG Wrightson also established PGG Wrightson Funds Management Limited which holds the fund management and farm management contracts for NZFSU. In 2009, NZFSU owned 31,000 hectares and 55,300 livestock (NZFSU 2010) and it is estimated by 2012 that NZFSU will produce 20 percent of Uruguayan milk production. NZFSU has an advantage in the Uruguayan market as no other company is currently engaged to the same extent in the development of dairy farms. However, in July 2010, Singapore-based Olam International, which owns an 18.45 percent stake in NZFSU, announced a takeover bid for NZFSU (NZFSU 2010b). In August 2010, Olam increase the bid in response to a counter offer by Union Agriculture Group, a Uruguayan-based company (National Business Review 2010). The outcome of which is still not known. As part of its strategy to obtain NZFSU, Olam International reached agreement with PGG Wrightson's to purchase its stake in NZFSU (Steeman 2010).

In 2009, the Chinese agricultural company Agria Corporation purchased a 13 percent (NZ$36 million) stake in PGG Wrightson. This strategic partnership has implications for South America as both companies agreed to collaborate on future investment initiatives worldwide, including in South America. In particular, Agria and PGG Wrightson announced that they will work together to develop livestock demand in China – the demand will be serviced from New Zealand and South America as well as other markets. Furthermore, both companies "believe there is great merit to certain aspects of the business model encapsulated in the NZ Farming Systems Uruguay model, which is based upon a large scale dairy conversion managed" by PGG Wrightson (PGG Wrightson 2009).

In summary, two of New Zealand's leading agri-business companies, Fonterra and PGG Wrightson each have significant investment in South America. The region serves as a strategic node in each company's global value chain for sourcing input and supplying output for the local, regional and global markets. Both companies are providing upgrading opportunities for local farmers and firms through the dissemination of New Zealand farming and productivity techniques as well as market access opportunities.

5. Discussion and Conclusions

The primary sector of South American countries is attractive to foreign investors because of high commodity prices and the strong economic growth expectation in this region. New Zealand's strength in agriculture makes South America an important destination for New Zealand outward FDI. Nevertheless, there are only a limited number of studies on South American market as a destination, let alone studies on New Zealand companies in South America and the importance of this region to the companies' global strategy. This paper used the global value chain analysis to examine ways in which New Zealand agri-business companies are integrating South America into their global strategies and strategically building upon opportunities in this market. The paper looked at the reshaping of production links which have emerged through investment in South America and sought to examine the degree to which New Zealand agri-business companies may be agents of upgrading in South America.

The global value chain perspective was adopted for this study because of its key focus on cross-border linkages between firms. One of the characteristics of the current era of globalisation is that activities can be located in different geographical locations and co-ordinated through a company's global value chain. The global value chain perspective seeks to identify where value adding occurs whether it be at, or across, nodes of production and hence provides an important analytical framework for this research. Furthermore, the global value chain perspective recognises that lead firms provide different upgrading opportunities depending on the governance relationship established and this was applicable in examining New Zealand agri-business companies in South America. Through participation on global value chains, opportunities are provided for foreign producers to enter foreign markets as well as acquire knowledge and technological advancements both of which are key factors for productivity enhancement and growth.

The importance of South America in the global value chain of New Zealand agri-business is reflected in the increase of company involvement in the region. Both Fonterra and PGG Wrightson have significant investments in South America and their in-market presence allows them to understand and respond to customer needs as well as shaping supplier relationships. Fonterra's objective is to "become the partner of choice of major multinational food manufacturers" and they have demonstrated their capability working with Nestlé in the South American market (Fonterra 2007). Fonterra has extensive global networks with well-developed supply chains and their South American operations are integrated into the company's global networks. Fonterra's long term vision for the South America market is to continue to be successful for customers in the region, to lead the Chilean market through Soprole, and expand their sourcing footprint through DPA and Soprole (pers. comm. 1 August 2008). "Across Soprole and DPA, Fonterra has an interest in the annual processing of around 3.3 billion litres of South American milk, which equates to about one-fifth of Fonterra's New Zealand production" (Fonterra 2009, 26). During the negotiation periods for the Chile New Zealand Free Trade Agreement (FTA) in the 1990s and early 2000s, rounds of discussions were suspended due to opposition from the Chilean agricultural sector concerned about the strength of the New Zealand dairy industry and implications for less efficient Chilean farmers. The FTA was signed in 2005 following agreement by the two governments that Fonterra would assist producers to develop export markets (Atkinson 2008).

PGG Wrightson sees their core competitive advantage as "the provision of technology and related services to improve farm profitability" (PGG Wrightson 2008b, 6). Millions of dollars are invested yearly in research and development partnerships with links in South America, Europe and Australia (PGG Wrightson 2008c). Through their vertically diversified operation in Uruguay, PGG Wrightson is able to continually improve farm productivity and disseminate knowledge. Geographically, Uruguay like New Zealand is located in a temperature and subtropical climatic zone and hence PGG Wrightson is able to transfer the technology and knowledge gained over a hundred years in New Zealand to this region. Uruguay is integrated into the company's global value chain -- seed grown in the region is exported to New Zealand and Australia, in part in order to spread geographical risk for the company. South America is an important region for the company and it is to be expected that the company will explore further expansionary opportunities as they arise (pers. comm. 14 August 2008). PGG Wrightson has confidence in the political and economic environment of Uruguay and noted the support by the Uruguayan government towards foreign investors (pers. comm. 14 August 2008). Through Agria's shareholding, South America is being incorporated even further in the company's global value chain.

The integration of South America into New Zealand agri-business value chains is reflective of a multitude of governance modes. Fonterra and PGG Wrightson both entered South America through exporting – the market governance mode. Both companies are engaging in supplier upgrading reflective of both captive and relational value chains. Similarly, both companies have more fully integrated South America into their global value chains through the establishment of subsidiaries and joint ventures; reflective, respectively, of hierarchal and relational chain governance modes. Therefore, there is not an overarching clear cut division between governance types as each operation reflects a different governance mode or a combination of different governance types, and there is a general trend that the governance model of each company has evolved from a market mode to more hierarchical ones.

New Zealand companies are applying New Zealand technology in agriculture and are reaping the benefits of IP. Furthermore, they are active in disseminating knowledge of efficient growing and production systems as well as management techniques. The knowledge transfer, gained through participation in global value chains, is important for local producers as participation can provide the opportunity for "up-to-date and relevant information for producers, processors and exporters in developing countries. This knowledge transfer is not automatic" (Humphrey and Memedovic 2006, 43).Fonterra's establishment of model farms allows the company the opportunity to test the practicality of New Zealand farming systems in Chile prior to undertaking further investment. Once the farming system is tested and adjustments made, then techniques to improve production performance and pasture management are disseminated to local farmers. Fonterra has the goal of increasing milk production in Chile from a low 207 kg milk solids per hectare (MS)/ha to 862 kg (MS)/ha which is above the New Zealand average (Christian 2007). The company has also undertaken other initiatives to encourage better production standards and techniques, for example, Fonterra runs an annual competition for best milk producer in three farming zones in Chile. The farmers are judged on criteria such as: milk quality improvement, environmental and animal well-being.

In Uruguay, NZFSU undertakes specific industry related training in Uruguay relating to the financial and physical attributes of the farms as well as training cadets in New Zealand. Other New Zealand investors are also engaged in wider initiatives to support the farming industry. In conjunction with CODESSER (Corporación de Desarrollo Social del Sector Rural (Corporation of Social Development of the Rural Sector)), Manuka has undertaken to ensure the education of their employee's children at Liceo Agrícola Vista Hermosa, an agricultural institution; in addition they are supporting five students a year to study in New Zealand (Corporación de Desarrollo Social del Sector Rural 2009).

Despite its small size relative to the world output, New Zealand's agri-industry is very competitive in the global market place. New Zealand companies have responded effectively to a competitive global market environment that is increasingly demanding in terms of quality, safety and presentation of agri-products. By being part of the global value chain of New Zealand agri-business, South American firms are obtaining upgrading opportunities, especially in terms of product quality, technology used in the production and meeting the international standards. However, upgrading is not automatic and the scope for upgrading opportunities is affected by the governance mode, the competence levels of local suppliers as well as the availability of resources (Humphrey and Schmitz 2000; Giuliani *et al*. 2005). Meanwhile, the resistance from farmers in South America cannot be ignored. For example, some Chilean farmers are worried the increase of New Zealand investment, especially in local land, will harm their livelihood (Oram 2008).

The findings of this research suggest that South America plays an important role in the global value chain of New Zealand agri-businesses. However, South America remains a challenging place for New Zealand business as investment in this region has been concentrated in limited number of countries, mainly Chile and Uruguay. Investment in other South American countries is still limited, and there is a lot of potential to be developed in countries such as Brazil and Argentina (personal communication 1 August 2008).The political implication of this study is how the New Zealand government and its agencies, such as NZTE, can facilitate the investment process and especially work together with their counterparts in South America to provide more opportunities for New Zealand agri-business involvement in the region.

This paper discussed in detail the investment by Fonterra and PGG Wrightson in South America. One managerial implication for other New Zealand businesses considering investing in the region is that Fonterra and PGG Wrightson's experiences provide good examples of how to effectively integrate South America into their global value chain. The evolution of their governance structure in the region suggests that companies can choose more hierarchical governance modes when their knowledge in the region has increased, when they increase their investment in the region and when they need to have more control over their investments.

Our research investigated the positive impact that being part of the global value chain of New Zealand agri-business has on the local industry in South America. However, the local suppliers and New Zealand companies are also competitors in the global market place. Emerging forms of competition and collaboration amongst the different actors in the global value chain is an important area for future research.

Moreover, the current research focused on companies which have already invested in South America, albeit the largest companies, but they in fact only represent a small portion of New Zealand agri-businesses. It will be interesting to explore more widely reasons underlying New Zealand companies' investment decisions in the region, including companies which have decided to enter South America but haven't taken action yet as well as those companies which have previously invested in the region but have since divested. This research direction will provide both significant political and managerial implications.

In conclusion, of particular importance within the global value chain analysis is the role that global lead firms within an industry – in this case Fonterra and PGG Wrightson–play in setting up and maintaining production and trade networks. This paper has shown how two New Zealand leading agribusiness companies have incorporated South America into their global value chains. Key firms can be viewed as powerful economic agents or drivers of the chain and the focus of the global value chain analysis, and thus this paper, is on understanding how these firms, as "potential agents of upgrading and development" (Bair and Peters 2006,204), influence the composition of chains in which they are involved.

References

ABARE; MAF. (2006), "Agriculture in New Zealand: past, present and future", www.maf.govt.nz. Accessed 10 July 2010.

Altenburg, T. (2006), "Governance patterns in value chains and their development impact", The European Journal of Development Research, Vol. 18, Num. 4, pp. 498-521.

Atkinson, K. (2008), "Fonterra: Soprole purchase will allow us to share secrets", National Business Review, 29 April. www.nbr.co.nz. Accessed 28 August 2008.

Bair, J. (2005), "Global capitalism and commodity chains: looking back, going forward", Competition and Change, Vol. 9, Num. 2, pp. 153-180.

Bair, J. (2008), "Analyzing economic organization: embedded networks and global chains compared", Economy and Society, Vol. 37, Num. 3, pp. 339-364.

Bair, J.; Peters, E. (2006), "Global commodity chains and endogenous growth: export dynamism and development in Mexico and Honduras", World Development, Vol. 34, Num. 2, pp. 203-221.

Christian, G. (2007), "Chile: a country full of promise", New Zealand Dairy Exporter, 12 January, p. 27.

Corporación de Desarrollo Social del Sector Rural (2009), "Estudiantes de Codesser Podrán Estudiar y Trabajar en Nueva Zelandia", 11 August. www.codesser.cl/noticias/corporacion/des_noticias_corp_17.htm. Accessed 10 September 2009.

Dicken, P. (2003), "Global Shift: Reshaping the Global Economic Map in the 21st Century, 4th edition", Sage, London.

Dolan, C.; Humphrey, J. (2004), "Changing governance patterns in the trade in fresh vegetables between Africa and the United Kingdom", Environment and Planning A, Vol. 36, pp491-509.

Fold, N. (2002), "Lead firms and competition in 'bi-polar' commodity chains: Grinders and branders in the global cocoa-chocolate industry" Journal of Agrarian Change, Vol. 2, Num. 2, pp. 228-247.

Fonterra Co-operative Limited (2010a), "Fonterra Annual Report 2010", Fonterra, Auckland, New Zealand.

Fonterra Co-operative Limited (2010b), "Fonterra: at a glance: about us", www.fonterra.co.nz/wps/wcm/connect/fonterracom/fonterra.com/Our+Business/Fonterra+at+a+Glance/About+Us/. Accessed 1 March 2010.

Fonterra Co-operative Limited (2009), "Fonterra Annual Report 2009", Fonterra, Auckland, New Zealand.

Fonterra Co-operative Limited (2007), "Fonterra Annual Report 2007" Fonterra, Auckland, New Zealand.

Gereffi, G. (1994), "The organization of buyer-driven global commodity chains: How U.S. retailers shape overseas production networks", in Gereffi, G.; Korzeniewicz, M. (eds), Commodity Chains and Global Capitalism, Praeger, Westport, pp. 95–122.

Gereffi, G.; Humphrey, J.; Sturgeon, T. (2005), "The governance of global value chains", Review of International Political Economy, Vol. 12, Num. 1, pp. 78-104.

Gereffi, G.; Lee, J.; Christian, M. (2009), "US-based food and agricultural value chains and their relevance to healthy diets", Journal of Hunger and Environmental Nutrition, Vol. 4, Num. 3&4, pp. 357-374.

Gibbon, P. (1999), "Free competition without sustainable development? Tanzanian cotton sector liberalization 1994/95 – 1997/98", Journal of Development Studies, Vol. 36, Num. 1, pp. 128-150.

Gibbon, P.; Ponte, S. (2008), "Global value chains: From governance to governmentality", Economy and Society, Vol. 37, Num. 3, pp. 365-392.

Gibbon, P.; Ponte, S. (2005), "Trading Down: Africa, Value Chains and the Global Economy", Temple University Press, Philadelphia.

Giuliani, E.; Pietrobelli, C.; Rabellotti, R. (2005), "Upgrading in global value chains: lessons from Latin American clusters", World Development, Vol. 33, Num. 4, pp. 549-573.

Gray, S.; Le Heron, R.; Stringer, C.; Tamásy, C. (2007), "Competing from the edge of the global economy", Die Erde, Vol. 138, Num. 2, pp. 127-147.

Henderson, J.; Dicken, P.; Hess, M.; Coe, N.; Yeung H. W-C.(2002), "Global production networks and the analysis of economic development", Review of International Political Economy, Vol. 9, Num. 3, pp. 436–464.

Humphrey, J.; Memedovic, O. (2006), "Global value chains in the agrifood sector", United Nations Industrial Development Organisation, Rome.

Humphrey, J.; Schmitz, H. (2000), "Governance and upgrading: linking industrial cluster and global value chain research", IDS Working Paper, No. 120. Institute of Development Studies, University of Sussex, Brighton.

Humphrey, J.; Schmitz, H. (2002), "How does insertion in global value chains affect upgrading industrial clusters?" Regional Studies, Vol. 36, Num. 9, pp.1017-1027.

Humphrey, J.; Schmitz, H. (2008), "Inter-firm relationships in global value chains: trends in chain governance and their policy implications", International Journal of Technological Learning, Innovation and Development, Vol. 1, Num. 3, pp. 258-292.

Janes, A. (n.d.), "Milk and money go hand in hand", www.dairydiligent..co.nz/product.pasp?categoryid=1&productid=95, Accessed 19 December 2007.

Kaplinsky, R. (2000), "Globalisation and unequalisation: what can be learned from value chain analysis?" Journal of Development Studies, Vol. 37, Num. 2, pp. 117-146.

Lang, T.(2003), "Food industrialisation and food power: implications for food governance", Development Policy Review, Vol. 21, Num. 6, pp. 555-568.

Masuda, T.; Goldsmith, P.D. (2008), "World Soybean Production: Area Harvested, Yield, and Long-Term Projections", https://netfiles.uiuc.edu/pgoldsmi/www/articles_journals/2008-World_Soybean_Production.pdf, Accessed 13 August 2010.

Mathews, K.; Vandeveer (2007), "Beef production, markets, and trade in Argentina and Uruguay: an overview", Economic Research Service, United States Department of Agriculture, Washington D.C., http://www.ers.usda.gov/Publications/LDP/2007/09Sep/LDPM15901/LDPM15901.pdf, Accessed 1 August 2010.

Ministry of Foreign Affairs and Trade (2008), Latin America Strategy, www.mfat.govt.nz/Foreign-Relations/Latin-America/0-strategy-paper.php, Accessed 26 August 2008.

National Business Review (2010), "NZFSU board rejects Olam offer", National Business Review, 23 August, http://www.nbr.co.nz/article/nzfsu-board-rejects-olam-offer-128739, Accessed 25 August 2010.

Nestlé (2004), "Dairy Partners Americas to become active in Ecuador, Colombia, Trinidad and Tobago", www.Nestlé.com/MediaCenter/PressReleases/AllPressReleases/DairyPartnersEcuadorColombiaTrinidad-19Apr04.htm?Tab=2004, Accessed 8 January 2008.

New Zealand Farm Systems Uruguay (NZFSU) (2007), "Applying New Zealand farming expertise in South America", www.nzfsu.co.nz, Accessed 5 September 2008.

New Zealand Farm Systems Uruguay (NZFSU) (2010a), "Interim results – December 2010", www.nzfsu.co.nz, Accessed 3 August 2010.

New Zealand Farm Systems Uruguay (NZFSU) (2010b), "Update on intended takeover off from Olam International Limited", www.nzfsu.co.nz, Accessed 3 August 2010.

New Zealand Trade and Enterprise (2008a), "Food Value Chain Newsletter – March 2008", p 1-4.

New Zealand Trade and Enterprise (2008b), "Food Value Chain Newsletter – February 2008", p 1-4.

Oram, R. (2008), "New Zealand warming to Chile", Sunday Star Times, 12 September 2008.

PGG Wrightson(2010), "Annual Report 2010", www.pggwrightson.co.nz, Accessed 4 October 2010.

PGG Wrightson(2009), "PGG Wrightson and Agria announce formation of strategic partnership and intention for Agria to be a new cornerstone shareholder of PGG Wrightson", 16 November news release, www.pggwrightson.co.nz, Accessed 10 March 2010.

PGG Wrightson(2008a), "Company profile", www.pggwrightson.co.nz, Accessed 26 August 2008.

PGG Wrightson(2008b), "Annual Report 2008", www.pggwrightson.co.nz, Accessed 26 August 2008.

PGG Wrightson(2008c), "Annual Results Final Presentation", www.pggwrightson.co.nz.Accessed 10 September 2008.

Ponte, S. (2002), "The 'latte revolution'? Regulations, markets and consumption in the global coffee chain", World Development, Vol. 30, Num. 7, pp. 1099-1122.

Rother, L. (2004), "South America seeks to fill the world's table", The New York Times, 12 December, http://query.nytimes.com/gst/fullpage.html?res=9501E7DF1F31F931A25751C1A9629C8B63 Accessed 1 August 2010.

Soprole(2009), "Annual Report 2009", www.soprole.cl, Accessed 13 August 2010.

Statistics New Zealand (2010), www.statistics.govt.nz, Accessed 1 March 2010.

Steeman, M. (2010), "NZFSU takeover bid launched", www.stuff.co.nz/business/farming/3931971/NZFSU-takeover-bid-launched, Accessed 3 August 2010.

Stringer, C.; Tamásy, C.; Le Heron, R.; Gray, S. (2008), "Growing a global resource-based company from New Zealand: The case of dairy giant, Fonterra", In Stringer, C.; Le Heron, R. (eds) Agri-business Commodity Chains and Globalising Networks, Ashgate, Aldershot, pp. 189-199.

Vitalis, V. (2007), "Trade, innovation and growth: the case of the New Zealand agriculture sector", Paper presented to the OECD Global Trade Forum on Trade, Innovation and Growth, Paris, 14-15 October 2007, http://www.oecd.org/dataoecd/6/47/39519893.pdf, Accessed 23 August 2010.

R E V I S T A | J O U R N A L | R E V I S T A
Globalización, Competitividad y Gobernabilidad | Globalization, Competitiveness & Governability | Globalização, Competitividade e Governabilidade

Relational Competence, Customer Trust and Relationship Effectiveness in an Offshore Service Provider: The Case of IBM Brazil*

AREA: 1
TYPE: Application

Competencia relacional, eficacia de relación y confianza con el cliente en un proveedor de servicios en el extranjero: El caso de IBM Brasil

Competência relacional, confiança do cliente e eficácia de relacionamento num fornecedor de serviços no estrangeiro: O caso da IBM Brazil

AUTHORS

Felipe Zambaldi[1]
Department of Management, Centro Universitário da FEI, Brazil
fzambaldi@fei.edu.br

Andre Mascarenhas
Department of Management, Centro Universitário da FEI, Brazil
andremascar@gmail.com

Roberto Carlos Bernardes
Department of Management, Centro Universitário da FEI, Brazil
bernardes@fei.edu.br

Manoel Garcia Neto
Department of Management, Centro Universitário da FEI, Brazil
mgarcia@br.ibm.com

1. Corresponding author: Department of Management; Centro Universitário da FEI ; Rua Tamandaré, 688; 01525-000, São Paulo, SP; Brazil.

In this paper, we focus on the relations involving cultural sensitivity, relational competence, customer trust and workers' relational effectiveness in a Multinational offshore service provider – IBM Brazil. We adapt buyer-seller relationship theory into the context of strategic people management and link the constructs of interest with employees as units of analysis. By analyzing data of 57 workers, we find positive relations involving the constructs under study and infer that workers who have high degrees of relational competence may add and sustain value to their firms. We address theoretical and managerial implications and discuss the study's limitations and opportunities.

En este artículo, nos centramos en las relaciones que implican sensibilidad cultural, competencia relacional, eficacia de relación con los trabajadores y confianza con el cliente en un proveedor de servicios multinacional en el extranjero: IBM Brasil. Se adapta la teoría de la relación comprador-vendedor al contexto de la gestión de personal estratégico y se vinculan las relaciones de interés con los empleados como unidades de análisis. Al analizar datos de 57 trabajadores, encontramos relaciones positivas implicadas en las relaciones bajo estudio y se deduce que los trabajadores con mayor grado de competencia relacional agregan valor de base a sus empresas. En el artículo se abordan implicaciones teóricas y de dirección, así como las limitaciones y oportunidades del estudio.

No presente artigo, concentramo-nos nas relações envolvendo sensibilidade cultural, competência relacional, confiança do cliente e eficácia relacional numa multinacional fornecedora de serviços no estrangeiro – a IBM Brazil. Adaptamos a teoria da relação comprador-vendedor ao contexto da gestão estratégica de pessoal e relacionamos os elementos de interesse com os empregados como unidades de análise. Analisando os dados de 57 trabalhadores, encontramos relações positivas envolvendo os elementos em estudo e inferimos que os trabalhadores com mais elevado grau de competência relacional podem adicionar e conservar valor para as suas firmas. Abordamos as implicações teóricas e de gestão, e discutimos as limitações e oportunidades do estudo.

* We would like to thank the anonymous reviewers for their feedback. We also would like to thank IBM Brazil.

DOI	Received	Accepted
10.3232/GCG.2010.V4.N3.06	01.09.2010	30.10.2010

1. Introduction

This paper focuses on the relationship involving relational competence, customer trust and workers' relationship effectiveness in an offshore service provider of a Multinational Corporation (MNC). In a scenario of business globalization and rivalry, firms increasingly need to explore and compete in foreign markets. In such a context, workers' ability to develop and keep interpersonal relationships with global customers appears as a source to improve and maintain business performance.

A business relationship may be defined as the process in which firms develop ties throughout time, lowering costs and increasing value to achieve mutual benefit (Anderson and Narus, 1991). Insufficient focus and understanding of interpersonal roles in relationships with customers is addressed by literature as a reason for failure in business relationships (Phan, Styles and Patterson, 2005) To succeed, workers need to have a set of subjective competencies, like the ability to consider multiple points of view and demands or the ability to communicate effectively with customers and partners. These skills need to be examined and understood.

Although relationship marketing has been systematically researched in domestic contexts, studies of interpersonal business relationships in international contexts are scarce (Phan, Styles and Patterson, 2005). In this research, we focus on interpersonal relationships between an offshore service provider and its customers. Personal traits and skills that theoretically help workers to be relationally effective are proposed and empirically studied by means of two constructs: relational competence and cultural sensitivity. A theoretical framework addressing these constructs as antecedents of customer's trust and workers' relational effectiveness is developed and quantitatively tested by means of a case study with the Global Resource Department of the Brazilian subsidiary of IBM.

Our contributions are: a preliminary effort to develop and validate an instrument for measuring the constructs of interest; and the proposition and empirical analysis of a model to examine the impact of relational competence on customer's trust and worker's relational effectiveness in the context of international business to business relationships in Latin America. We also contribute by applying the traditional firm partnership-level approach of buyer-seller relationship theory in the context of strategic people management with the employee as the unit of analysis.

In the next section, we address competence theories in social psychology and the international marketing literature together with approaches of strategic people management and set hypothesis. Then, we describe the research context and the object under study and apply procedures of construct validation and structural equation modeling to the collected data. Based on our findings, we address theoretical and managerial implications and discuss the study's limitations and opportunities for future research.

Key Words
Buyer-Seller Relationships in International Markets, Cross-Cultural Management, Relational Competence, Cross-Cultural Research and Measurement Issues

Palabras Clave
Relaciones comprador-vendedor en mercados internacionales, gestión transcultural, competencia relacional, problemas de medición y estudios transculturales

Palavras-chave
Relações Comprador-Vendedor nos Mercados Internacionais, Gestão Trans-Cultural, Competência Relacional, Investigação Trans-Cultural e Questões de Medição

JEL Codes
M12; M16; F23

2. Theoretical Framework

In management science, the idea of competence has been consolidated within a variety of subfields, being defined as relating to the individual at work, to organizations executing strategy or, still, to capabilities of nations or societies. Within sociology of work, the debate on competence has been associated to the rise of work contexts where everyday tasks are of growing complexity, demanding more varied, complex hard-to-certify skills from employees, as well as flexibility and responsibility to cope with the uncertainty more recently associated to business practices (LeBoterf, 2003; Casey, 1999; Zuboff, 1989; Freyssenet, 1984; Kern, Schumann, 1984; Zarifian, 2001; Zarifian, 2003). In strategy, the competence-view is a logical extension of the resource-based-view of the firm since it portraits the firm as a bundle of competences, these entailing complex interrelationships among the skills, abilities and knowledge of many individuals (Lado, Boyd, Wright, 1992; Prahalad, Hamel, 1997; Day, 1994, Sanchez, Heene, & Thomas (1996).

Within strategic people management, the streams of debate mentioned above merge since organizations are seen as bundles of potentially valuable resources and competences, while individuals should coherently develop and engage their individual competences within real work situations, being evaluated in their contribution to strategy formulation and execution (Lado, Wilson, 1994; Boxall, 1996; Wright *et al.*, 1994; Mueller, 1996; Kamoche, 1996; Fleury, Fleury, 2004; Becker, 2001). A dominant rationalistic approach to assessing competencies conceptualize them as attributes of a person, "that it may be a motive, trait, skill, aspect of one's image or social role, or a body of knowledge he or she uses" (Boyatzis 1982, p. 21; McClelland, 1973; Spencer, Spencer, 1993). Hence, the idea of assessing competences has developed around the craft of methods to identify a variety of general know-how, entailing knowledge, skills and abilities, required for individuals executing their jobs (McClelland, 1998; Ruas, 2005).

Within industrial marketing and business alliance theory, the competence-view has been discussed towards the recognition of alliance competences as sources of competitive advantage, since they combine explicit and tacit knowledge into coordinated sets of shared, complementary and idiosyncratic resources. For example, Wittmann, Hunt and Arnett (2009) have associated both resource-based and competence-based views to a relational factors-view, proposing the combination of the three as a better explanation to alliance success. According to the relational factors view, successful relational exchanges between firms (or a series of exchanges between parties known to each other over a period of time), result from certain characteristics of the relationship (Mehta *et al.,* 2006), including trust (Sivadas & Dwyer, 2000), commitment (Anderson & Weitz, 1992), cooperation (Morgan & Hunt, 1994), and communication (Mohr, Fisher, & Nevin, 1996).

For this research, we reinforce a multiple-views explanation such as that advocated by Wittmann, Hunt and Arnett (2009) since we associate a competence-view on strategic people management to a relational factors-view on successful exchanges between firms, focusing on *relational competences* as a notion highlighting individual performance as intangible resources shaping business exchanges and alliance competences. As a concept relevant in personal, non business relationships literature, relational competences penetrated the marketing and international business literature as research demonstrated the relevance of individuals' competences for building successful relationships with transactional or collaborative partners (Phan, Styles and Patterson, 2005; Doney and Cannon, 1997; Ambler *et al.*, 1999; Harich and LaBahn, 1998, Mohr and Spekman, 1994).

Relational competence is a concept whose origins trace to social psychology, being defined as individual's knowledge, skills and attitudes facilitating the acquisition, development, and maintenance of mutually satisfying social relationships (Carpenter *et al.*, 1983). Within business scenarios, we can understand social relationships as complex phenomena structuring organizational competencies, comprising interpersonal communication along everyday social transactions individuals make. According to Carpenter *et al.* (1983), relational competence consists of 5 dimensions that predispose individuals to initiate relationships and 5 dimensions that help enhance those relationships over time (see Exhibit 1). Inherent to relationships, communication competences can be considered fundamental dimensions of relational competences. Developments in communication research have defined interpersonal communication competence as "a person's ability to manage interpersonal relationships in communication settings" (Rubin, Martin, 1994, p. 33). Drawing on massive body of prior research, Rubin and Martin (1994) distinguished 10 consensual skills to communication competence, among which five relate to Carpenter's framework (See Exhibit 1).

Exhibit 1. Relational competence – conceptual dimensions

<table>
<tr><th colspan="2">Relationship initiation competence
(Carpenter et al., 1983)</th><th colspan="2">Interpersonal communication competence
(Rubin & Martin, 1994)</th></tr>
<tr><td>Assertiveness</td><td>The tendency of the individual to accept, express, actively seek after, and protect reasonable personal needs and desires, including resistance to unreasonable infringements by others.</td><td>Assertiveness</td><td>Assertive behavior includes standing up for one's rights without denying the rights of others.</td></tr>
<tr><td>Dominance</td><td>The desire and ability to be in charge, at least of one's own situation, and to engage in tasks reflecting leadership, ascendance, and independence.</td><td rowspan="2">Environmental control</td><td rowspan="2">Controlling the environment means demonstrating one's ability to achieve predetermined goals and satisfy needs, handle conflict settings and solve problems in a cooperative atmosphere.</td></tr>
<tr><td>Instrumental competence</td><td>Belief that one is generally capable, skilled, and accomplished. The emphasis is on successfully completing tasks or meeting goals.</td></tr>
<tr><td>Shyness (negative variable)</td><td>Self-perception that one is inhibited and reluctant in social situations, or has poor skill in meeting and getting to know others.</td><td rowspan="2">Social relaxation</td><td rowspan="2">Lack of anxiety or apprehension in everyday social interactions: a feeling of comfort, low apprehension, and ability to handle another's negative reactions or criticism without undue stress.</td></tr>
<tr><td>Social anxiety (negative variable)</td><td>Increased feelings of anxiety, worry, and negative self-evaluation in situations involving other people.</td></tr>
<tr><th colspan="2">(b) Relationship maintenance competence (Carpenter et al., 1983)</th><th colspan="2"></th></tr>
<tr><td>Intimacy</td><td>Behavioral tendency toward helping and supporting others, especially those in need or distress.</td><td rowspan="4">Altercentrism</td><td rowspan="4">Altercentrism involves interest in others, attentiveness to what they say and how they say it, perceptiveness not only of what is said but also what is not said, responsiveness to their thoughts, and adaptation during conversations. Other-orientation rather than self-centeredness makes communicators more interpersonally competent.</td></tr>
<tr><td>Trusting ability</td><td>Tendency to believe that others are dependable, loyal and trustworthy and behavioral tendency to show such confidence in others.</td></tr>
<tr><td>Interpersonal sensitivity</td><td>Tendency to promote and seek closeness in relationships by encouraging sharing, deep mutual understanding, mutual interest, and openness.</td></tr>
<tr><td>Altruism</td><td>Attitudes and behaviors which show consideration, warmth, and caring and which reflect active attempts to be aware of and responsive to the needs of others (Carpenter, 1993).</td></tr>
<tr><td>Perspective taking</td><td>Tendency to view issues from several perspectives, especially that of another with whom one is interacting.</td><td>Empathy</td><td>Tendency to feel with the other. It involves affect for or an emotional reaction to another's internal state and results in understanding the other's perspective.</td></tr>
</table>

The concept of relational competence can also be defined in terms of cross-cultural interactions. Communication and, consequently, relationships, take place in social environments of cultural interaction (Griffith, 2002), being culture and culture sensitivity key concepts moderating partners' trust and relationship performance within business long-term relationships (Lohtia *et al.*, 2009; Cannon *et al.*, 2010). According to Griffith (2002: 256), communication presupposes a particular cultural framework allowing translation of contents being communicated. Cultural frameworks are the sets of values and meanings structuring the culturally-biased production and translation of communication contents. Interacting individuals holding significantly different cultural frameworks tend to face communication inconsistencies posing higher relationship barriers (Griffith, 2002). In this sense, communication consistency depends on cultural sensitivity and cross-cultural competences. At the individual level, cultural sensitivity has been defined as referring to "an awareness of cultural differences, the knowledge of why differences exist, and a willingness to accommodate these differences" (Harich, LaBahn, 1998: 89; Lohtia *et al.*, 2009; Holzmüller, Stöttinger, 2001).

Cultural sensitivity is a relevant attribute of successful cross-cultural interactions. Prior research has associated it to relationship performance such as in Francis (1991) and in Lohtia *et al.* (2009). In our theoretical model, we operationalise it drawing on the idea of cross-cultural competence, or an individual's effectiveness in drawing upon knowledge, skills, and personal attributes as successfully interacting with people from different cultural backgrounds (Johnson *et al.*, 2006: 530). According to Johnson *et al.*, 2006, it consists of the knowledge dimension (including general knowledge about cross-cultural interactions and specific knowledge about cultures), the skills dimension (including abilities such as foreign language competence, adapting to the behavioral norms of a different cultural environment and effective conflict resolution management) and the personal attributes dimension (including individual traits such as courage, curiosity, enthusiasm, integrity, judgment, perseverance, and tolerance for ambiguity). Holzmüller and Stöttinger (2001) depict cultural sensitivity as the motivational component of cultural competence (personal attributes dimension).

The association involving relational competence and relational effectiveness may be mediated by the achievement of trust (Sivadas & Dwyer, 2000; Morgan, Hunt, 1994; Lohtia *et al.*, 2009; Cannon *et al.*, 2010). According to Helfert, Ritter and Walter (2002), the market orientation literature defines trust as one party's positive belief, attitude or expectation that the other party will provide satisfactory outcomes in an honest, benevolent and competent manner; for these authors, trusting customers tend to promote two aspects of relational performance: increasing business with the supplier (sales effectiveness); and sharing information with them (market development effectiveness). Because of the buyer-seller relationship roots in social psychology and social exchange (Cannon and Perreault Jr, 1999) and due to the importance of personal interactions in relationship effectiveness (Phan *et al.*, 2005), we consider it proper to analyze the phenomenon of trust achievement by means of relational competence and its consequences on business relational performance at the social and business interactions between workers and their customers. Our theoretical review leads to the development of the following hypothesis at the individual level:

Hypothesis 1: Cultural sensitivity improves relational competence.

Hypothesis 2: Relational competence improves customer's trust.

Hypothesis 3: Customer's trust leads to greater relationship effectiveness between workers and customers.

3. Next-Generation Offshoring: Globalization of White Collar Work

Interest in offshoring business activities has grown in academic agendas. Robinson and Kalakota (2004) define offshoring as the partial or total migration of the value chain to a local with lower costs. These activities have attracted the attention of corporations engaged in reconfiguring strategy. Offshoring allows human resource and telecommunication integration cost management, and was made possible due to advances in IT and telecommunications, allowing a variety of locations to host operations benefiting from low workforce costs. Given the exponential growth in off-shoring markets (especially in the emerging markets such as Latin American countries), many firms have found economically interesting to redefine their business models and enter the global competition for IT services (Fleury, Fleury & Reis, 2010; Cuervo-Cazurra, 2010; Kosacoff & Ramos, 2010).

Authors such as Bardhan and Kalakota (2004), Trefler (2005), Couto *et al.* (2009) and Gião and Oliveira Junior (2009) notice two development cycles allowing characterization of offshore services. Throughout a first cycle offshoring services included outsourcing of low value-added services and jobs with low-qualification (blue collars) to developing countries with low working costs. The second cycle of development, more recent, led to changes in business strategies and in these activities' supplying patterns, moving towards supplying higher value-added and high-technological density services. This new generation of offshoring highlights the fact that these services comprise activities led by managers and highly qualified human resources involved with "nobler" activities of product, research and project development (Lewin e Manning, 2007, Gião, Oliveria Júnior and Vasconcelos, 2008).

Within IBM, Brazil currently has the second biggest center of global service provision. To provide services to clients all over the world, IBM Brazil is part of what the company defines as "Global Delivery Model", an integrated service provision model that guarantees competitive costs, excellence and standardization of processes. The object of this research will be the department of Global Resource (GR), which manages integrated offshoring services globally to IBM Brazil. The department was created to develop activities directed towards improving quality and performance of global services delivery. With 2600 employees working 24 hours a day, the department of GR has the responsibility o delivering solutions to clients in their exact specifications. The department monitors IT systems, servers and critical IT bases, being close to clients since the first demand, assisting throughout the transition of technological environments and defining and delivering solutions. The GR base is located in Hortolândia, SP, where offshoring accounts of approximately 200 clients located in 40 countries are operated and monitored. Half of IBM employees in Brazil work in the Hortolândia center.

4. Research Design

We sent a questionnaire electronically to the 120 employees of the main offshore service lines of the IBM Global Relations Department in Brazil. We counted on the firm's institutional support since managers reinforced the relevance of the research to workers. We received 57 complete questionnaires.

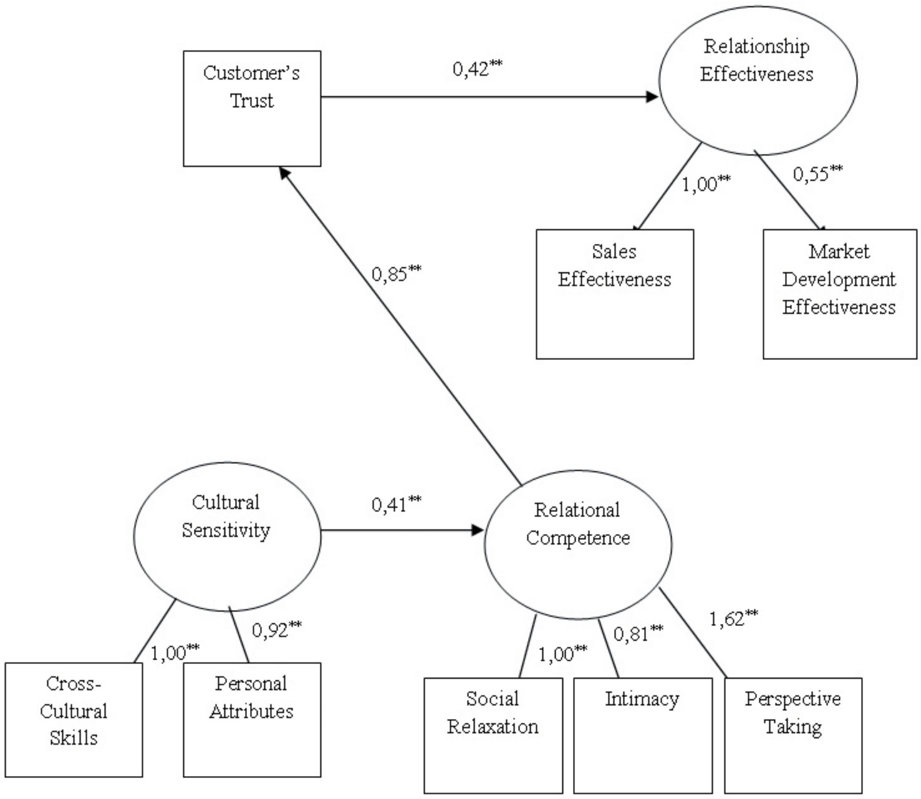
The questionnaire consisted of 54 items which tried to capture the dimensions of the constructs of interest in the research. We adopted four-point Likert scales in all items to avoid neutral answers.

Since we had a few reverse items, we inverted their scales later in the analysis. We translated the items of previous empirical studies about different constructs under study to Portuguese and adapted them to the research context before sending the questionnaire to the respondents. We proceeded into reverse translation to English so that we could compare the content to original scales. We also developed the items with basis in theoretical review. The questions gathered self-perceptions of the respondents about their attributes of Cultural Sensitivity, Relational Competence, Customer's Trust and Relationship Effectiveness. Even though these are subjective measures, they usually correlate positively to objective indicators of performance (Dess, & Robinson, 1984) and therefore are often employed on research with firms (Narver, & Slater, 1990).

We adapted the items regarding Cultural Sensitivity and Relational Competence to situations related to providing offshore services to international customers. The Customer's Trust and Relationship Effectiveness items adapted buyer-seller relationship situations at the level of partnership between firms to interactions between workers and customers; because the object under analysis was the interaction of people, not firms, we oriented respondents to consider their perceptions about the customers they usually dealt with, and not a specific partnership.

We calculated the alpha coefficient to each construct to check for their reliability. We also ran one-dimensional factor analysis to validate construct measures, thus analyzing the variance extracted within constructs and shared variances and correlations between constructs. We extracted factors by means of principal components, thus explaining the greatest portion of original variance. After construct analysis and validation, we adjusted the theoretical model in Figure 1 with Structural Equation Modeling (SEM).

Figure 1. Model Specification



** Effects are significant at the level of 5%

5. Results

We were able to validate the following constructs: Social Relaxation, Intimacy and Perspective Taking as dimensions of Relational Competence; Cross-Culture Competence and Personal Attributes as dimensions of Cultural Sensitivity; Customer Trust; and Sales Effectiveness and Market Development Effectiveness as dimensions of Relationship Effectiveness. Most of these constructs reliabilities (alpha coefficients) are higher than 0.6, the lower limit suggested in exploratory research (Robinson, Shaver & Wrightsman, 1991; Hair *et al.*, 1998), with the exception of Sales Effectiveness (0.53), which we kept due to its theoretical importance and because reliability was not very far from 0.6. We abandoned the other dimensions of relational competence proposed by Carpenter *et al.* (1983) and by Rubin and Martin (1994) due to their low reliability (less than 0.5).

Regarding convergent validation, the total variances extracted by means of one-dimensional factor analysis in all the constructs we kept exceeded 50%. Table 1 shows the reliability indexes (alpha coefficients) and total variances extracted for these constructs.

Table 1. Constructs Reliability and Validity

Construct	Cronbach's α	Variance Extracted
Social Relaxation	0.66	59.99%
Intimacy	0.60	54.91%
Perspective Taking	0.60	56.01%
Cross Cultural Skills	0.68	61.09%
Personal Attributes	0.62	57.01%
Sales Effectiveness	0.53	53.80%
Customer Trust	0.61	57.29%
Market Development Effectiveness	0.74	66.68%

As a check for discriminant validity, we compared the extracted variances in all constructs to the squared correlations (shared variances) between them (Fornell, & Larcker, 1981); we observed that the extracted variance in all constructs were higher than their shared variances with other constructs. We calculated factor scores for each construct with use of the Bartlett's method, thus weighting each variable according to its communality in each construct (Kim, & Mueller, 1978). We conducted concurrent validation by measuring the correlations between the dimensions of a particular construct; the correlations among the dimensions of Relational Competence, Cultural Sensitivity and Relationship Effectiveness are all positive, even though the correlations between Social Relaxation and the other dimensions of Relational Competence (Intimacy and Perspective Taking) are not statistically significant, maybe due to the fact that Social Relaxation is a dimension of relationship initiation while Intimacy and Perspective Taking are dimensions of relationship maintenance (Carpenter *et al.,* 1983).

We ran SEM with use of AMOS 16.0 with the 57 observations in the sample. Three reasons made we employ a Bayesian analysis strategy to estimate coefficients. First, Bayesian estimates work better for small samples (Rossi *et al.,* 2006; Congdon, 2006). Second, the Bayesian procedure in Amos allows for the specification of categorical variables, particularly ordinal, which is the proper treatment for Likert measures (Byrne, 2001). Third, Bayesian estimates are more efficient and less biased in the presence of outliers, which are of interest in studies that address explanation of variance in performance (Hahn, & Doh, 2006). Therefore, as opposed to maximum likelihood estimation, which requires larger samples, variables to be quantitative and normally distributed, and the exclusion of outliers, we considered Bayesian modeling a more suitable approach.

Because we did not have a large sample, we used the Bartlett's factor scores of all the nine validated constructs as measures for them, so that we could reduce the number of parameters to be estimated and avoid an unidentified solution. We set all priors as normally distributed with zero mean and wide variance, that is, the sampling space is so broad that priors are non-informative (Byrne, 2001); so the observed data predominate in the results of posterior of parameters (Congdon, 2006). We employed a Random Walk Metropolis as the Monte Carlo Markov Chain (MCMC) method and established a burn-in period of 500 iterations. We sampled 231,308 iterations, having stopped far after we had achieved convergence in the model (set to be equal to or less than 1.002). These parameters represent rigorous to avoid autocorrelation in parameter simulation and to control for discrepancies concerning the sample and the model adjusted.

We checked each parameter trajectory and concluded they were all normally distributed. Also, traces were visually stable and autocorrelations were practically equal to zero. We fixed the following coefficients as equal to one: the coefficient between Social Relaxation and Relational Competence; the coefficient between Cross-Cultural Skills and Cultural Sensitivity; and the coefficient between Market Development Effectiveness and Relationship Effectiveness. Table 2 shows the means of the other coefficients, their standard deviations and 95% confidence intervals. We conclude that Cultural Sensitivity is an antecedent of Relational Competence; Relational Competence influences positively Customer Trust; and Customer Trust is a driver of Relationship Effectiveness.

Table 2. SEM estimates and 95% confidence intervals for the fitted model

	Mean	Standard Deviation	95% Lower Bound	95% Upper Bound
Relational Competence → Intimacy	0.81	0.36	0.16	1.58
Relational Competence → Perspective Taking	1.62	0.43	0.89	2.56
Cultural Sensitivity → Personal Attributes	0.92	0.20	0.59	1.38
Cultural Sensitivity → Relational Competence	0.41	0.12	0.20	0.68
Relational Competence → Customer Trust	0.85	0.37	0.20	1.65
Relationship Effectiveness → Market Development Effectiveness	0.55	0.26	0.13	1.14
Customer Trust → Relationship Effectiveness	0.42	0.13	0.17	0.67

Like in studies with data from Asia (Phan *et al.,* 2005) and from business partnerships between Japanese and US firms (Lohtia *et al.,* 2009), we found positive relations involving cultural sensitivity, relational competence, trust and business relationship performance in an offshoring context involving IBM Latin America headquarters in São Paulo and customers abroad. There is a contribution in applying the traditional firm partnership-level approach of buyer-relationship theory in the context of strategic people management, by measuring and linking cultural sensitivity, relational competence, customer's trust and relationship effectiveness with the employee as the unit of analysis, rather than the firm.

Our results reinforce our theoretical framework that, for the case under study, relational competence is an important determinant of trust and therefore an indirect antecedent for relational effectiveness. Also, cultural sensitivity is a relevant antecedent of relational competence in the international business arena. Therefore, offshore service providers may achieve benefits from initiatives that promote cross-cultural skills and relational competence of employees. We may infer that workers which present higher degrees of relational competence may add and sustain value to their firms by means of their relationship with important buyers with profitable outcomes to both sides.

6. Managerial Implications

In an offshore service context, cultural sensitivity seems to be a relevant requisite to the development of relational competence and therefore trust and relationship effectiveness. This may imply that offshoring firms should recruit workers with cross-cultural related personal attributes such as interest and tolerance in face of different cultures, and with general skills to interpret and interact in different cultural environments. Also, people management strategies may incorporate plans to foster cultural sensitivity and relational competence in their current activities such as training or evaluation of worker's performance. In such a context, the improvement of the instruments we used to measure the different constructs in this paper may be of great value to business administration and human resources management. Actually, results applications are not limited to human resources management, but provide evidence for marketing professionals in favor of relational approaches to business rather than focus on transactional approaches, due to the positive indirect association of relational competence to sales effectiveness and market development. Strategic management professionals may also benefit from these results in future initiatives, oriented by linking the constructs measured here to financial and economic business performance.

In special, these managerial implications can be thought in terms of challenges for Brazilian companies. Recent research (such as Oliveria Junior *et al.*, 2007, Gião and Oliveira Junior, 2009 and Scumparim *et al.*, 2009) point out Brazil as a potential global player to offer and host offshoring services due to the relative robustness of infra-structure and availability of qualified human resources allowing for cost reduction. However, research identified several barriers to leveraging Brazil's market potential to offshoring, including the few abilities with English as a foreign language and limited cross-cultural relational experiences. It is then crucial to address if firms are willing to or are even able to promote initiatives to improve the levels of cultural sensitivity and relational competence in their teams. Related strongly to debates in social psychology, these concepts may refer to innate phenomena, or also depending on complex individual learning processes that take place since early and in everyday life, not necessarily related to professional environments or the boundaries of the firms.

7. Future Research

Our study is a preliminary step to confirm the association involving relational competence and performance, with clear academic implications. Conclusions are theoretically and intuitively consistent and provide a background for future research. Due to its exploratory character, this study has limitations.

Controlling for variables which could jointly explain relationship effectiveness together with the constructs we measured can be strategy to improve results confidence in future research. Finally, since we could not validate some measures by means of reliability analysis and construct validation, future studies should address whether these dimensions are crucial and review items in the questionnaire to improve the research instrument by theoretical revision, by adapting other validated scales in previous studies, and even by conducting qualitative, in depth analysis about the process of developing and maintaining relational competence and cultural sensitivity.

Concerning strategic human resource management, possibilities of success in recruiting, training, developing and maintaining relational competence configure an interesting subject for reflection. In other words, a useful question is not only whether relational competence is important per se, but how the firm can assess it and improve it. Further research should address these issues. Besides, another fundamental question is whether the relations we observed here are common to other contexts of study. Actually, considering that offshore services seldom implies live interactions between parties, basically occurring by means of telecommunication or information technology, it may be the case that other international business environments which are more dependent on personal interactions, such as those involving expatriation and sometimes international trade, are subject to even more significant associations among cultural sensitivity, relational competence, trust and relationship effectiveness. Hence, future developments of this research can be applied to different contexts to increase its reliability and to support and review the presented theory.

References

Ambler, T.; Styles, C.; Xiucun, W. (1999) "The effect of channel relationships and guanxi on the performance of inter-province export ventures in the People's Republic of China". International Journal of Research Mareketing, Vol. 16, Num. 1, pp. 75– 87.

Anderson, E.; Weitz, B. A. (1989). "Determinants of continuity in conventional industrial channel dyads". Marketing Science, Vol. 8, Num. 4, pp. 310–323.

Anderson, J. C.; Narus, J. A. (1991) "Partnering as a Focused Market Strategy", California Management Review, Vol.33, Num. 3, pp. 95-103.

Becker, B. (2001) "The HR Scorecard: Linking people, strategy and performance". Business School Press, Boston.

Boxall, P. (1996) "The strategic HRM debate and the resource-based view of the firm", Human Resource Management Journal, Vol. 6, Num. 3, pp. 59-7.

Byrne, B. (2001) "Structural Equation Modeling with Amos: Basic Concepts, Applications, and Programming", Lawrence Erlbaum, 2001.

Cannon, J. P.; Perreault Jr., W. (1999) "Buyer-seller relationships in businessmarkets", Journal of Marketing Research, Vol. 36, Num. 4, pp. 439–460, 1999.

Cannon, J.;Doney, P.; Mullen, M.; Petersen, K. (2010) "Building long-term orientation in buyer-supplier relationships: the moderating role of culture", Journal of Operations Management, article in press. doi:10.1016/j.jom.2010.02.002.

Carpenter B. N. (1993) "Relational competence". In: Perlman, D.; Jones W. H. (Eds). Advances in personal relationships, a research manual, Vol. 4, pp. 1–28. Jessica Kingsley Publishers, London.

Carpenter, B.N.; Hansson, R. O.; Rountree, R.; Jones, W. H. (1983) "Relational competence and adjustment in diabetic patients, Journal of Social and Clinical Psychology", Vol. 1, Num. 4, pp. 359– 69.

Casey, C. (1999) "The changing contexts of work". In: Boud, D.; Garrick, J. (Eds.). Understanding learning at work. Routledge, London.

Congdon, P. (2006) "Bayesian models for categorical data". John Wiley & Sons, Chichester.

Couto, V.; Mani, M.; Sehgal, V.; Manning, S; Russel; J. (2007), "Offshoring 2.0: Contracting Knowledge and Innovation to Expand Global Capabilities: Companies Seek Intellectual Talent beyond Their.

Cuervo-Cazurra, A. (2010) "Multilatinas", Universia Business Review, Num. 25, Primer Cuatrimestre 2010, pp. 14-33.

Borders", 2007 Service Provider Survey Report , Center for International Business Education and Research, Duke University.

Davis, M. (1980), "A multidimensional approach to individual differences in empathy", JSAS Catalog of Selected Documents in Psychology, 10, p. 85.

Day, G. S. (1994), "The capabilities of market-driven organizations". Journal of Marketing, Vol. 58, Num. 4, pp. 37-52.

Deutsche Bank (2004), "Offshoring: Globalisation Wave Reachs Services Sector", Deutsche Bank Research, Frankfurt.

Dess, G.G.; Robinson, R. B. (1984). "Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit", Strategic Management Journal, Vol. 5, Num. 3, pp. 265-273, doi: 10.1002/smj.4250050306.

Doney P. M.; Cannon, J. P. (1997) "An examination of the nature of trust in buyer–seller relationships", Journal of Marketing, Vol. 61, April, pp. 35– 51.

Fleury, A.; Fleury, M. T.; REIS, G. G. (2010), "El camino se hace al andar: La trayectoria de las multinacionales brasileñas", Universia Business Review, Num. 25, Primer Cuatrimestre 2010, pp. 34-55.

Fleury, M. T.; Fleury, A. (2004) "Alinhando estratégia e competências", Revista de Administração de Empresas, Vol. 44, Num. 1, PP. 44-57.

Fleury, M. T.; Fleury, A. (2001) "Construindo o conceito de competências". Revista de Administração Contemporânea, Edição Especial, pp. 183-196.

Freyssenet, M. (1984) "La requalification des opérateurs et la forme sociale actuelle d'automatisation", Sociologie du Travail, 4, p. 422–433.

Gião, P. R.; Oliveira Júnior, M. M.; Vasconcellos, E. (2008) "Services Offshoring and its Strategic Effects on Value Chains", BAR, Brazilian Administration Review, Vol. 5, Num. 3, pp. 193-209.

Gião. P. R.; Oliveira Júnior, M. M. (2009) "A study on the potential of Brazil AS a hub for offshoring of services", Future Studies Research Journal: Trends and Strategy. São Paulo, Vol. 1, Num. 1, p.100-122.

Griffith, D. (2002). "The role of communication competencies in international business relationship development", Journal of World Business, Vol. 37, Num. 4, pp. 256-265.

Hahn, E. D.; Doh, J. P. (2006), "Using Bayesian methods in strategy research: an extension of Hansen et al", Strategic Management Journal, Vol. 27, Num. 8, pp. 783-798.

Hair Jr, J.; Anderson, R. E.; Tatham, R. L.; Black, W. C. (1998), "Multivariate Data Analysis", Prentice Hall, New Jersey.

Helfert, G.; Ritter, T.; Walter, A. (2002), "Redefining market orientation from a relationship perspective: theoretical considerations and empirical results". European Journal of Marketing, Vol. 36, Num. 9/10, pp. 1119-1139.

Holzmüller, H.; Stöttinger, B. (2001), "International marketing managers' cultural sensitivity: relevance, training requirements and a pragmatic training concept". International Business Review, Vol. 10, Num. 6, pp. 597-614. doi:10.1016/S0969-5931-(01)00034-8.

Imahori, T.; Lanigan, M.; (1989), "Relational model of intercultural communication competence". International Journal of Intercultural Relations, Vol. 13, Num. 3, pp. 269-286.

Johnson, J.; Lenartowicz, T.; Apud, S. (2006), "Cross-Cultural Competence in International Business: Toward a Definition and a Model", Journal of International Business Studies, Vol. 37, Num. 4, pp. 525-543.

Kamoche, K. (1996), "Strategic human resource management within a resource-capability view of the firm", Journal of Management Studies, Vol. 33, Num. 2, pp. 213-233.

Kern, H.; Schumann, M. (1984) "La fin de la division du travail?", Maison des Sciences de l'Homme, Paris.

Kosacoff, B.; Ramos, A. (2010) "Tres fases de la internacionalización de las empresas industriales argentinas. Una historia de pioneros, incursiones y fragilidad", Universia Business Review, Num. 25, Primer Cuatrimestre 2010, pp. 56-75.

LaBahn, D.; Harich, R. (1997), "Sensitivity to national business culture: effects on US-Mexican channel relationship performance", Journal of International Marketing, Vol. 5, Num. 4, pp. 29-51.

Lado, A. A.; Boyd, N. G.; Wright, P. (1992), "A competency-based model of sustainable competitive advantage", Journal of Management, Vol. 18, Num. 1, pp. 77-91.

Lado, A.; Wilson, M. (1994) "Human resource systems and sustained competitive advantage – a competency-based perspective", Academy of Management Review, Vol.19, Num. 4, pp. 699-727.

Le Boterf, G. (2003), "Desenvolvendo a competência dos profissionais". Bookman, Porto Alegre.

Lewin, A. Y.; Manning, S.; (2007), "The Globalization of Science & Engineering Capabilities: A Dynamic Perspective on Next-Generation Offshoring – Working Paper". The Fuqua School of Busness, Duke University.

Lohtia, R.; Bello, D.; Porter, C. (2009), "Building trust in US-Japanese business relationships: mediating role of cultural sensitivity", Industrial Marketing Management, Vol. 38, pp. 239-252.

Mascarenhas, A.; Vasconcelos, F.; (2009) "What does Captain Cook have to tell us about culture? Contributions for a structural and historical approach to culture and organizations", International Journal of Cross-cultural Management, Vol. 9, Num. 3, pp. 323-338.

McClelland, D. C.; (1973), "Testing for competence rather than for 'intelligence», American Psychologist, Vol. 28, Num 1, pp. 1-14.

McClelland, D. C.; (1998); "Identifying competencies with behavioral-event interviews", Psychological Science, Vol. 9, Num. 5, pp. 331-339.

Mehta, R.; Larsen, T.; Rosenbloom, B.; Ganitsky, J.; (2006), "The impact of cultural differences in U.S. business-to-business export marketing channel strategic alliances", Industrial Marketing Management, Vol. 35, Num 2, pp. 156–165. doi:10.1016/j.indmarman.2005.03.002.

Mohr, J.; Fisher, R. J.; Nevin, J. R. (1996), "Collaborative communication in interfirm relationships: Moderating effects of integration and control", Journal of Marketing, Vol. 60, Num. 3, pp. 103–115.

Morgan, R. M.; Hunt, S. D. (1994), "The commitment–trust theory of relationship marketing", Journal of Marketing, Vol. 58, Num. 3, pp. 20–38.

Mueller, F. (1996), "Human resources as strategic assets – An evolutionary resource-based theory", Journal of Management Studies, Vol. 33, Num. 6, pp. 757-785.

Narver, J. C.; Slater, S. F. (1990). "The Effect of a Market Orientation on Business Profitability". Journal of Marketing, Vol. 54, Num. 4, pp. 20-35.

Oliveira Junior, M. M.; Gião, P. R.; (2007), "Estratégia de Offshoring", GV Executivo, 6, pp. 33-38.

Oliveira Junior, M. M.; Boehe, D. M.; Borini, F. M. (2008), "Estratégia e Inovação em Corporações Multinacionais - A Transformação das subsidiarias Brasileiras", Saraiva, São Paulo.

Prahalad, C.; Hamel. G. (1997) "The core competence of the corporation". In: FOSS, N. Resources, firms and strategies – A reader in the resource-based perspective. Oxford University Press, Oxford.

Robinson, M; Kalakota, R. (2004) "Offshore Outsourcing: Business Models, ROI and Best Practices", Mivar Press, Alpharetta.
Rossi P.; Allenby G.; McCulloch R. (2006) "Bayesian Statistics and Marketing", John Wiley & Sons; Chichester.

Ruas, R. (2005) "Gestão por competências; uma contribuição à estratégia das organizações". In: RUAS, R. et AL. (Eds.), Aprendizagem organizacional e competências. Bookman, Porto Alegre.

Rubin, R.; Martin, M. (1994) "Development of a measure of interpersonal communication competence", Communication Research Reports, Vol. 11, Num. 1, pp. 33–44.

Sanchez, R.; Heene, A.; Thomas, H. (1996), "Dynamics of competence-based competition", Elsevier, New York.

Scumparim, D.; Correa, D., A.; Sacomano, M.; Giulani, A.C. (2009), "Global integrated service management: a study of the GISM implementation in a multinational and its subsidiaries in the information technology business", International Journal of Management and Enterprise Development, Vol. 7, pp. 409–428.

Sivadas, E.; Dwyer, F. R. (2000), "An examination of organizational factors influencing new product success in internal and alliance-based processes", Journal of Marketing, Vol. 64, Num. 1, pp. 31–49.

Spencer, L.; Spencer, S. (1993) "Competence at work: models for superior performance", John Wiley & Sons, New York.

Spitzberg, B. (1989), "Issues in the development of a theory of interpersonal competence in the intercultural context", International Journal of Intercultural Relations, Vol. 13, Num. 3, pp. 241-268.

Trefler, D. (2005) "Offshoring: Threats and Opportunities", Brookings Trade Forum, Washington.

Wittmann, C.; Hunt S.; Arnett, D. (2009) "Explaining alliance success: competences, resources, relational factors, and resource-advantage theory", Industrial Marketing Management, Vol. 38, Num. 7, pp. 743–756.

Wright, P.; McMahan, G. C.; McWilliams, A. (1994), "Human resources and sustained competitive advantage: a resource-based perspective", International Journal of Human Resource Management, Vol. 5, Num. 2, pp. 301-326.

Zarifian, P. (2003) "O modelo da competência – Trajetória histórica, desafios atuais e propostas", Senac, São Paulo.

Zarifian, P. O. (2001), "Objetivo competência", Atlas, São Paulo.

Zuboff, S. (1989), "In the Age of the Smart Machine – The Future of Work and Power", Basic Books, New York.

R E V I S T A | Globalización, Competitividad y Gobernabilidad | J O U R N A L | Globalization, Competitiveness & Governability | R E V I S T A | Globalização, Competitividade e Governabilidade

GCG GEORGETOWN UNIVERSITY universia

Determinants of Foreign Direct Investment in Latin America*

AREA: 2
TYPE: Application

Determinantes de la inversión directa externa en Latinoamérica
Determinantes do investimento estrangeiro directo na América Latina

AUTHORS

Mohamed Amal[1]
Universidade Regional de Blumenau- FURB, Brazil
amal@furb.br

Bruno Thiago Tomio
Universidade Regional de Blumenau- FURB, Brazil
brunottomio@yahoo.com.br

Henrique Raboch
Universidade Regional de Blumenau- FURB, Brazil
hraboch@al.furb.br

1. Corresponding Author: Universidade Regional de Blumenau- FURB; Rua Antônio da Veiga, 140, Campus I (PPGAD), Sala D 102, Victor Konder; 89012-900,Blumenau/SC; Brazil.

Developing markets have recently gained importance not only in international trade, but also as an important host region for world foreign direct investment (FDI) inflows. With the aim to discuss the determinants factors of FDI in Latin America, we estimate a panel data model of economic and institutional determinants of FDI in eight Latin American countries, within the period 1996-2008. The empirical results support the hypothesis that FDI in Latin America is positively correlated to economic stability, growth and trade openness, and also to the improvement in the institutional and political environment. Furthermore, we found evidence that Multinational Companies are developing market and efficiency seeking strategies in the region.

Los mercados en desarrollo han ganado importancia recientemente, no solo en el comercio internacional, sino como importante región de acogida para flujos de inversión directa externa (FDI). Con la intención de abordar los factores determinantes de la FDI en Latinoamérica, hemos calculado un modelo de datos de panel de los determinantes económicos e institucionales de la FDI en ocho países latinoamericanos entre 1996 y 2008. Los resultados empíricos apoyan la hipótesis de que la FDI en Latinoamérica está positivamente relacionada con la estabilidad económica, el crecimiento y la apertura del comercio, así como con la mejora del entorno institucional y político. Además, hemos encontrado pruebas de que las empresas multinacionales están desarrollando estrategias de mercado y de búsqueda de eficacia en la región.

Os mercados em desenvolvimento ganharam recentemente importância não só no comércio internacional, mas também como importante região hospedeira para os afluxos de investimento externo directo (IED) mundial. Com o objectivo de discutir os factores determinantes do IED na América Latina, estimamos um modelo de dados num painel de determinantes económicos e institucionais do IED em oito países da América Latina, no período de 1996-2008. Os resultados empíricos suportam a hipótese de que o IED na América Latina se correlaciona positivamente com a estabilidade económica, crescimento e abertura comercial, e também com as melhorias no ambiente institucional e político. De resto, encontramos indícios de que as Companhias Multinacionais estão a desenvolver estratégias de desenvolvimento de mercado e de busca de eficácia na região.

* The authors would like to acknowledge anonymous reviewers and also Prof. Cuervo-Cazura for the helpful comments and suggestions to improve the paper.

DOI	Received	Accepted
10.3232/ GCG.2010.V4.N3.07	01.09.2010	30.10.2010

1. Introduction

The flows of Foreign direct investment (FDI) around the world have risen significantly, from an annual average of US$ 142 billion during the period 1985-1990 to over US$ 385 billion in 1996, and reaching a record US$ 1.9 trillion in 2007 (UNCTAD, 2009), with a gradual and growing participation of the developing countries. This group of countries increased its annual share of total world FDI from 15% in 1990 to 30% in 2006 and 37% in 2008 (UNCTAD, 2009). Over the 1990s, the flows of FDI to Latin America have increased significantly thanks to reforms, macroeconomic stability and the potential of growing business. The participation of the region in the world FDI represents around 9% and 37% among developing countries in 2008.

Key words
Foreign direct investment, Latin America

Palabras clave
Inversión directa externa, Latinoamérica

Palavras-chave
investimento externo directo, América Latina

This paper aims at examining the determinants of FDI in Latin America, with special emphasis to the role of economic and institutional variables on the investment decision of Multinational Companies (MNCs) in the region. Previous empirical studies on the determinants of FDI to less developed countries have emphasized the role of economic environment and liberalization policies in the host country to attract foreign investment. Several studies have been developed to examine the determinants of FDI in Latin America, using different econometric methods. Most of them have emphasized the impacts of macroeconomic variables on the FDI inflows in the region. The aim of the paper is to address the economic and institutional determinants of FDI in Latin America (LA). Using a panel data model, covering the period of 1996-2008 and 8 countries, we will test how the macroeconomic stability, trade openness and institutional changes affect the FDI inflows in the region.

The article is organized as follows. The next section presents a review of the literature about the determinants of FDI in developing countries. Section 3 presents the hypotheses. Section 4 introduces the research design. Section 5 provides the results. In section 6 we present the concluding remarks.

2. Determinants of FDI: A General Framework

As acknowledged in the Keynesian analysis, investment decisions at both macro and microeconomic levels are one of the most intricate aspects of economic literature. The early contributions of models based on firms' behavior, as the Jorgenson (1963) model and Tobin (1969) *q* approach put emphasis on the expected return, interest rate and cost variables as the key determinants of investment.

More recently, conditioned by the globalization phenomenon and the increasing role of multinational corporations not only in the developed but also in the developing countries, scholars of International Business have been trying to take into account the effects of macroeconomic and international trade variables in integrated models, as well as how

JEL Codes
F21

the institutional changes in the developing countries contributed to the distribution of the world outflows of FDI.

The first approach is more oriented to consider variables related to economic stability, like inflation rate, exchange rate, growth and international trade. The institutional approach is more dedicated to point out issues related to transparency, freedom and risks, which should affect considerably the business climate in the host countries of FDI.

MNC investments in less developed countries were previously driven mainly by locational advantages, usually related to the abundant natural resources. For the last twenty years, though, foreign direct investment has been oriented to emerging markets as part of MNC strategy to enlarge demand, to reduce production costs and to develop new technologies (Buckley, 1992).

2.1. Literature Review

For more than two decades (Dunning, 2000), the eclectic (or OLI) paradigm has remained the dominant analytical framework for accommodating a variety of operationally testable economic proposals of the determinants of FDI.

The eclectic paradigm (Dunning, 1988) argues that the extent, geographical and industrial composition of international production is determined by the interaction of three sets of interdependent variables - which themselves comprise the components of three sub-paradigm (Dunning, 2000).

The first sub-paradigm is the ownership advantage- O, which argues that enterprises seeking to engage in FDI activities must possess ownership of some firm-specific tangible or intangible asset that provides a competitive advantage over other firms. Therefore, this sub-paradigm asserts that the greater the competitive advantages of the investing firms- relative to those of other firms, operating in countries in which they are seeking to locate their activities- the more they are likely to be able to engage in, or increase, their foreign production (Dunning, 2000).

On the other hand, the ownership-specific advantages of a firm must compensate for the additional costs of establishing production facilities in a foreign environment and must overcome the firm's disadvantages vis-à-vis local firms (UNCTAD, 1998).

The second sub-paradigm is the locational advantages of countries or regions, for undertaking the value-adding activities of MNCs. In this composition, the ownership-specific advantages of firms should be used in combination with the locational advantages of host countries. Thus this sub-paradigm avers that the more the immobile, natural or created endowments favor a presence in a foreign location, the more firms will choose to augment or exploit their own-specific advantages through international production (Dunning, 2000).

The third sub-paradigm of the Dunning's OLI paradigm offers a framework for evaluating alternative ways in which MNCs may organize the creation and exploitation of their own-specific advantages in combination with locational advantages of host countries. This sub-paradigm treats of the presence of commercial benefits in an intra-firm as against an arm'slength relationship between the foreign investor and the recipient of the investment. Thus the eclectic paradigm (Dunning, 2000), like its near relative, internalization theory, avows that the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than license the right to do so. The framework suggests that there are several reasons in exploiting both ownership-specific and locational advantages by internalization; markets for assets or production inputs may be imperfect, if they exist at all, and may involve significant transaction costs or time-lags. also, it may be in a firm's interest to retain exclusive rights to assets, which gives it a significant competitive advantage (UNCTAD, 1998).

It is important to mention that while the first and third conditions are firm-specific determinants of FDI, the second is location-specific and has a crucial influence on a host country's inflows of FDI (UNCTAD, 1998).

The role of the eclectic paradigm as a leading conceptual framework for the analysis of determinants of FDI can be understood through two important contributions (Rugman and Verbeke, 2001). The first contribution of this framework is that the location-specific characteristics that contribute to competitive advantage are known to vary for different countries, sectors and firms. The second contribution is that the conceptual framework allows the identification of four different types of FDI: natural resource seeking, market seeking, efficiency seeking, and strategic asset seeking: (1) Resource seeking FDI occurs when firms identify specific host country locations as attractive natural resources, e.g. minerals, agricultural products, unskilled labor. (2) Market seeking FDI is more designed to satisfy a particular foreign market. It has an immediate import substitution effect, but often also leads to trade creation. (3) Efficiency seeking FDI is designed to promote a more efficient division of labor or specialization of existing portfolio of foreign and domestic assets by MNCs. This type of FDI reflects a rationalization of MNCs operations and a tendency to specialization of affiliates in its internal network. It is important to notice that this type of FDI is usually sequential to resource and market seeking FDI, and trade creating at the firm level. (4) Strategic asset seeking FDI is designed to protect or augment the existing Ownership specific advantages of the investing firm. This way, new plants and acquisitions or joint ventures secure assets of foreign firms. The objective of this type of strategy is to create synergies with the existing pool of assets through common ownership (Dunning, 2000; Rugman and Verbeke, 2001).

2.2. Empirical Studies

Since the initial survey of Agarwal (1980) about determinants of FDI, researchers have placed great reliance on neo-classical investment models during the 1990s. Using this framework, studies have tested a list of hypotheses, including the four core hypotheses of market size and growth, tariff discrimination, and the impact of market integration (Scott-Green and Clegg, 1999).

Previous empirical studies on the determinants of FDI in less developed countries have emphasized the role of economic environment and liberalization policies in the host countries to attract foreign investment.

Lucas (1993) investigated the determinants of FDI in East and Southeast Asia. Based on a model of derived demand for foreign capital by a multiple product he estimated the sensitivity of direct investment flows to production costs in seven Asian countries. The finding results show that FDI inflows are estimated to be less elastic with respect to the cost of capital than to wages, and to be elastic with respect to aggregate demand in export markets than domestic demand.

Seeking for a more systematic empirical study to understand the determinants of FDI and their policy implications for FDI in developing countries, Wang and Swain (1997) provide an econometric investigation of factors influencing foreign capital inflow into Hungary and China during the period 1978-92. The estimation of the model supports the hypotheses that FDI is determined by the size of the host-country market, cost of capital, and political stability. In the case of China, the model showed that foreign capital seems to be sensitive to exchange rates and labor costs, while averaged real growth rates in OECD countries are found to be an important factor determining investment flows in Hungary.

Based on panel data models, Liu *et al.* (1997) showed that the results from the model estimation support the hypothesis that inward FDI in China have been affected mostly by relative real wage rates, relative exchange rates, and economic integration represented by real exports and imports. The model also showed that, based on pledged FDI in China, relative market size (measured by GDP) and cultural differences are two significant determinants.

Investigating the case of India, Agarwal (1997) found that locational advantages – as wage differential and market growth – arte the main factors affecting the flows of FDI.

Several studies have been developed to examine the determinants of FDI in Latin America, using different econometric methods. Most of them have emphasized the impacts of macroeconomic variables on the inflows of FDI in the region.

Recent studies have shown that there is a large consensus on the positive effect of GDP annual growth on private investment, and a negative correlation between FDI and macroeconomic fluctuation since it leads to instability and uncertainty.

On the other hand, the literature is ambiguous about the trade effects on FDI. In the case of market-seeking projects, it is very likely that the FDI will replace the trade flows between two economies, but efficiency and resource-seeking projects may create an intra-firm trade, boosting imports and exports (Swenson, 2004; Seo & Suh, 2006). As for the exchange rate, there is also a similar discussion. Market-seeking projects should occur when the host market's currency is over valued, thus maximizing gains, while efficiency-seeking projects take place in the case of unevalued host market's currency, providing cost reduction opportunities (Chen, Rau & Lin, 2006; Xing & Wan, 2006).

In the beginning of the 2000s, many studies have tested different models, aiming at the verification not only of the effects of the market size and macroeconomic variables, but also the inclusion of non-traditional variables, also called institutional variables.

Nunnekamp and Spatz (2002), using a panel data model with 28 countries, pointed out that the factors related to the domestic market, like GDP, GDP per capita and education have a higher positive effect on the FDI.

Nonnenberg and Mendonça (2004), using a panel data model of developing countries, have pointed out that FDI flows are sensitive to macroeconomic variables, like inflation and GDP), and to institutional variables, more likely to the level of education and economic openness.

Santana and Viera (2005) have shown that the determinants of FDI are related to the market size as well as institutional variables, like education, economic stability and the openness of the economy.

However, recent studies (Fuentes, 2009) have found that the effect of the domestic market tested by the GDP per capita is a determinant variable of the FDI inflows in Latin America.

Several empirical studies have been developed to test the impacts of the institutional changes on the inflows of FDI in LDCs. However, the role of the institutional indicators is still ambiguous. The empirical studies have shown different correlations between FDI and Institutions, and also the effects are different according to regions and to FDI home countries, which suggest that is still a need to continue working on new indicators and to test them in order to capture their real effect on international business.

On the other hand, according to Blonigen (2005), changes in the institutions are more likely to happen in the long run, which may limit to capture their effects on the variation of the FDI flows.

A review of empirical studies of FDI determinants in LDCs shows that several authors have pointed out that economic variables (more related to macroeconomic stability) are not the only determinants of the international performance of host countries in term of attracting new foreign investments, since most of the LDCs have adopted similar macroeconomic policies and have been very successful on their aim to stabilize their economies. Thus, several scholars in International Business and Economics have highlighted the importance of non-traditional (mainly institutional) factors in determining FDI patterns in developing countries.

Hausmann and Fernández-Arias (2000) were the first who attempted to systematize the role of institutions in shifting FDI in the host countries. After them, successively authors have tested different indicators, with the aim of contributing to formalizing their effects on the FDI in LDCs (Biswas, 2002; Wezel, 2003, Nonnenberg & Mendonça, 2004, Trevino, Thomas & Cullen, 2008).

The aim of this paper is to contribute with the discussion of the role of institutions in international business and, more specifically, to test how economic, trade and governance indicators affect the pattern and investment strategies of MNCs in the Latin American Countries.

3. Evolution of FDI in Latin American Countries

Globalization is a trend that has been gaining strength over the last three decades. From 1985 to 2008, the world's total FDI flows grew 3,440% while the FDI stock grew around 1,446%. By 2008, the world's total FDI flows registered US$ 1.7 trillion, a little less than the historical record of almost US$ 2 trillion in the previous year, whereas its FDI stocks amounted to US$ 14.9 trillion. Approximately 68.5% of the FDI stocks are placed on developed economies, but developing economies are becoming also a FDI destination of major importance.

Asia is the main destination of FDI among developing and transition economies, with FDI inward stocks of US$ 2.6 trillion by 2008. Latin America currently holds about US$ 1.2 trillion of FDI inward stocks, which represents a quarter of both developing and transition economies total. The main hosts markets in Latin America are Mexico, Brazil, Chile, Argentina, Colombia and other offshore financial centers, namely the British Virgin Islands and the Cayman Islands. All together, these countries represent 82.2% of the overall Latin American inward FDI stocks, as shown in Table 1.

Table 1 - FDI Inward Stocks from Latin American Countries – 2008

Country	US$ Million	% Share of Latin America's Total
Mexico	294,680	24.9
Brasil	287,697	24.3
Chile	100,989	8.5
Cayman Islands	79,973	6.7
Argentina	76,091	6.4
Colombia	67,229	5.6
British Virgin Islands	64,578	5.4

Source: Based on the on–line database of the United Nations Conference of Trade and Development (UNCTAD): www.unctad.org

With the aim of evaluating the importance of economic, trade and institutional variables for FDI in Latin America, we will test three main hypotheses.

Foreign firms evaluate not only criteria for market growth, but for stability as well, in such a way that not only some profit opportunities are addressed when selecting the target country to perform FDI, but also the capacity of this country to conduct a long-term macroeconomic policy to maintain such scenario.
Hypothesis 1. The higher a country's conditions for economic stability and growth are, the higher its propensity to receive FDI.

Economic determinants deal on how growth and stability affects the FDI inflows, and trade openness also have a positive impact toward the market's attractiveness for foreign firms, since it is a feature that represents a country's acquaintance to foreign products, as well as its experience on conducting international business, which may likely result on high levels of FDI. On the other hand, trade and FDI are more likely to be complementary, rather than substitutes.
Hypothesis 2. Countries with higher degree of trade openness are more prone to receive FDI.

The business climate in a given market is not only a result of its economic scenario, but the institutional scenario also plays a central role on turning the environment more friendly to foreign firms. Countries with improved institutions and positive governance indicators represent efficient market structures, which may reduce significantly transaction costs and uncertainty.

Hypothesis 3. Improved institutions provide location advantages that are likely to enhance a country's propensity to receive FDI.

4. Research Design

A formal model of investment decisions which take into account the production internationalization and the role of MNC has been developed, for example, by Barell and Pain (1996), Ray (1977) and Amal and Seabra (2007). Based on the brief literature review above, the stock of foreign capital in a host country depends on economic, trade openness and institutional variables (equation 1).

Therefore, the determinants of FDI in Latin America can be assumed to be given by the following function (equation 1):

$$FDI_i^t = \beta_0 + \alpha DUMMY_i + \beta_1 RER_i^t + \beta_2 INF_i^t + \beta_3 INTER_i^t + \beta_4 GDPPC_i^t + \beta_5 GDPGR_i^t \quad (1)$$
$$+ \beta_6 TRADE_i^t + \beta_7 VaA_i^t + \beta_8 PSNVT_i^t + \beta_9 GE_i^t + \beta_{10} RQ_i^t + \beta_{11} RoL_i^t + \beta_{12} CoC_i^t + ER_i^t$$

Where, the dependent variable is represented by the stock of foreign capital in the host country (FDI). All variables, except the constant and the binary variable (DUMMY), are expressed with an *i* for host country and *t* for time.

The binary variable used in the model aims at focusing the results on Latin American countries. It gives one (1) for these countries, and zero (0) for other countries. Thus, the regression plots only the results for the Latin American countries.

The macroeconomic factors that affect the FDI are represented by the following variables: Real exchange rate (RER), Inflation (INF), Interest rate (INTER), GDP Growth (GDPGR), and GDP per capita (GDPPC).

RER: the real exchange rate for the host country. The effect of the exchange rate is controversial. On one hand, a real depreciation of the host country currency favors the foreign country purchasers of host country assets, which leads to an increase of FDI inflow to the host country. On the other hand, an increase of the real value of the domestic currency may suggest an increase in the purchasing power of the population, which can have a positive effect on the FDI, as suggested in the case of market seeking strategy.

INF: a higher inflation rate and its persistence over several years indicate a macroeconomic instability. Thus, a negative correlation is expected between inflation and FDI.

INTER: the interest rate of the host country. If we take real interest rate as a measure of economic policy credibility – and that tends to be the case in most emerging markets - the higher the real interest rate in the host country, the greater the probability of policy changes. Then, in the latter case, a negative relationship between this variable and foreign capital stock scan also be reasoned.

The real GDP Growth and GDP per capita represent the size and the potential economic growth of the host country of FDI. The foreign capital stock can be argued to be positively related to the size of the market, which suggests that in the case of a positive correlation between the two variables and FDI stock, MNCs are more oriented to develop market-seeking strategy in the region.

TRADE: Trade flows (sum of exports and imports of the host country) are expected to have a positive effect on the FDI, which suggests that trade and FDI of MNCs in Latin America are based on complementary strategies. In terms of trade and trade openness impacts on the FDI inflows, several studies have pointed out, that there is a negative correlation between trade and FDI, which characterize a tariff-jumping strategy of MNCs in LDCs (Belderbos, 1997; Blonigen, 2002). However, there is also evidence that FDI and trade are not substitutes, but tend to be complementary. Thus, the hypothetical sign is controversial.

The institutional variables are represented by worldwide governance indicators (WGI), published by the World Bank (Kaufmann *et al.*, 2009): voice and accountability, political stability & absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. We assume that the improvement of the WGI will affect positively the institutional and business climate of the host country, and therefore, the investment strategies of MNCs in the region.

Several authors have tested the effects of WGI on the FDI. Globerman and Shapiro (2002) have shown that such indicators are relevant for inward and outward FDI. Gani (2007), and Ali *et al.* (2008), using different econometric estimations for different regions, concluded that the governance indicators have a strong positive correlation with FDI inflows. Other authors have shown different results according to the strategies of MNCs and the size of the investment companies (Bénassy-Quéré *et al*., 2007; Lskavyan & Spatareanu, 2008).

ER represents the residual error of the function.

Table 2 presents the variables used, with the hypothesized signs and the sources of the collected data.

Table 2 - Model variables, expected signs, and data sources

Variable	Hypothetical sign	Source
Inward stock of Foreign Direct Investment (FDI)	Dependent variable	UNCTAD
Real Exchange Rate (RER)	+/-	IMF
Inflation (INF)	-	IMF
Interest Rate (INTER)	-	IMF
GDP per capita (GDPPC)	+	World Bank
GDP Growth (GDPGR)	+	World Bank
Trade (TRADE)	+/-	IMF
Voice and Accountability (VaA)	+	World Bank
Political Stability & Absence of Violence/Terrorism (PSNVT)	+	World Bank
Government effectiveness (GE)	+	World Bank
Regulatory Quality(RQ)	+	World Bank
Rule of Law (RoL)	+	World Bank
Control of Corruption (CoC)	+	World Bank

5. Results

There are two main issues concerning the estimation of equation 1. First, data on foreign direct investment in Latin America is not available for all countries over a long period. Also, economic, institutional and trade data are also not available for a large number of countries over a long period. Thus, we restricted our analysis to the period between 1996 and 2008, which restricts the application of a time-series model. A cross-section analysis is also limited, since data are not published by firms, but according to the host countries of FDI. Then, the most efficient alternative was to estimate a panel data model, where the data was pooled for ten years (1996, 1998, 2000, 2002-2008) and in twenty seven large developing countries, including eight Latin American Countries (Argentina, Bolivia, Brazil, Colombia, Mexico, Paraguay, Peru, and Uruguay). According to Raj and Baltagi (1992) the panel data method technique is used when observations in cross sections (developing countries) and time series are taking simultaneously. The advantage of the method is that it allows a level of specification that helps by the identification of economic model and which may offer a tighter control over individual heterogeneity. On the other hand, in reducing the effects of colinearity among the independent variables, the technique of panel enhances the estimator's efficiency.

Before discussing the results of the model's estimation, some preliminary issues have to be addressed. The panel was estimated through random-effect model based on the outcomes of the Hausman test. This indicates that the null hypothesis of consistent estimators for the random-effects model cannot be rejected. Meanwhile, the alternative hypothesis of this test is rejected, so the estimation of the panel model with fixed-effects is inconsistent.

The Hausman test was the first test developed to compare these two mechanisms of estimating panel data models. It says that the unobserved effects (a_i) are not correlated with the explanatory variables (x_{ij}), which implies its no-correlation with the idiosyncratic terms of error in each time of period too (assuming that $ER_i = a_i + v_i$). The unobserved effect is also called the fixed effect (Wooldridge, 2006).

The estimation of the relationship for FDI (equation 1) according to the determinants discussed in the literature review is reported in Tables 3 and 4. A random effect panel data model is estimated with n = 27 and T = 10 (N = 270, balanced panel), including a sample of 27 developing countries. In Table 3 are reported the results of the model estimation including all the countries of the sample, and in Table 4, we reported the model with a dummy, taking 1 for Latin American Countries.

Table 3 – Estimated models: The case of Developing Countries. Dependent variable: Stock of FDI

Models	***(I)***			***(II)***		
Variables	**Coefficient**	**Ratio-t**	**P-value**	**Coefficient**	**Ratio-t**	**P-value**
Constant	-441.00	-0.06	0.95	-2723.05	-0.39	0.70
Real Exchange Rate (RER)	-2.90	-1.40	0.16	-3.08	-1.49	0.14
Inflation (INF)	-183.61	-0.73	0.46	-296.42	-1.83	0.07*
Interest Rate (INTER)	-166.54	-0.70	0.48	-	-	-
GDP per capita (GDPPC)	4.07	3.72	0.00***	4.02	3.76	0.00***
GDP Growth (GDPGR)	-526.52	-1.31	0.19	-	-	-
Trade (TRADE)	0.30	9.89	0.00***	0.30	10.01	0.00***
Voice and Accountability (VaA)	3966.80	0.68	0.50	-	-	-
Political Stability & Absence of Violence/Terrorism (PSNVT)	8167.57	1.84	0.07*	9621.20	2.27	0.02**
Government effectiveness (GE)	-20793.10	-2.50	0.01**	-17152.50	-2.42	0.02**
Regulatory Quality (RQ)	4833.29	0.89	0.38	-	-	-
Rule of Law (RoL)	-21234.40	-2.22	0.03**	-15706.70	-1.76	0.08*
Control of Corruption (CoC)	7011.83	0.93	0.35	-	-	-
R^2	0,69			0,69		
R^2 adjusted	0,68			0,67		
F-statistic	F(12,257) = 47.828 [0.00]			F(7,262) = 81.7196 [0.00]		
Wald test	-			Chi-square(5) = 4.09 [0.54]		
Hausman test	Chi-square(12) = 16.26 [0.18]			Chi-square(7) = 7.98892 [0.33]		
Schwarz Criterion	6478.65			6459.34		

Notes: * Significant at 10%. ** Significant at 5%. *** Significant at 1%. P-value between brackets

Table 4 – Estimated models, the case of Latin American countries. Dependent variable: Stock of FDI

Models	***(I)***			***(II)***		
Variables	**Coefficient**	**Ratio-t**	**P-value**	**Coefficient**	**Ratio-t**	**P-value**
Constant	-5686.24	-0.70	0.49	-8937.43	-1.13	0.26
DUMMY	21650.50	1.62	0.11	23288.50	1.76	0.08*
Real Exchange Rate (RER)	-2.80	-1.33	0.18	-3.04	-1.47	0.14
Inflation (INF)	-170.42	-0.68	0.49	-303.80	-1.89	0.06*
Interest Rate (INTER)	-197.85	-0.84	0.40	-	-	-
GDP per capita (GDPPC)	3.82	3.44	0.00***	3.84	3.59	0.00***
GDP Growth (GDPGR)	-524.79	-1.32	0.19	-	-	-
Trade (TRADE)	0.30	9.99	0.00***	0.30	10.16	0.00***
Voice and Accountability (VaA)	1864.26	0.31	0.76	-	-	-
Political Stability & Absence of Violence/ Terrorism (PSNVT)	7944.74	1.79	0.07*	8950.69	2.11	0.04**
Government effectiveness (GE)	-20904.10	-2.52	0.01**	-17683.50	-2.50	0.01**
Regulatory Quality (RQ)	4097.65	0.75	0.45	-	-	-
Rule of Law (RoL)	-17219.50	-1.75	0.08*	-12598.70	-1.39	0.17
Control of Corruption (CoC)	7073.52	0.94	0.35	-	-	-
R^2	0,69			0,69		
R^2 adjusted	0,68			0,68		
F-statistic	F(13,256) = 44.63 [0.00]			F(8,261) = 72.4625 [0.00]		
Wald test	-			Chi-square(5) = 3.48 [0.63]		
Hausman test	Chi-square(12) = 12.39 [0.42]			Chi-square(7) = 5.60 [0.59]		
Schwarz Criterion	6465.19			6440.38		

Notes: * Significant at 10%. ** Significant at 5%. *** Significant at 1%. P-value between brackets

Before discussing the estimation results, some preliminary comments regarding the robustness and the efficiency of the chosen estimation method and technique. The R^2 adjusted for both models I and II almost in the end of Table 3 and 4 shows that 67% and 70% of the observations are explained by the results. The Wald test has as null hypothesis that the parameter of the excluded explanatory variables is zero. Therefore the exclusion of the explanatory variables (INTER, GDPGR, VaA, RQ and CoC) are confirmed to have their parameter equals to zero by the Wald test. To choose between models I and II, the lowest value of the Schwarz criterion implies the best model. Thus, all tests confirm model II as the best estimated model.

5.1. Discussion of results

Results reveal that there were five independent variables which achieved statistical significance and with the expected signs, being three traditional (or economic) variables and two non-traditional (or institutional) variables. The three significant economic variables were the trade flows (at 10%), inflation (at 1%) and the GDP *per capita* (at 1%). Such results lead to relevant conclusions regarding the strategy for the MNCs subsidiaries in Latin America, since the positive relation found for the trade flows and the GDP *per capita* to the inward FDI stocks reflects that these markets are targeted by foreign firms for both efficiency-seeking and market-seeking projects, which means that MNCs settle productive subsidiaries in Latin America not only willing to gain advantage with cost reduction or access to local resources, but also the profitability prospected by opportunities in the host markets are relevant for their FDI. A positive relation between FDI and trade flows suggests that the FDI creates intra-firm trade, which is a feature of efficiency-seeking projects, because firms settle a plant abroad to diminish production costs to later export back to their home market and other countries as well, creating commerce (Swenson, 2004; Seo & Suh, 2006). This finding is aligned to other studies like Wang and Swain (1997) which already mentioned that developing countries are appealing to MNCs willing to reduce costs, but the positive sign registered for the GDP per capita variable means that developing countries also have some revenue-generating attractiveness other than providing cost competitiveness for foreign firms. Traditionally it is the large market size that attracts some MNCs into a developing market (Liu *et al.*, 2007), but the individual average income, which can be a proxy for the demand standards of a given market, is a sign that foreign firms are taking the new opportunities provided in such markets by investing more in a country with growing income and larger domestic market. Another implication can be drawn from the results for the trade flows which is the complementary relation among this variable and the inward FDI stocks, which means foreign firms will opt to invest on markets where they have already a higher level of trade openness, indicating a pattern of evolutionary behavior by MNCs operating in Latin America. The real exchange rate was not significant at 10%; moreover, the coefficient was very close to be significant (14%) in the model, and its negative sign supports the existence of market-seeking projects; this means that foreign firms invest in Latin America when the local currency is overvalued, seeking higher profits, which is a characteristic from FDI-market seeking oriented (Chen, Rau & Lin, 2006; Xing & Wan, 2006). The inflation also achieved statistical (at 1%) significance and a negative sign, just as expected, which means that MNCs invest in Latin American countries when such markets present a positive scenario for macroeconomic stability. The results corroborate the hypotheses H1 and H2, in a way that both conditions of macroeconomic growth and stability, as well as market's economic openness enhances a host market's attractiveness towards foreign investors, turning Latin American countries more prone to receive FDI.

Regarding the institutional variables, the political stability was significant (at 5%) and registered its expected sign, which is positive. Milman (1996) and Santana and Vieira (2005) had already drawn attention to how higher levels of political stability on developing markets are contributing to turn such markets more attractive to foreign investors. Apparently, a country's political stability has a large influence over its business climate, and the improvement of such feature on Latin America over the last two decades has increased the local presence of foreign MNCs, since the political stability is a very relevant feature for long-term projects like the FDI. Nevertheless, the government effectiveness did not have its hypothetical sign confirmed attaining statistical significance at 5%, presenting a negative relation to the inward FDI stocks. Such findings partially confirms H3, in a way institutions do matter for the Latin America's FDI inward, but positive economic conditions and trade perspectives have a higher and determinant effect on the strategies of foreign investor despite the institutional lack and effectiveness deficit in the region.

Summing up, these findings point out the growing number of opportunities prospected in Latin America for MNCs, not only being restricted to efficiency-seeking and resource-seeking projects, but also to market-seeking project as well. Opportunities of market-seeking on developing markets are commonly related to the size of the domestic market of the host countries, but this study also reveals that an increasing of the income average is contributing to attract FDI in the Latin American case, which means this increment provides new opportunities for foreign firms and also change the inward FDI profile on these markets, making them more appealing to suppliers of high added-value products. The improvement of political stability standards on developing economies has increased the local presence of foreign firms due to its effects over the market structure enhancement, but if these countries succeed on advancing other institutional aspects of their home market, especially their government effectiveness, they can turn out to be even more attractive to foreign firms, raising their inward FDI stocks.

6. Conclusions

By setting up a model to underline the FDI determinants in developing economies, this paper aimed at testing how economic and institutional variables from the host market affects its inward FDI stocks using a sample of 27 countries. A dummy variable was used to evaluate the applicability of the results found in the case of Latin America.

Results demonstrate that conditions for macroeconomic growth and stability and also for economic openness are highly relevant for the Latin American attractiveness towards FDI. These markets are targets for both efficiency-seeking and market-seeking FDI, since the trade flows and the GDP *per capita* were statistically significant and presented a positive relation to the dependent variable. The political stability was also significant and registered a positive relation to the inward FDI stocks, which highlights how an improved political scenario in such economies enhances its attractiveness for foreign firms. Still, another significant variable did not match its expected sign, and this was the government effectiveness which had a negative relation with dependent variable; this may imply on considerations such as if the macroeconomic features from these countries are more relevant than the institutional scenario for the inward FDI Latin America or if there are conditions for such countries to advance even more on these features to possibly generate even more gains when it comes to attractiveness for foreign firms.

The implications of such findings disclose how developing economies can provide a broad range of opportunities for MNCs, in a way that such markets offer conditions for these firms to reduce their production costs or gain access to abundant resources, as well as the domestic market of developing countries may also create chances for foreign firms to generate revenues, not only when it comes to the size of this market, but also in terms of increasing personal income.

However, this study has some limitations that needed to be mentioned. First, only host market-specific determinants were approached, not taking into account how elements from the FDI's country of origin may have affected the process. Second, it is believed that institutional variables influence FDI in the long-run, and the data shortage did not allow a long historic series to be drawn, which may be negative for more consistent findings regarding this topic, thus the majority of developing economies have already achieved significant institutional improvement on the years analyzed in this paper. And third, a sample consisting of other countries other than only Latin American countries was used in order to find a consistent model.

For further researches we suggest enlarging the sample of the FDI host countries, and using different institutional indicators to discuss which ones affect FDI performance, and how they affect the investment climate. Another perspective for future researchers is to test the model based on firm data.

References

Agarwal, J.P. (1980), "Determinants of Foreign Direct Investment: a Survey", Weltwirtschaftliches Archiv-Review of World Economics, Vol. 116, Num. 4, pp. 739-773.

Ali, F.; Fiess, N.; Macdonal, R. (2008), "Do Institutions Matter for Foreign Direct Investment?", Department of Economics, University of Glasgow, Glasgow.

Amal, M.; Seabra, F. (2007), "Determinantes do Investimento Direto Externo (IDE) na América Latina: Uma Perspectiva Institucional", Economia, Vol. 8, Num. 2, pp. 231-247.

Barrell, R.; Pain, N. (1996), "An Econometric Analysis of US Foreign Direct Investment", Review of Economics and Statistics, Vol. LXXVIII, pp. 200-207.

Belderbos, R. (1997), "Antidumping and Tariff Jumping: Japanese Firms' DFI in the European Union and the United States", Review of World Economics (Weltwirtschaftliches Archiv), Vol. 133, Num, 3, pp. 419-457.

Bénassy-Quéré, A.; Coupet, M.; Mayer, T. (2007) "Institutional Determinants of Foreign Direct Investment", The World Economy. doi: 10.1111/j.1467-9701.2007.01022.x

Biswas, R. (2002), "Determinants of Foreign Direct Investment", Review of Development Economics, Vol. 6, Num. 3, pp. 492-504.

Blonigen, B.A. (2002), "Evolving Discretionary Practices of U.S. Antidumping Activity", University of Oregon Economics Department Working Papers, pp. 2003-2020.

Blonigen, B.A. (2005), "A Review of the Empirical Literature on FDI Determinants", NBER Working Paper, Num. 11299.

Buckley, P.J. (1992), "New Directions in International Business", Brookfield.

Chen, K.; Rau, H.; Lin, C. (2006), "The Impact of Exchange Rate Movements on Foreign Direct Investment: Market-Oriented Versus Cost-Oriented", The Developing Economies, Vol. 44, Num. 3, pp. 269-287.

Dunning, J.H. (1988), "The Ecletic Paradigm of International Production: a Restatement and Possible Extensions", Journal of International Business Studies, Num. 19, pp. 1-31.

Dunning, J.H. (2000), "The eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity", International Business Review, Vol. 9, Num. 1, pp. 163-190.

Foreign Investors", Economics Letters, Num. 100, pp. 58-261.

Fuentes, P.A.G. (2009), "Remittances, Foreign Direct Investment and Economic Growth in Latin America and the Caribbean", Dissertation published in Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College.

Gani, A. (2007), "Governance and Foreign Direct Investment Links: Evidence from Panel Data Estimations", Applied Economics Letters, Vol. 14, Num. 10, pp. 753-756.

Globerman, S.; Shapiro, D. (2002), "Global Foreign Direct Investment Flows: The Role of Governance Infrastructure", World Development, Vol. 30, Num. 11, pp. 1899-1919.

Hausmann, R.; Fernández-Arias, E. (2000), "International Initiatives to Stabilize Financial Integration", In Hausmann, R. & Fernández-Arias, E (Eds.), Wanted: World Financial Stability, Baltimore.

Jorgenson, D.W. (1963), "Capital Theory and Investment Behaviour. American Economic Review", Vol. 53, Num. 2, pp. 247-59.

Kaufmann, D.; Kraay, A.; Mastruzzi, M. (2009), "Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996-2008", Policy Research Working Paper, Num. 4978.
Liu, X.; Song, H.; Wei, Y.; Romilly, P. (1997), "Country Characteristics and Foreign Direct Investment in China: a Panel Data Analysis", Weltwirtschaftliches Archiv, Vol. 133, Num. 2, pp. 313-29.

Lskavyan, V.; Spatareanu, M. (2008), "Host Country's Governance and the Size of

Lucas, R.E.B. (1993) "Determinants of Direct foreign Investment: Evidence from East and Southeast Asia", World Development, Vol. 21, Num. 3, pp. 391-406.

Milman, C.D. (1996), "Determinants of Private Direct Investment in Latin America: Strategic Implications", International Journal of Management, Num. 13, Vol. 3.

Nonnenberg, M.; Mendonça, M. (2004), "Determinantes dos Investimentos Diretos Externos em Países em Desenvolvimento", Texto para Discussão - IPEA, Num. 1016.

Nunnenkamp, P.; Spatz, J. (2002), "Determinants of FDI in Developing Countries: Has Globalization Changed the Rules of the Game?", Kiel Institute for World Economics.

Raj, B.; Baltagi, B.H. (1992), "Panel Data Analysis: Introduction and Overview", Empirical Economics, Vol. 17, Num. 1, pp. 1-8.

Ray, E.J. (1977), "Foreign Direct Investment in Manufacturing", Journal of Political Economy, Num. 85, pp. 283-297.

Rugman, A.; Verbeke, A. (2001), "Subsidiary-specific Advantages in Multinational Enterprises", Strategic Management Journal, Num. 22, pp. 237-250.

Santana, J.R.; Vieira, G.C. (2005), "Fatores de Atração do IDE na América Latina: o Papel da Abertura Econômica", Revista da Fapese de Pesquisa e Extensão, Vol. 2, Num. jul/dez, pp. 37-50.

Scott-Green, S.; Clegg, J. (1999), "The Determinants of New FDI Capital Flows into the EC: A Statistical Comparison of the USA and Japan", Journal of Common Market Studies, Vol. 37, Num. 4, pp. 597-616.

Seo, J.; Suh, C. (2006), "An Analysis of Home Country Trade Effects of Outward Foreign Direct Investment: The Korean experience with ASEAN, 1987-2002", ASEAN Economic Bulletin, Vol. 23, Num. 2, pp. 160-170.

Swenson, D. (2004), "Foreign Investment and the Mediation of Trade Flows", Review of International Economics, Vol. 12, Num. 4, pp. 609-629.

Tobin, J. (1969), "A General Equilibrium Approach to Monetary Theory", Journal of Money, Credit, and Banking, Vol. 1, Num. 1, pp. 15-29.

Trevino, L.J.; Thomas, D.E.; Cullen, J. (2008), " The three pillars of institutional theory and FDI in Latin America: An institutionalization process", International Business Review, v.17, pp.118-133.

UNCTAD (1998), "World Investment Report 1998: Trends and determinants", UNCTAD, New York and Genebra.

UNCTAD (2009), "World Investment Report 2009: Transnational Corporations, Agricultural Production and Development", UNCTAD, New York and Genebra.

Wang, Z.; Swain, N.J. (1997), "Determinants of Inflow of Foreign Direct Investment in Hungary and China: Time-series Approach", Journal of International Development, Vol. 9, Num. 5, pp. 695-726.

Wezel, T. (2003), "Determinants of German Foreign Direct Investment in Latin American and Asian Emerging Markets in the 1990s", Economic Research Centre of the Deutsche Bundesbank, Discussion Paper 11/03.

Wooldridge, J.M. (2006), "Introdução à Econometria: uma Abordagem Moderna", Pioneira Thomson Learning, São Paulo.

Xing, Y.; Wan, G. (2006), "Exchange Rates and Competition for FDI in Asia", World Economy, Num. 29, pp. 419-434.