Internationalization of Firms: An Analysis of Brazilian Shoe Firms in Vale do Rio dos Sinos, RS, Brazil.

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This thesis titled
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dos Sinos, RS, Brazil.

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ABSTRACT

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Internationalization of Firms: An Analysis of Brazilian Shoe Firms in Vale do Rio dos Sinos, RS, Brazil.

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This study analyzes the internationalization process of six Brazilian shoe firms located in Vale do Rio dos Sinos, a southern region of Brazil. This study aims to identify what motivates these firms to enter foreign markets, what modes of entry and strategies they use to reach these markets, and if they follow any internationalization of firms model. In order to understand these firms internationalization behavior, this study uses a qualitative analysis. The results show that motivations among companies varied as well as their modes of entry used and their strategies to target the international market. Only one firm fit one of the internationalization of firms model. This study found that the internationalization process happened in different ways for each of the firms and therefore, it can concludes that there is no formula to internationalize.

Approved:

__________________________________________________________

Catherine N. Axinn
Professor of Marketing
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Today I can say that one of my dreams came true. One more step of my life was accomplished and all I can do now is thank those that made this possible:

I would like to first thank my family. My mother for encouraging me to follow my dreams and my little brother Henrique for being so supportive. I love you!

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This Masters thesis is dedicated to my father, who will always be in heart and will be forever my role model.

Esta dissertação de mestrado é dedicada ao meu pai, que sempre estará no meu coração e sempre será meu maior exemplo de vida.
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CHAPTER 1: INTRODUCTION

The current phenomenon of globalization affects organizations in a way that can intensify and expand their activities into foreign markets. Within this context, today more than ever, an accelerated movement of firms in the direction of internationalization can be seen. More companies are trying to internationalize and search for global markets (Machado-da-Silva, Casali and Fernandes 2001). According to Malhotra, Agarwal and Ulgado (2003), the internationalization of firms phenomenon is happening now at a faster pace. They argue that in the past 20 years companies shifted “their orientation from domestic to international” (p. 1).

The stimulation for a company to operate in the global market has been noticed around the world (Alem and Cavalcante, 2005). The reasons why each company decides to internationalize rather than remain in the domestic market varies depending on the country they are from, their industry, their managers’ perceptions and the decisions they might take, which might also vary from firm to firm, since each manager has different perceptions of the global market.

These motivations can vary from a more re-active approach to a more pro-active approach, which might be classified as opportunistic (when a company receives an opportunity to internationalize), market driven (when the market provides a motivation for a company to internationalize) or strategic (when the motivation comes from the company’s decision to sell its products overseas).
Companies not only might have different stimuli to expand to foreign markets, but also might decide to enter different countries with different strategies. There are many modes of entry that firms can undertake. These are discussed later, in the literature review. For instance, a company can decide to export with a help of an agent (indirect export), or export directly, or license its products, or make a joint venture, or even opening a subsidiary overseas. The more involvement a company has with the international market, the more risks, control and profit this company will achieve. Each mode of entry has its pros and cons, and understanding its advantages and disadvantages helps the manager to decide the best way to enter the market. Therefore, if the manager is interested in getting more control of the process, and assume more risks, he most likely will be choosing to open a subsidiary abroad.

Alem and Cavalcante (2005) affirm that companies see internationalization as part of their strategy to grow and operate in the international market. However, the process of internationalization can occur in two different ways:

First it can be gradual, taking place over many years (Johanson and Wiedersheim-Paul; 1975; Johanson and Vahlne, 1977). Often the company starts with lower involvement and lower commitment to the market, exporting for example. Later it might assume more commitment and risk, controlling all overseas operations. Therefore, these companies will internationalize in small, incremental and gradual steps following stages. These companies would expand to markets that have a close psychic distance, and then expand to more psychic
distant markets. The more a company learns about a specific market, the more commitment it develops to it and the more resources it invests.

Second, some firms begin internationalizing from their inception (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996; Madsen and Servais 1997). These are companies that target a global market from the very beginning. The born global firms’ managers have a global mindset and believe their business network is necessary to achieve success in the global market. The born global firm is differentiated from the gradual firm, because they internationalize quickly and have a high market commitment from their inception. They also approach the global market as one single market, entering several countries at the same time, and apparently not thinking about psychic distance, as firms following the previous model do.

Amatucci and Avrichir (2008) argue that motivations and modes of entry are the two main questions concerning the internationalization of firms: why do they do it; how do they do it? This study is based on the belief that in order to understand companies’ internationalization behavior, it is important to identify their motivations, the modes of entry the companies choose to enter a market, their strategy to target this market and their internationalization process.

The internationalization of firms field has evolved substantially lately, however there is still a lot to be learned. This field is based on company behavior, and the company changes its strategy to react to the dynamics of the market. Today, developing countries are playing a more important role in the global economy and companies from these countries are internationalizing and
searching for global markets, more than ever. Brazil is certainly one of these developing countries.

The phenomenon of internationalization in Brazil has been more evident and has increased its importance since the early 1990s, when the country opened its economy. The opening of the economy had consequences for Brazilian companies that began to suffer from the increase in external competition. During this time, companies also realized the importance of internationalizing and expanding their market to follow a more active strategy to enter foreign markets (Machado-da-Silva et. al, 2001; Alem and Cavalcante, 2005).

The decision to focus on the shoe industry is based on its relevance to the Brazilian economy. The Brazilian shoe industry has experienced an immense amount of change in the last fifty years. This industry has recently developed greatly in Brazil, especially when compared to primary commodities.

According to ABICALÇADOS (Associação Brasileira das Indústrias de Calçados, the Brazilian Shoe Industries Association) the Brazilian shoe industry has played an important role in world’s shoe industry and has great potential to expand its exports (ABICALÇADOS, 2009). Kayser (2008) affirms that shoes are “one of Brazil’s most exported products and […] one of the main items of the country’s trade balance.” (p. 12). According to ABICALÇADOS (2009) Brazil today is considered the third country in the world in shoe production, and is the fifth top exporter. All of this success is due to its product quality, design and the competitive pricing that Brazilian shoe producers offer in the international market.
The shoe industry in Brazil is regionalized and concentrated in different areas of the country. This thesis focuses on firms from the Vale do Rio dos Sinos region, which is the first region to start to produce and export shoes in the country, and today still remains the main productive region in Brazil (Kayser, 2008; ABICALÇADOS, 2009).

This thesis focuses on six Brazilian shoe manufacturers involved in the international market that are located in Vale do Rio dos Sinos, RS, Brazil. The main objective of this thesis is to analyze these firms' behavior in internationalization by understanding their motivations, modes of entry and their strategies for entering foreign markets. Based on their behavior, this study tries to find patterns and fit them to the internationalization models. This study aims to answer the following research questions:

1) Why did these Brazilian shoe firms decide to internationalize?
2) How are they operating in the international market? Which mode of entry is this company using?
3) What strategies did these companies use to internationalize? Do they follow a pattern or a model?

In order to answer these research questions, this study adopts a qualitative approach. This study is divided in six chapters: I) Introduction, II) Literature Review; III) The Shoe Industry in Brazil; IV) Methodology; V) Analysis and Discussion; and VI) Conclusion.

Thus, this thesis aims to contribute to the success of shoe firms by analyzing their internationalization process. This thesis should add to our
understanding of what motivates shoe companies to go abroad, what modes of entry are they using, which model of internationalization are these companies are following. This thesis also aims to provide some suggestions to shoe firms’ managers in their process of expansion in the international market.
CHAPTER 2: LITERATURE REVIEW

2.1. Internationalization of Firms

The Internationalization of Firms is a very recent field of study that has been progressing significantly lately, due to the influence of globalization and the strong integration between economies. The current phenomenon of globalization has been influencing international trade and the internationalization of firms. Axinn and Matthyssens (2001), affirm that “...internationalization theories are more critical than ever before” (p. 3). This is because now more than ever, more firms are internationalizing and they are doing it in a faster way. Therefore, the Internationalization of Firms literature has been progressing significantly in recent years influenced by the current global scenario with a high integration between economies.

According to Mariotto (2007), the Internationalization of Firms literature is based on empirical research on the behavior of firms that are involved with international transactions. By observing how this behavior occurs over time, related research describes and explains the dynamics of this process.

Rialp and Rialp (2001) believe it is hard to conceptualize business internationalization, because according to them it is a very complex issue. They affirm that several authors define “internationalization” differently. Rialp and Rialp (2001) understand internationalization as “a set of operations that facilitate the
establishment of more stable relationships between a firm and the international markets throughout a learning process of growing international involvement and patterns of development that may be simultaneously inward and outward” (p. 50).

On another hand, Mariotto (2007) defines internationalization as a process of the constant involvement of the firms with international operations. Accordingly, the process usually starts when a company experiences its first export or import.

2.1.1. Background on the Internationalization of Brazilian Firms

Barreto and Da Rocha (2001) provide some background information on the internationalization of Brazilian companies. They affirm that the majority of Brazilian firms have been late in internationalizing. Da Rocha (1987) affirms that in Brazil most companies consider exports as an alternative for their excess capacity of production, and only a few companies have their main focus on exporting for strategic reasons.

This scenario changed in the 1990s, when more companies decided to enter foreign markets through franchising, licensing, or foreign direct investment (Barreto and Da Rocha, 2001). “Brazilian companies were both pushed and pulled to international markets by challenges and opportunities presented in the early 1990s” (Barreto and Da Rocha, 2001, p. 80).

As a challenge, Barreto and Da Rocha (2001) argue that foreign competition increased at that time, due to the opening of the Brazilian market to
foreign products and investments. Many Brazilian companies saw foreign competition as a threat.

The creation of Mercosur brought opportunities to Brazilian companies. This agreement benefited these companies because at that point they could internationalize in a somewhat protected environment. Several Brazilian companies established subsidiaries in other Mercosur countries, due to the hospitable environment to foreign investments and a successful initial launch through exports. The entry of foreign competitors into the Brazilian market seems to have stimulated domestic companies to go overseas, looking for new opportunities (Barreto and Da Rocha, 2001).

2.2. Motivations to Internationalize

Kotler (2000) affirms that most companies would rather remain in their domestic market, if this market was large enough. According to Kotler (2000), an international expansion would imply the need to “learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations” (p. 367).

A company that makes a decision to leave its domestic market is willing to face such challenges and risks. Kotler (2000) expresses some challenges a company might face when entering a global market, e.g.: huge foreign indebtedness, unstable governments, foreign-exchange problems, foreign-
government entry requirement and bureaucracy, tariffs and other trade barriers, corruption, technological pirating, high cost of product and communication adaptation and finally shifting borders.

Kotler (2000) also expresses two risks a company might take when going to a foreign market. First, the company might fail to offer a competitively attractive product, by not knowing its customers’ preference very well. The second risk is associated with the lack of knowledge within the company about the foreign country’s business culture; so therefore, the company will not know how to deal effectively with foreign nationals.

All these risks and challenges show that a company that decides to target a foreign market has a disadvantage when compared to the local competitors that have a better knowledge of the market. However, even with all these challenges, today it is observed that more companies are expanding into the international market and this phenomenon could occur for different reasons and motivations (Kotler, 2000).

There are several motivations for companies to internationalize (Root, 1998; Barreto and Da Rocha, 2001), and these motivations vary according to time, markets and modes of entry (Barreto and Da Rocha, 2001). According to Root (1998) “the conscious impulse behind a company’s initial entry into foreign markets is almost always the prospect of profit on immediate sales” (p. 1).

Jeannet and Hennessey (2005) believe that there are many issues that affect companies’ decisions to go abroad. The decision to internationalize is considered important and difficult for companies. For some companies,
expanding their business to foreign markets is “the result of a deliberate policy decisions” (Jeannet and Hennessey, 2005, p. 252). On the other hand, for other companies “it is a reaction to a specific business opportunity or a competitive challenge” (Jeannet and Hennessey, 2005, p. 252).

It is important to highlight that in this topic of the literature review, different authors give different names to each motivation and the depth of analysis varies widely across authors. Jeannet and Hennessey (2005) argue that some companies will start to expand their business abroad based on responding to foreign orders and later, their motivations change and they decide to adopt a more proactive approach. Based on the Jeannet and Hennessey (2005) argument, and in order to facilitate a deeper understanding of this topic, the researcher created Figure 1: A Consolidation of Companies’ Motivation to Enter Foreign Markets. Figure 1 to summarize the various motivations found in the literature.
2.2.1. Opportunistic Motivations

Opportunistic Motivations are based on the reactive behavior of firms. As mentioned previously, these motivations are common among companies that start to expand their business abroad based on responding to foreign orders or to government incentives. The companies receive an opportunity and react to it. The stimulation to internationalize comes from outside of the company and if the company wants to internationalize, it does not have to take a proactive approach.
2.2.1.1. Government Incentive / Tax Reduction

Minervini (2008) cites several motivations for a company to enter an international market, and one of them is: “Possible reduction in tax, by government tax incentives” (p. 4). Bennett (2007) also believes companies should consider tax reduction incentives. He says companies would be motivated by: “tax exemptions, favorable tax rates, direct funding and tax incentives, other incentives” (p. 45).

Mariotto (2007) names this motivation “government incentive policies”. According to him, these incentive policies, both in the country of origin and in the destination country, could become a motivation for a company to expand to the international market. Government policies on tax reduction incentives can attract companies from all over the world. Government policies on foreign direct investment in the host country can also be considered another motivation. These policies reduce the country-risk, and make the country more attractive for companies that are making investments (Mariotto, 2007).

Government incentive policies can also be from the country of origin of the company. For instance, the government can provide incentives for export, in order to stimulate the international expansion of domestic companies (Mariotto, 2007). Porter (1990) as cited in Mariotto (2007) affirms that the national government has an important role in stimulating domestic companies to become more competitive in foreign markets.
Amatucci and Avrichir (2008) argue that government incentives can be a motivation for a company to use foreign direct investments. According to them, the government of the target country can establish tariffs on imports, therefore it is more competitive to establish a subsidiary abroad, rather than export to that country.

Companies that are motivated by these government incentives are being reactive. These companies that internationalize based on these tax reductions do not adopt a pro-active approach. In other words, these companies are only responding to these benefits.

2.2.1.2. Chance to Export a Product or Service

Jeannet and Hennessey (2005) call this motivation an “Opportunistic Global Market Development” (p. 253). They consider this motivation to enter the global market, as the most common among companies. Jeannet and Hennessey (2005) associate this motivation with “the recognition that opportunities exist in foreign markets” (p. 253). They believe that companies usually get foreign customers interested in their product without making any effort to target these customers. Jeannet and Hennessey (2005) exemplify this idea, by saying that a company may be targeting its domestic market by advertising in trade journals and when a foreign customer has access to this information, this customer decides to buy from this company. They also believe that most multinational
companies first base their internationalization on an opportunistic strategy. Today these firms change their approach to a more orchestrated and deliberate strategy to reach the international market. Da Rocha, Da Silva and Carneiro (2007) also cite this motivation. According to them, some firms decide to internationalize because they get attracted by an opportunity that arose. This decision is spontaneous, not based on a previous and explicit intention to internationalize.

“A chance to export a product or service” motivation is considered reactive, because companies are not being pro-active in internationalizing. Most of the time, these companies aim to target only their domestic market and are not looking forward to involvement with the international market. However, at some point a foreign customer gets to know this company and the product they sell in the domestic market, and decides to purchase from this company. Therefore, the companies are motivated to internationalize because they are responding to orders. Later, these companies might become interested in continuing to expand and adopt a more pro-active approach.

2.2.2. Market Driven Motivations

“Market Driven Motivations” are the stimulation generated by the marketplace. In other words, the company is motivated to go abroad based on some form of market opportunity. These motivations are first reactive and then pro-active. When the company receives an opportunity from the market, the
company is reacting to it, however if the company decides to go further and enter the foreign market, the company is then being pro-active. For instance, if the company’s customer goes abroad, an opportunity is raised by the market, however the company can choose to go and follow them or not. If they choose to follow, this motivation becomes pro-active, it is internal from the company and the company is deciding to invest in this foreign market.

The difference between the “market driven” motivations and the “opportunistic” motivations relies on the fact that with the “opportunistic” motivations, the company is offered a chance to export, either by a customer making orders, or by government incentives, and if the company decides to enter the foreign market, the company will not have to invest too much in the process.

2.2.2.1. Follow Customers Abroad

Kotler (2000) cites some factors that influence the company to go abroad. One of these factors is associated with the company’s customers that are going abroad and require international servicing (Kotler, 2000). Root (1998) also cites companies’ motivations to go abroad, and he highlights that companies follow customers from their home market that are going to a foreign market. According to Root (1998), this reason is more common for services companies than for manufacturing companies, e.g. advertising, engineering, insurance and computer services.
Jeannet and Hennessey (2005) associate this motivation with companies that usually have a few, large clients, and once one of these key clients moves abroad to take advantage of a global opportunity, the company must follow or lose an important customer. An example of this motivation is the automobile component supplier industry, because they are now manufacturing wherever the automobile company is located (Jeannet and Hennessey, 2005; Da Rocha, et al., 2007).

Barreto and Da Rocha (2001) go beyond the idea of only following the customers. They believe companies are motivated to do FDI in order to better serve customers’ needs in certain foreign markets. According to Barreto and Da Rocha (2001) serving customers’ needs may have different meanings. One of these meanings would be producing in the local market in order to be able to respond to orders just-in-time. It could also mean warehousing, technical assistance or after sale service to respond to local customers’ need.

2.2.2.2. Defensive Reasons (Competitors)

According to Kotler (2000), companies face competition from global firms in their home market. These global firms tend to attack by offering better products or lower prices. Therefore, the firm “might want to counterattack these competitors in their home markets” (Kotler, 2000, p. 367).
According to Root (1998) a company would go abroad in order “to match a domestic market entry of a domestic rival (the ‘bandwagon’ effect) or to counter foreign firms penetrating domestic markets” (p. 1). Root (1998) believes this motivation is common for oligopolistic industries dominated by a few sellers.

Mariotto (2007) discusses the motivation that he calls the global strategy based on competition. He associates this motivation with companies that have competitors that are acting in different countries. Once a company’s competitor enters a new market, the company feels obligated to keep up with this competitor and enter this market as well, in order to not lose market share in the international market (Mariotto, 2007).

Jeannet and Hennessey (2005) believe companies can enter foreign markets motivated by defensive reasons. Sometimes, foreign competitors will enter a companies’ domestic market and this company, in return, may decide to enter this foreign competitor’s home market. By doing this, the company may be able to learn important information about their competitors which may be useful in their operation.

According to Jeannet and Hennessey (2005), a firm “may want to slow down a competitor by denying it the cash flow from its profitable domestic operation, which could otherwise be invested in expansion abroad” (p. 256). All these reasons make a company, which did not think it needed to compete globally, expand abroad.
2.2.2.3. Domestic Market Saturation

Minervini (2008) believes a company would enter a foreign market because it has been experiencing “difficulties selling on the domestic market” (p. 4). Bennett (2007) shares the thought, suggesting that, the restriction in the domestic market would make companies enter foreign markets.

Root (2008) believes companies would internationalize because their domestic markets are stagnant or because a foreign market may be faster growing. Jeannet and Hennessey (2005) apply this motivation to companies that search global markets because they have already maximized their sales in their domestic market.

2.2.2.4. Survival

Barreto and Da Rocha (2001) classified five dominant patterns of motivation that seemed to be associated with internationalization, more specifically with foreign direct investment (FDI) decisions to establish subsidiary abroad. Barreto and Da Rocha (2001) called one of the patterns “survival”. The word survival perfectly describes the idea behind this motivation, which is, the company needs to internationalize in order to survive.

Barreto and Da Rocha (2001) say that the survival motivation drives companies that do not have a choice about whether they want to open a
subsidiary abroad. In their research, they found that companies only open a subsidiary because it is a requirement for their survival. This motivation differs from the others because internationalization is necessary rather than an option.

Jeannet and Hennessey (2005) believe the major force propelling a company to expand its operation to the global market, is the strong presence of a global logic that can also be called imperative logic. If the company ignores the global logic, most likely the company will “suffer negative competitive implications, such as lower long-term profitability” (p. 257). The company does not have a choice to internationalize or not, it becomes imperative. They argue that today the global logic motivation is becoming more typical for many companies, due to the globalization of marketing operations. Thus, it is necessary for the company to globalize its operation in order to survive in this competitive market (Jeannet and Hennessey, 2005).

2.2.2.5. Exploiting Different Economic Conditions:

A company might be stimulated to go overseas to take advantages of different economic conditions. Jeannet and Hennessey (2005) associate this motivation with the economic growth rates that vary among countries. Therefore, a company that is based in a country that has a low growth rate, may not be successful due to the competitive disadvantage, whereas if this company goes to
a country with a higher growth rate, this company can take advantage of this growth opportunity.

As mentioned previously, all these motivations under “market driven” can be classified as reactive and proactive. The reason for this is because the market might provide them an opportunity to enter a foreign country (reactive), but if the company decides to enter the international market, the company has to make investments (proactive). In all market driven motivations, the companies are offered a chance to go abroad by the market. For instance, if the customers of the companies move overseas or if the competitor decides to enter a market, the company does not necessarily need to follow them, but if it decides to do so, they most likely will gain a different market share, and in order to do this, the company has to make investments to go overseas. The same idea applies for domestic market saturation and survival, if the managers of a company believe their firm cannot grow in the domestic market or needs to move abroad in order to survive, the company will take action to expand to an international market. The idea of exploiting different economic conditions is that foreign markets may offer better economic conditions than the domestic market, and again, if the company wants to take advantage of this, it has to take a more proactive approach and operate overseas.
2.2.3. Strategic Motivations

Strategic motivations are considered more proactive. Companies that adopt these motivations are reaching for international markets, neither because these markets offer them an opportunity nor because they are reacting to some government incentives or foreign buyers’ purchase orders. Companies that are stimulated by “strategic motivations” are actually making strategic choices and investments to enter international markets. Thus, the motivation to expand comes internally, from the company and its managers.

2.2.3.1. Geographic Diversification

Minervini (2008) believes a company would diversify its markets in order to subsequently reduce its dependency on its domestic market. Minervini (2008) also believes that a company would diversify its risks by doing so. According to Kotler (2000), the company wants to reduce its dependence on one market. Kotler (2000) also believes that a company might go overseas if it discovers that some foreign markets may present higher profit opportunities than its domestic market. This motivation applies for companies that want to diversify and expand into different markets (Jeannet and Hennessey, 2005; Mariotto, 2007). Companies that are usually driven by this motivation want to diversify, to not
become dependent on one only market, therefore they are reducing their risks (Jeannet and Hennessey, 2005; Mariotto, 2007).

According to Mariotto (2007), firms would expand to international markets in order not to remain 100% dependent on the economy of the home market. Mariotto (2007) argues that the company that diversifies most likely will use different strategies in different markets and will get better results than using the same strategy to target these different markets. Mariotto (2007) also believes that the company that internationalizes will reduce risks, not only economic risks but also political and social risk, because of operating in various countries with varying risk levels.

2.2.3.2. Exploiting Product Life Cycle

According to Jeannet and Hennessey (2005), when a company is not being profitable selling a product in a market because it became saturated, this company may enter a new market where this product has not been sold before. In other words, by doing this, the company will open opportunities to commercialize its product in different markets, and therefore, extend the product’s life cycle. Minervini (2008) agrees that extending the product’s life cycle is a motivation for a company to go overseas.

Root (1998) argues that “all generic products experience a life cycle, whose shape and duration vary from one product to another, and from one
country market to another for the same generic product" (p. 27). Root (1998) describes the “global product life cycle”, which is represented in Figure 2:

![Global Life Cycle of a Generic Product at a Given Time](image)

*Figure 2*: Global Life Cycle of a Generic Product at a Given Time.


Root (1998) believes products are usually introduced first in the firm’s domestic market and then spread to other markets. He argues that “a company that faces a saturated or declining home market for its product may be able to exploit growth opportunities in foreign markets in earlier phases of the product cycle” (Root, 1998, p. 28).
Companies that are exploiting the global product life cycle aim to continue selling their product in different markets that have never been offered this product before. These companies take this pro-active strategy to keep their sales up, profits up and consequently continue in business.

2.2.3.3. Achieve Economies of Scale and Improve Productivity

Minervini (2008) believes one of the motivations that drives a company to go abroad is the opportunity to achieve economies of scale and improve productivity by doing so. Kotler (2000) argues that the company needs a larger customer base to achieve economies of scale. According to Root (1998) companies search for greater sales volumes and by increasing sales, the company will decrease the unit cost of manufacturing, and consequently become more competitive both in the domestic market and in the international market. Similarly Mariotto (2007) says that companies can achieve economies of scale by getting a larger production base.

2.2.3.4. Opportunity Seeking, Growth, Increase Sales and Profit

Da Rocha et al., (2007) believe that one of the motivations for internationalization is the desire for growth. They cite the construction industry as an example of companies who follow this strategy in Brazil.
Minervini (2008) believes a company’s managers are motivated to develop strategies to expand the company. Minervini (2008) argues that it is possible for a company to achieve more profitable prices when selling abroad.

This motivation is associated with sales expansion. Thus, a company that desires to increase its sales and realizes that the domestic market is not big enough to absorb all its products and/or services, can internationalize searching for new markets and additional buyers (Mariotto, 2007).

Mariotto (2007) states that once a company decides to enter several countries, this company can use its resources and knowledge that generate a competitive advantage in the local market, to do the same in new markets. Thus, the company might increase sales by selling a product that is also offered in the domestic market.

Barreto and Da Rocha (2001) cite two motivations that can fit in this category. The first one is called “growth”. This motivation represents companies with high market shares in the domestic market. The companies that fit into this pattern are the leaders in the domestic market and do not see growth opportunities in remaining only in the domestic market. Therefore, international expansion is seen as the best way to continue growth.

The second motivation that would fit here is called “opportunity” by Barreto and Da Rocha (2001). According to them, companies are interested in internationalizing because they want to exploit an attractive opportunity. "When a pattern of opportunistic motivation can be identified - when a company systematically considers such opportunities in foreign markets - then a different
model emerges and should also be considered as an alternative to the traditional approach to internationalization” (Barreto and Da Rocha, 2001, p. 95).

2.2.3.5. Search for Specialized Knowledge and Technology:

Minervini (2008) believes a company would enter foreign markets motivated by seeking access to technology. By incorporating technology a company would consequently increase profitability. Bennett (2007) argues that a motivation would also be obtaining access to foreign expertise. Minervini (2008) also believes companies are motivated to increase the quality of the product, because the company may be forced to adapt the quality to a higher requirement from the international market.

The search for specialized knowledge and technology has increased in the last couple of years. This could be associated with the fact that companies are now buying other companies abroad, aiming to acquire competitive technology and know-how that these companies own. A company could also acquire knowledge by establishing subsidiaries in clusters or industrial agglomerations (Mariotto, 2007).

Porter (1990), as cited in Mariotto (2007), demonstrates that companies located in clusters become more competitive in international markets, because they may share knowledge and specialized abilities that is concentrated in this location. According to Porter (1990) as cited in Mariotto (2007), the presence of
several direct competitors in the same area encourages a healthy competition that stimulates companies to be more creative and efficient. The development of specialized knowledge and abilities is a constant process and, therefore, companies that are installed in a cluster participate in an environment of constant learning.

2.2.3.6. Search for Inputs:

According to Minervini (2008) a company would go abroad to improve its human resources. Bennett (2007) argues that a company would go abroad based on economic factors, which are associated with a low cost, either by hiring low wage labor, obtaining cheaper raw materials abroad, or by lowering the indirect cost of the company.

Mariotto (2007) associates this motivation with companies that decide to internationalize aiming to get access to resources that are not available in the domestic market. According to Mariotto (2007), decades ago companies would focus on the search for natural resources, such as precious stones, ore, oil, etc. After the second half of the 20th century, companies focused on the search of profitable labor resources. China would be the best example, because in the last few years, many companies have moved to China, attracted by its cheaper labor.

Amatucci and Avrichir (2008) argue that a company can be motivated to establish a subsidiary in a country that offers access to raw materials that are not
found in the domestic market. They believe it would be cheaper to produce in this
country with this raw material, rather than import these inputs, produce at home,
and then export the resulting products.

A company that follows this last type of motivation, has a strategic vision
and intent to operate overseas. These companies’ “internationalization process
was not the result of increased commitment through learning, fortuitous events or
chance” (Barreto and Da Rocha, 2001; p. 96). According to them, the
internationalization process was “an intentional choice where decision makers
knew exactly what they wanted for their company and proceeded to implement it
as the external conditions seemed appropriate” (Barreto and Da Rocha, 2001; p.
96).

When a company is willing to adopt a pro-active approach to going
overseas, the company is also promoting its brand. Following this idea, Da
Rocha et al., (2007) believe companies would go abroad motivated by adding
value to their brands. By promoting their brand overseas, the brand would
become stronger in both the domestic and international markets.

2.3. Modes of Entry

Axinn and Matthyssens (2001) affirm “companies are internationalizing in
more different ways than ever before, often using combinations of entry
strategies” (p. 3). When a company makes a decision to enter a foreign market,
this company has to think about different strategies to target this market.
According to Mariotto (2007), the option of which mode of entry a company will adopt will depend on the companies’ goals, resources as well as the characteristics of the market that the company intends to enter.

Root (1998) is one of the main authorities in modes of entry. He argues that there are several entry modes, each of them offering different costs and benefits to firms. Root (1998) classifies the entry modes into three categories and breaks down each category in different strategies as follows:

"Export Entry Modes:
- Indirect
- Direct agent / distributor
- Direct branch / subsidiary
- Other

Contractual Entry Modes:
- Licensing
- Franchising
- Technical agreements
- Service contracts
- Management contracts
- Construction/turnkey contracts
- Contract manufacture
- Co-production agreements
- Other

Investment Entry Modes:"
- Sole venture: new establishment
- Sole venture: acquisition
- Joint Venture: new establishment/acquisition
- Other”

(Root, 1998, p. 6).

Root (1998) differentiates “export entry modes” from the other entry mode categories, because the products are manufactured in the companies’ home country and later transferred to destination country. He defines “contractual entry modes” as “long-term nonequity associations between an international company and an entity in a foreign target country that involve the transfer of technology or human skills from the former to the latter” (p. 7). This entry mode is distinguished from the “investment entry modes” for not having any equity investment done by the firm. Root (1998) affirms that international companies may combine “contractual entry modes” with the other two modes (export and investment).

According to Root (1998), “investment entry modes involve ownership by an international company of manufacturing plants or other production units in the target country” (p. 7). Root (1998) affirms that an international enterprise may begin with a “sole venture”, which he defines as “new establishment”, or can start by acquiring an existing firm, as he defines as “acquisition”.

There are different classifications of modes of entry in the literature. This research will focus on a simple classification of modes of entry. Most international marketing books adopt this simple classification (Kotler, 2000; Jeannet and Hennessey, 2005; Pride and Ferrell, 2009; Cateora, Gilly, Graham,
2009). This section explains these modes of entry and provides pros and cons for each mode of entry.

Pride and Ferrell (2009) argue that many companies that operate today in several countries started as a small firm operating in a domestic or regional market. Later these companies perceived an opportunity in foreign countries and decided to expand their business beyond their national borders. Pride and Ferrell (2009) believe “the level of commitment to international marketing is a major variable in international markets” (p. 115).

Jeannet and Hennessey (2005) believe that companies that are searching for a global presence should first identify what method of market entry they will adopt in each market in which they want to compete. Kotler (2000) believes that from the moment a company decides to enter a foreign market, this company needs to define the best mode of entry. The main choices are: indirect exporting, direct exporting, licensing, joint venture, and direct investment. As show in Figure 3, these five market-entry strategies involve progressively “more commitment, risk, control and profit” (p. 374)
2.3.1. Entry Strategy Decision: Modes of Entry

2.3.1.1. Indirect Export

Kotler (2000) affirms that usually, companies start their internationalization process by indirect exporting, which means that the company would produce its product in the home country and export it using an independent intermediary. Kotler (2000) cites four types of intermediaries:

- Domestic-based export merchants: the intermediary that would buy the companies’ product and sell it overseas;
- Domestic-based export agents: agents that get a commission for seeking and negotiating a foreign purchase, for example trading companies;
Pride and Ferrell (2009) define these agents as companies that “bring together buyers and sellers from different countries and collect a commission for arranging sales” (p. 116).

- Cooperative Organizations: intermediaries that carry on the export activities on behalf of the company that produces the product that will be exported; and
- Export Management Companies: intermediaries that charges a fee for managing a company’s export activity

2.3.1.2. Direct Export

Kotler (2000) argues that at some point, companies decide to have more control over their exports. They decide to take more risks and invest more, in order to achieve a greater potential return. Kotler (2000) affirms that a company can carry on direct export in several different ways, as follows:

- Domestic-based export department or division: a company can establish an export department that operates as a profit center;
- Overseas sales branch or subsidiary: This branch will be responsible for sales and distribution, it can also handle warehousing and promotion. It can often serve as a display and customer service center;
- Traveling export sales representatives: representatives that are from the exporter’s country travel to different countries to search for business opportunities; and
Foreign-based distributors or agents: both distributors and agents are able to get exclusive or limited rights to represent a company in one market.

2.3.1.3. Licensing

Pride and Ferrell (2009) define licensing as “an alternative to direct investment, requiring a licensee to pay commission or royalties on sales or supplies used in manufacturing” (p. 117). Kotler (2000) sees licensing as a simple way for a company to get involved with international marketing. In this strategy, “the licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty” (p. 375). Kotler (2000) affirms there are different variations on licensing agreement, as follows:

a) Management Contracts:

Employees of a foreign company would manage the other company’s business for a fee (Kotler, 2000).

b) Contract Manufacturing:

Companies would hire local manufacture firms to produce their products (Kotler, 2000). According to Pride and Ferrell (2009) contract manufacturing “occurs when a company hires a foreign firm to produce a designated volume of
the firm’s product to specification, and the final product carries the domestic firm’s name” (p. 117).

Pride and Ferrell (2009) also present the concept of “outsourcing” in this category. The authors argue that outsourcing is becoming more popular recently. Outsourcing “involves contracting manufacturing or other tasks (such as customer-service help lines) to companies in countries where labor and suppliers are less expensive” (Pride and Ferrell, 2009, p. 118). They cite the footwear industry as an example. The authors believe that the majority of shoes (no matter what brand) are now being produced in China.

c) Franchising:

Pride and Ferrell (2009) define franchising as
a form of licensing in which a company (the franchiser) grants a franchisee the right to market its product using its name, logo, methods of operation, advertising, products, and other elements associated with the franchiser’s business, in return for financial commitment and an agreement to conduct business in accordance with the franchiser’s standard of operations (Pride and Ferrell, 2009, p. 117).

According to Pride and Ferrell (2009) the franchisers will minimize their risk in four different ways. First, the franchiser will not need to make a large capital investment. Second, the franchiser’s revenue would be constant, because the franchisee will pay a regular fee and royalties. Third, the franchiser will get promotion of its brand and an increase in the global penetration of the
franchiser’s product. Fourth, this agreement will ensure standard behavior from the franchisees, therefore, this will help the franchiser to protect its brand.

2.3.1.4. Joint-ventures

Pride and Ferrell (2009) define a joint venture as “a partnership between a domestic firm and a foreign firm or government” (p. 118). Kotler (2000) defines it as foreign investors that join a local investor and both of them create a third company that would be called a joint venture, in which they will share ownership and control.

Pride and Ferrell (2009) believe this strategy is mostly common in industries that need large investments, for instance, the automobile industry. The control over the joint venture company may be 50% and 50% or any variation less than 100% for one company.

Pride and Ferrell (2009) believe joint ventures are assuming an important role today due to low cost advantages in some markets. The authors also discuss “strategic alliances” as an example of a joint venture. Pride and Ferrell (2009) define strategic alliances as “partnerships formed to create a competitive advantage on worldwide basis” (p. 118).

Kotler (2000) affirms that firms could create a joint venture for economic or political reasons. The foreign company might not have financial, physical or managerial resources to take business by itself, or the foreign government might
require for a company to enter this market, to do a joint venture. Root (1998) agrees that joint venture are a response to host government policies, in other words, he believes that some countries impose joint venture as the only feasible form of entering this country.

2.3.1.5. Direct Investment:

Kotler (2000) believes direct investment is the ultimate strategy of foreign operations. By using this strategy a company would invest in “direct ownership of foreign-based assembly or manufacturing facilities” (p. 378). The author explains that the direct investment could be done either by a company buying a local company and producing there, or by building its own plant manufacture there. Lymbersky (2008) complement this idea by saying that in this case, “the company owns 100% of its subsidiary” (p. 157).

3.3.2. Pros and Cons for Each Mode of Entry

Each of these modes of entry has advantages (pros) and disadvantages (cons). It is important that a company consider these pros and cons, in order to choose modes of entry strategy to enter a foreign market. Table 1 summarizes the main pros and cons for each modes of entry found in the literature, which is discussed in the following section.
**Table 1: Modes of Entry: Pros and Cons**

<table>
<thead>
<tr>
<th>Mode of Entry</th>
<th>Pros:</th>
<th>Cons:</th>
</tr>
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</table>
| **Indirect Export** | * Minimal risk  
* Minimal capital required  
* Easy to initiate  
* Good way to gain experience | * Lack of control over marketing  
* Possibly minimizes returns |
| **Direct Export** | * More control over foreign marketing plan  
* Product line is the main marketing effort  
* More and quick feedback from customers  
* Better protection of intangible property  
* Better chances of building networks  
* More sales potentials | * Higher risk than above  
* Higher startups cost than above  
* Great information required than above  
* Higher demand for resources |
| **Licensing** | * Quick, easy entry  
* Royalties are guaranteed and periodic  
* Requires little capital  
* Less risk than bellow  
* Good alternative to avoid barriers as tariffs and quotas  
* Overcome high transportation costs  
* Overcome depreciation of currency  
* Immune to expropriation | * Licensor must have distinctiveness in technology, trademark and patents.  
* Licensee may become a competitor  
* Licensor’s lack of control marketing plan and production in the target country.  
* Royalties are negligible compared to equity returns  
* Licensor might experience problems controlling the licensee |
| **Joint Venture** | * Good alternative when a government does not allow the company to act on its own.  
* Local partner knows the local environment better and can provide the necessary expertise to survive in a host country.  
* Shared strengths  
* Shared risks  
* Shared costs | * Higher risk than above  
* Takes time to develop  
* Require some level of capital investment  
* Shared profits.  
* Partners might disagree with each other.  
* Difficult to withdraw  
* Might lose part of their control  
Requires some level of capital investment |
| **Direct Investment** | * Get cost economies.  
* Strength companies image by creating local jobs.  
* Better knowledge of the target market.  
* Full control over their investment.  
* Consumers might choose this company, because the production is local.  
* Create marketing advantages. | * Requires more management than above.  
* Highest capital investment  
* Requires more company resources than above.  
* Most risky.  
* Requires strategic planning.  
* Requires most knowledge of foreign environments  
* Higher startups costs, long payback periods.  
* Difficult and costly to withdraw. |
3.3.2.1. Indirect Export

Kotler (2000) argues two main advantages of adopting indirect export. The first one is that export requires less investment. At this stage there is no need for a company to develop an export department, an international sales force or a set of foreign contacts. The second advantage is that this strategy involves less risk. The intermediaries would add their know-how and services, and therefore minimizing the mistakes in the process of exporting.

Root (1998) believes that indirect exporting involves “low startup costs, few risks, and profits on current sales” (p. 53). Kotabe and Helsen (2008) complement this idea by arguing that at this level, the commitment of the company would be lower and this would consequently require lower control of their sales in the international market. Because it requires less commitment, Kotabe and Helsen (2008), believe that indirect export is a good way to strategy to “test” an international market.

3.3.2.2. Direct Export

A company that adopts this mode of entry is acquiring knowledge of the market. Export is seeing as an “international learning experience” (Root, 1998, p. 53). Direct export, when compared to the indirect export, has higher risks, higher startups cost as well as greater information requirements (Root, 1998). Kotabe
and Helsen (2008) complement this idea by saying the direct export requires a higher use of resources, compared to indirect export. They argue that with direct export the company will do all the process on its own, and therefore to accomplish that, will need more human and financial resources.

Root (1998) believes the main advantages to the manufacturer for adopting direct exports are:

1. partial or full control over the foreign marketing plan (distribution, pricing, promotion, product services, and so on),
2. concentration of marketing effort on the manufacturer's product line,
3. more and quicker information feedback from the target market, which can improve the marketing effort with, say, closer product adaptation or more responsive pricing,
4. better protection of trademarks, patents, goodwill, and other intangible property (p. 57).

Kotabe and Helsen (2008) compare direct export with indirect export, and according to them, direct export has the following advantages: more sales potential (profits), more control over international operations, the company has better chances of building its own network.
3.3.2.3. Licensing

It is important to notice that some pros and cons of licensing were already discussed in this chapter (see section 3.1.1.) However most of pros and cons are explained below to aid the reader. There are many advantages a company can enjoy by licensing a product overseas. Lymbersky (2008) believes that licensing is a relatively low financial risk way to enter a foreign country. Jeannet and Hennessey (2005) add this idea by saying that “a licensee has the advantage of adding the licensed product’s volume to an ongoing operation, thereby reducing the need for a large investment in new fixed assets” (p. 295). They say that companies that are entering countries that are facing uncertain political and economic environments should consider licensing agreements in order to avoid the risks connected with investment in a fixed facility.

A company that adopts this mode of entry will not suffer with barriers such as tariffs, which is often an important increase the price of products; and quotas, which limit the quantity of products to import (Root, 1998, Kotabe and Helsen, 2008; Lymbersky, 2008). Root (1998) also argues that lower transportation costs could be a reason for a company to start licensing rather than exporting. He also argues that prolonged depreciation of currency of the country that the company is targeting, could be another reason for a company to switch from using export to start to use license.
Root (1998) affirms that licensing involves lower risks than direct investments. He argues that “licensing is immune to expropriation, because the licensor does not own physical assets in the target country” (p. 86). Kotler (2000) argues that both the licensor and the licensee will gain from this licensing. The licensor will enter a country with little risk, and the licensee will acquire production expertise and will sell a well-known product with a branch that is also known in the market.

A company that is considering being a licensor needs to possess trademarks, patents, technology or an attractive company name or brand for potential foreign users (Root, 1998; Lymbersky, 2008). The company should also consider the fact that the licensee can become a competitor tomorrow. (Root, 1998; Kotler, 2000; Jeannet and Hennessey, 2005; Lymbersky, 2008). The licensor, thus, has less control of the process, than he would if he was doing everything himself. According to Kotler (2000) if the licensee achieves success, when the licensing contract ends, most likely this firm will create his own firm by reverse engineering the product and compete with this licensor. In order to avoid this, Kotler (2000) recommends that companies supply some proprietary ingredients. Another strategy he recommends, is for the licensor to continue to innovate, therefore, the licensee will still be dependent on the licensor.

Root (1998) believes that the main disadvantage in this mode of entry is the “licensor’s lack of control over marketing plan and program in the target country” (p. 87). Thus, the licensor depends on the licensee’s market performance. Lymbersky (2008) adds to this idea by saying that since the
licensor does not have full control over marketing and production, he will not learn about the host economies, as he would if he decided to manufacture and sell the products himself.

Root (1998) also compare licensing with other modes (exporting and investing) and describes the “absolute” size of income. According to him, “royalty rates are generally limited by rates in a company’s prior licensing agreements, by industry practice, by competition, and increasingly, by host governments” (p. 87). Root (1998) also affirms that the income from licensing is limited to the time set in the licensing agreement.

According to Terpstra and Sarathy (1994) a licensor may face problems of controlling the licensee. Even though the contract between the two parties should state what each of them is responsible for conflicts and misunderstanding may emerge when they are implementing it.

3.3.2.4. Joint Ventures

As presented previously, Root (1998) believes that joint ventures are seen as a good alternative for entering markets where the government does not allow a foreign company to act on its own.

A joint venture involves a partnership with a local partner. This local partner knowledge of the host country’s environment and business practices is beneficial. (Root, 1998; Lymbersky, 2008). The local partner also might have personal contacts with local suppliers, customers and government officials, which
can contribute to the joint venture. (Root, 1998; Lymbersky, 2008). Root (1998) believes the local partner can also contribute with knowledge in management, marketing skills, production, local prestige and other resources. Lymbersky (2008) observes that the local partner knows the language and the culture. The local partner, therefore, “can provide the necessary expertise to survive in a host country” (Lymbersky, 2008, p. 178).

Companies that are adopting this entry mode will combine their strengths and will help each other in their weakness. (Root, 1998) Companies involved in a joint venture share risks. (Jeannet and Hennessey, 2005; Lymbersky, 2008) Lymbersky (2008) also notes that these companies will share ownership and costs.

There are also disadvantages of adopting a joint venture. Since it involves a partnership, it takes time to develop and requires capital investment. A partnership also implies sharing profits. According to Kotler (2000) another disadvantage would be that “the partners might disagree over investment, marketing, or other policies” (p. 377). Partners could also disagree on how to reinvest earnings. Lymbersky agrees that some conflicts might arise between partners. Root (1998) compares the joint venture partnership with “marriage” and their separation as “divorce”. Therefore, Root (1998) advises managers to pick the right partner. Lymbersky (2008) believes the major issue for this mode of entry is the control over the joint ventures. A company that decides to enter a joint venture will lose part of its control over technology.
3.3.2.5. Direct Investment

Kotler (2000) argues that companies can take five advantages when using direct investment to enter a large foreign market. First, the company most likely will get cost economies by producing in the foreign market (the company might get cheaper labor, cheaper raw material, or government incentives). The second advantage is associated with creating local jobs and therefore, strengthening the company’s image in that specific country. Third, when companies are producing in the market they will be selling in, they will know this market well and because of this knowledge, they will be able to offer products that suit this market better. The fourth advantage is that the companies will have full control over their own investments. The last advantage is related to local content laws and is associated with the fact that the host country might state that consumers will only consume what is produced in that country, in order to help their economy (Kotler, 2000).

The company that adopts this entry mode, has more control, and the “investment entry enables the company to exploit more fully its competitive advantages in the target market” (Root, 1998, p. 124). Root (1998) compares the direct investment with exporting modes, and concludes that direct investment may lower the cost. This is because export cost involves transportation and customs duties, among other costs. Direct investment can also create marketing advantages, because once the company starts to produce in the target market,
this company acquires knowledge of the purchasing power and the local preferences of its customers (Root, 1998).

Root (1998) also emphasizes the disadvantages of this mode of entry. According to him, direct investment, when compared to other modes of entry, requires way more management, capital and other company resources. This mode of entry requires more commitment and therefore, is exposed to higher risks. He believes that this mode of entry requires strategic planning (Root, 1998).

According to Root (1998), the success of opening a subsidiary abroad depends on economic, political, sociocultural environment of the target country. Therefore, it is necessary that a company gather information about this market, before deciding to produce abroad. Root (1998) also points out the “higher startups costs, long payback periods, and the difficulty of disinvestment in the event of failure or a change in strategy” (p. 125).

After discussing the motivations and modes of entry, it is important to highlight internationalization of firms’ theories. Thus, this section of this chapter describes how theorists have explained the overall internationalization behavior of firms.

3.4. Internationalization of Firms Theories

Most of the internationalization of firms’ theories, as mentioned earlier, is based on companies' strategies to operate in international markets. Companies
tend to change their strategy and behavior very often, therefore the internationalization theories have to be updated or new theories need to be developed. Melin (1992) as cited in Ferreira (2007) argues that there are two approaches to analyze the internationalization of firms, through economic theories and through behavioral theories.

According to Ferreira (2007) the main economic theory that explains the internationalization process is the Eclectic Paradigm, by Dunning (1988). According to Ferreira (2007) the Eclectic Paradigm defines the process of internationalization as the result of rational decisions throughout the firm’s activities. These rational decisions are based on choosing to invest in other countries, for instance, using foreign direct investment.

According to Ferreira (2007), behavioral theories link the internationalization of firms with the process of acquiring knowledge. These behavioral theories were introduced by researchers from Uppsala University, and are based on firms’ decisions, strategies and the modes of entry these firms might chose to enter a foreign market.

Economic theories, represented by the eclectic paradigm; and the behavioral theories, represented by the stage model theories and the born global theory are discussed in this section.
3.4.1. Economics Theories

3.4.1.1. Eclectic Paradigm

John H. Dunning is responsible for establishing the Eclectic Paradigm of international production in 1976. Dunning’s intention was “to offer an holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprise and the growth of such production” (Dunning 1988, p. 1). The selection of the word “eclectic” was deliberate because it conveys the idea that a full explanation of the transnational activities of an enterprise needs to draw upon several strands of economic theory (Dunning, 1988). Based on arguments of the Transaction Cost Theory (Williamson, 1975); Internalization Theory (Buckley and Casson, 1976); Industrial Organization (Caves, 1971); and Product Life Cycle Theory (Vernon, 1966), Dunning proposed a theory to explain the amplitude, shape and pattern of international production.

Dunning (1980) summarizes the Eclectic Paradigm by stating that a national enterprise has two ways to grow. The first way is by diversifying horizontally, increasing new product lines. The second way is by diversifying vertically into new activities, including production of knowledge. According to Dunning, the enterprise can do this by acquiring an existing enterprise or by exploiting foreign markets. The Eclectic Paradigm focuses on this last one, in
which a company becomes an international enterprise because it will be serving foreign markets. However, in order to be able to produce in this foreign market, these enterprises must possess enough additional “ownership advantages,” to compensate for the costs of servicing an unfamiliar market.

According to Dunning (1980), the propensity of an enterprise to engage in international production is based on three main determinants:

first, the extent to which it possesses (or can acquire, on more favorable terms) assets which competitors (or potential competitors) do not possess; second, whether it is in its interest to sell or lease these assets to other firms, or make use of – internalize – them itself; and third, how far it is profitable to exploit these assets in conjunction with the indigenous resources of foreign countries rather than those of the home country (Dunning, 1980, p. 9).

Dunning (1980) states that the possession of ownership advantages decides which firms will supply a specific overseas market, while the pattern of location endowments determines how the firm will supply this foreign market, if it will be by exports (trade) or by local production (investment).

Dunning (1980) argues that the function of an enterprise is to transform inputs into outputs by increasing their value through the process of production. There are two types of inputs. The first type are the inputs available in one specific location to all companies that are producing in that location, regardless their size or nationality. Examples of this first type would be: most kinds of labor,
natural resources, proximity to market, government legislation and policies. The second type is called “ownership-specific” input, and they are inputs that an enterprise may create for itself, like technology and organizational skills, or can purchase from another institution. Although the origin of the second type of inputs may be linked to “location-specific endowments”, their use is not so restricted.

Dunning (1980) summarizes his ideas in a Table 2 that shows “the main types of activities in which multinational enterprise may be involved to the three main determinants of international involvement” (p.12). This Table 2 explains the ownership advantages (the reason behind the activity done by the enterprise), location advantages (where the production will be done) and the internalization advantages (how the firm will make an investment). According to Dunning (1988) internalization advantages are associated with the desire and ability of a firm to transfer assets to a foreign country using its own hierarchy rather than market mechanisms. See Table 2
<table>
<thead>
<tr>
<th>Types of International Production</th>
<th>Ownership Advantages</th>
<th>Location Advantages</th>
<th>Internalization Advantages</th>
<th>Illustration of types of activity which favor MNEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Resource-based</td>
<td>Capital, technology, access to markets</td>
<td>Possession of resources</td>
<td>To ensure stability of supply at right price. Control of markets</td>
<td>Oil, copper, tin, zinc, bauxite, bananas, pineapples, cocoa, tea</td>
</tr>
<tr>
<td>2. Import substituting manufacturing</td>
<td>Capital, technology, management and organizational skills; surplus r &amp; d &amp; other capacity, economies of scale; Trade marks</td>
<td>Material &amp; labor costs, markets, government policy (with respect to barrier to imports, investment incentives, etc.)</td>
<td>Wish to exploit technology advantages, High transaction or information costs, Buyer uncertainty, etc.</td>
<td>Computers, pharmaceuticals, motor vehicles, cigarettes</td>
</tr>
<tr>
<td>3. Export platform manufacturing</td>
<td>As above, but also access to markets</td>
<td>Low labor costs Incentives to local production by host governments.</td>
<td>The economies of vertical integration</td>
<td>Consumer electronics, textiles &amp; clothing, cameras, etc.</td>
</tr>
<tr>
<td>4. Trade &amp; distribution</td>
<td>Products to distribute</td>
<td>Local markets. Need to be near customers. After-sales servicing, etc.</td>
<td>Need to ensure sales outlets &amp; to protect company's name</td>
<td>A variety of goods—particularly those requiring close consumer contact</td>
</tr>
<tr>
<td>5. Ancillary services</td>
<td>Access to markets (in the case of other foreign investors)</td>
<td>Markets</td>
<td>Broadly as for 2/4</td>
<td>Insurance, banking &amp; consultancy services</td>
</tr>
<tr>
<td>6. Miscellaneous</td>
<td>Variety—but include geographical diversification (airlines &amp; hotels)</td>
<td>Markets</td>
<td>Various (see above)</td>
<td>Various kinds a) Portfolio investment—properties b) Where spatial linkages essential (airlines &amp; hotels)</td>
</tr>
</tbody>
</table>
3.4.2. Behavioral Theories

The behavioral theories are mainly business based and describe the companies’ behavior. In this section, models of the internationalization of firms will be described. These models represent patterns of how companies internationalize their business operations. This study only focuses on two perspectives of the internationalization of firms:

1) The traditional models, also known as gradual models or stage models; and,

2) The Born Global model.

According to Andersen (1993) the traditional models are represented by two main models: (1) The Uppsala Model, also known as U-Model by Johanson and Vahlne (1977), which is considered the first model of internationalization; and (2) the Innovation-Related Internationalization Model, also known as I-Model by Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982) and Reid (1981).

The second perspective describes the “Born Global Model” which is observed in recent years. As of today, companies are entering global markets very early and quickly. Rialp, Rialp and Knight (2005a) suggest that the emergence of these early internationalizing firms shows that the internationalization process has evolved from the 1970s and 1980s, when the first theories were developed. Therefore, from this perspective, researches argue the existence of “born global” firms, in other words, those firms that were born
already prepared to act in the global market. Oviatt and McDougall (1994); Knight and Cavusgil, (1996); Madsen and Servais (1997); Chetty and Campbell-Hunt (2004); and Rialp et al., (2005a), Weerawardena, Mort, Liesch and Knight (2007) are important researchers who contribute to this model.

3.4.2.1. First Perspective: Traditional Model / Gradual Model / Stage Model

According to Johanson and Vahlne (1990), this perspective claims that the internationalization of firms is a process in which a firm gradually increases its international involvement. Thus, a company that follows this pattern would move from lower-commitment entry modes to higher commitment entry modes. Therefore, a company would start exporting (low commitment) rather than producing in another country (high commitment).

As mentioned above, Andersen (1993) states that the U-Model and the I-Models are behaviorally oriented. According to the author, “the gradual pattern of the firm’s internationalization process can mainly be attributed to two reasons: (1) The lack of knowledge by the firm, especially "experimental knowledge" and (2) Uncertainty associated with the decision to internationalize” (p. 212).
3.4.2.1.1. 

Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) were the pioneer authors to introduce the first internationalization model. Their contribution to the field became a classic reference that is still in use. In the 1970s, Johanson, Vahlne and Wiedersheim-Paul were researchers from Uppsala University who conducted a study focused on understanding the internationalization process of Swedish manufactures. Johanson and Vahlne (1977) conducted a study that generated a Model of how firms would choose foreign markets and the mode of entry, once they decided to internationalize. The Model proposed by Johanson and Vahlne is called the “The Uppsala Model,” which is also known as the “U-Model”.

According to Johanson and Vahlne (1977) internationalization was not “the result of a strategy for optimum allocation of resources to different countries” (p. 26). Internationalization was seen as a “consequence of a process of incremental adjustments to changing conditions of the firms and its environment” (p. 26).

Johanson and Wiedersheim-Paul (1975) conducted research among Swedish manufactures. The authors described four modes of entry:

a) No regular export activities;
b) Export via independent representatives (agents);
c) Establishment of one or more sales subsidiaries;
d) Overseas production/manufacturing units.

The higher the stage, the more international involvement the company would have. The sequence of stages was implicitly restricted to a specific country.

Johanson and Vahlne (1977) observed that in their research there were common characteristics among these companies concerning their process of internationalization. The greater the knowledge these companies would have of a foreign market, the greater the chance that this company would invest resources in the market. Casson (1994) as cited in Ferreira (2007), adds that the company would not only gain knowledge of the foreign market entered, but also gain knowledge of the process of internationalization, that might be useful for the company to enter different countries.

This model is considered an evolutionary model, because according to the model, companies would reach the international market by going through a sequence of stages. The internationalization of firms is viewed as a gradual process by which a company increases its commitment to foreign markets based on the companies’ knowledge of the foreign market and the ongoing interaction between knowledge and commitment.

Andersen (1993) provides a basic assumption that “market knowledge and market commitment affect both commitment decisions and the way current decisions are performed, and these, in turn, change market knowledge and commitment” (p. 211).
Johanson and Vahlne (1977) establish a relationship between these aspects, as shown in Figure 4. This Figure shows different kinds of relationships. The companies would move in a logical sequence from a low commitment stage (exports) to a higher commitment stage (produce abroad) and by doing this, the company would gain knowledge of this market. This knowledge would help the company to take a step up in the commitment and get more involved with the market, by investing more resources and opening a sales subsidiary for instance. In other words, the greater the company investment in an international market, the more it will gain knowledge about this market; the greater the knowledge of the company will be of this market, the more skill this company will have to invest in this market, the greater this skill, the more likely this company will be to invest more in this market in an interactive cycle.

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*Figure 4: The Basic Mechanism of Internationalization: State and Change Aspects.*

Source: Johanson and Vahne, 1977, p. 26
According to Vasconcelos (2008), when a company would go from one stage to the other, the company would acquire knowledge of this foreign market. This knowledge would help the company identify opportunities and threats in the market, as well as get information on the economic, social and political environment in this destination country.

According to the Uppsala Model by Johanson and Vahlne (1977), firms would tend to enter into markets that are physiologically or culturally closer at first. Later, the companies will seek to enter markets that are more distant. The authors argue in favor of the influence of the “psychic distance” which they define as “the sum of factors preventing the flow of information from and to the market” (p.24). Examples of these factors would be differences in language, education, business culture, economic development, and general culture, among others.

Following this idea, when companies would choose which country to invest in, they would take into account the “psychic distance” between the home country and the destination country, and choose markets with similar cultural, political, economic, social and legal environments, in order to facilitate and simplify their internationalization process. The company would reach for market with more “psychic distance” once they got more experience and knowledge. This knowledge would reduce the uncertainty of investing in a more distant market. Therefore, the Uppsala Model supports a gradual entry into the foreign market, reducing the “psychic distant” by investing resources. The company would invest in resources once it gained more knowledge of the market.
According to Ferreira (2007), Johanson and Vahlne did not affirm that this gradual internationalization model would explain every company’s behavior. Some factors would affect the internationalization process such as: the characteristics of the company, the industry and the location.

3.4.2.1.2. The Innovation-Related Internationalization Model (I-Model)

The Uppsala Model caught the attention of many people who began to research the topic of internationalization. Andersen (1993), summarizes the main models associated with innovation-related model, as shown in Figure 5. Andersen (1993) argues that the main authors, who contributed to the Innovation-Related Internationalization Model, are Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982), and Reid (1981). All these authors shared the belief that a company would treat its internationalization as the adoption of an innovation (Andersen, 1993).

The I-Models follow the same idea as the U-Model, suggesting a company would internationalize its operations in a sequence of stages. According to Andersen (1993), the “I-Models” were focused “on the learning sequence in connection with adopting an innovation. In other words, the internationalization decision is considered as an innovation for the firm” (p. 212).

In Figure 5, Andersen (1993) shows that the main differences between these four models are: the number of stages the company goes through to
internationalize and the description of each stage. Andersen (1993) affirms that “the differences between the models seem to reflect semantic differences rather than real differences about the nature of the internationalization process” (p. 212).
A Review of the Innovation-Related Internationalization Models

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<tbody>
<tr>
<td>Stage 1: Management is not interested in exporting</td>
<td>Stage 1: Domestic marketing: The firm sells only to the home market</td>
<td>Stage 1: The completely uninterested firm</td>
<td>Stage 1: Export awareness: Problem of opportunity recognition, arousal of need</td>
</tr>
<tr>
<td>Stage 2: Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting</td>
<td>Stage 2: Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting</td>
<td>Stage 2: The partially interested firm</td>
<td>Stage 2: Export intention: Motivation, attitude, beliefs, and expectancy about export</td>
</tr>
<tr>
<td>Stage 3: Management actively explores the feasibility of active exporting</td>
<td>Stage 3: Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country</td>
<td>Stage 3: The exploring firm</td>
<td>Stage 3: Export trial: Personal experience from limited exporting</td>
</tr>
<tr>
<td>Stage 4: The firm exports on an experimental basis to some psychologically close country</td>
<td>Stage 4: Active involvement: Exporting to more new countries—direct exporting—increase in sales volume</td>
<td>Stage 4: The experimental firm</td>
<td>Stage 4: Export evaluation: Results from engaging in exporting</td>
</tr>
<tr>
<td>Stage 5: The firm is an experienced exporter</td>
<td>Stage 5: Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets</td>
<td>Stage 5: The experienced small exporter</td>
<td>Stage 5: Export acceptance: Adoption of exporting/rejection of exporting</td>
</tr>
<tr>
<td>Stage 6: Management explores the feasibility of exporting to other more psychologically distant countries</td>
<td></td>
<td>Stage 6: The experienced large exporter</td>
<td></td>
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</tbody>
</table>
Both the U-Model and the I-Models brought several contributions to the Internationalization of Firms literature. However, various reviews have been done of these theories critiquing different aspects (Ferreira, 2007).

One of the main critiques focuses on eliminating the sequential stage process that these models depict. Thus, some scholars critique these models as too deterministic (Madsen and Servais, 1997; Chetty and Campbell-Hunt, 2004) by stating that the internationalization process does not necessarily have to follow evolutionary characteristics, composed of a rigid sequence stages, in order to reach the international market (Welch and Luostarinen 1988; Vasconcelos, 2008). According to Chetty and Campbell-Hunt (2004) this approach “oversimplifies a complex process” (p. 60), and companies frequently skip some of these stages. (Oviatt and McDougall, 1994; Chetty and Campbell-Hunt, 2004)

Madsen and Servais (1997) complement this idea by arguing that not every company will first be established in the domestic market, and later start to sell abroad. They argue that it is possible for a company to target international market sales at their foundation by building it on the entrepreneur’s prior experiences. This theory will be further discussed in the next section of this chapter.

Vasconcelos (2008) also argues that companies can operate in the international market either continuously or sporadically. In addition, the company may or may not choose to move beyond exporting. As an example, a company can be a constant exporter and not become interested in expanding its strategy to a foreign direct investment, for instance.
Benito and Welch (1997) and Zander (1997), as cited in Ferreira (2007), believe several factors are influencing companies now to internationalize their operations and adopt different patterns from the ones explained in the gradual perspectives. These models were proposed in the 1970s and at this period of time, the business environment was not interconnected internationally as it is today (Kverneland, 1993, as cited in Ferreira, 2007). The models usually refer to one company entering one foreign market; the company does not take into account the effect of multinationals that today are operating in several markets around the world (Ferreira, 2007). Also, firms are now internationalizing faster, rather than incrementally as suggested by the Uppsala model (Weerawardena et al., 2007).

According Andersen (1993), the traditional models fail to explain how and where the internationalization process starts. The stage models’ operationalization, theoretical boundaries and explanatory power need to be researched deeply in a longitudinal setting (Andersen, 1993; Madsen and Servais, 1997). Ferreira (2007) also adds that firms are not necessarily entering markets with lesser “physic distance”. Overall, most critiques show that strategies to enter a foreign market can vary and should not be described by one only model.

According to Rialp and Rialp (2001), neither the economic theories based on foreign direct investment, nor the gradual theories, “individually considered, provides a truly complete explanation of the complex nature of the SME internationalization process” (p. 69). They argue that by combining these different
theories with the comprehension of the modes of entry and the network perspective, the researchers will obtain a better and more holistic understanding of this phenomenon of internationalization.

3.4.2.2. Second Perspective: the Born Global Model

The emergence of born global firms is relatively recent (Knight and Cavusgil, 2004) and caught the attention of several scholars around the world. This topic has become important in the literature because today there are an increasing number of born global firms in the global market place. (Rialp et al., 2005a). Recently, there are several studies referring to Born Global Model, however most scholars believe that there is still a need for further research in this field. (Knight and Cavusgil, 2004; Chetty and Campbell-Hunt, 2004; Rialp et al., 2005a).

Rialp et al., (2005a) affirm that several studies distinguish the born global model from the stage models. According to them, “While many established firms continue to internationalize following a slow, evolutionary path of development (Johanson &Vahlne, 1990), other more dynamic and newly established firms are becoming international at founding or very shortly thereafter” (Rialp et al., 2005a, p. 148).

In other words, the first perspective (stage model) shows that companies establish first in the domestic market, and later become international. The second
perspective (born global model) displays that a company aims to target the international market from its inception and is born able to compete globally (Chetty and Campbell-Hunt, 2004).

Chetty and Campbell-Hunt (2004) argue that the born global model differs from the traditional model in the time the company takes to internationalize from inception (Rialp, Rialp, Urbano and Vaillant, 2005b) and the speed of this internationalization. The speed of internationalization is associated with how fast the company enters a market and how many markets are entered. There is a divergence between studies concerning the criteria applied to the time the company needs to operate abroad to be considered a born global firm and how many markets this company needs to enter to be classified in this category.

Another divergence among scholars, concerns the definition and the indicators of being born global (Madsen and Servais, 1997) that are still too heterogeneous (Rialp et al., 2005a). Today there is no common definition among researches in the name of the companies that would apply to this model, or how to define this group of companies. (Rialp et al., 2005a). Different authors have been labeling these companies differently (Rialp et al., 2005b), such as: International New Ventures, Born Globals, High Technology Start-ups, Early Internationalizing Firms, Born-International, Global Start-ups, Instant Exporters, Instant Internationals, Micromultinationals and International Entrepreneurship.

Different authors not only label these companies differently, but also define them differently. Oviatt and McDougall (1994) define them as “a business organization that, from inception, seeks to derive significant competitive
advantage from the use of resources and sale of outputs in multiple countries” (p. 49).

Knight and Cavusgil (1996) conceptualize these firms as “small, technology-oriented companies that operate in international markets from the earliest days of establishment” (p.11). Knight and Cavusgil (2004), in a more recent study, define these firms as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (p. 124).

Chetty and Campbell-Hunt (2004) believes that the Born Global Model “characterize firms that began their internationalization along traditional lines but were radically transformed in the process of achieving global reach” (p. 57). Barreto and Da Rocha (2001) conceptualize “born global” firms as the ones that “started already prepared to act in the global market” (p. 85).

Despite the differences in labels and in definitions, these firms all share in common the fact that they have an early and/or fast approach towards the international market after its inception, when compare to theories in the traditional models, that follows a gradual involvement (Chetty and Campbell-Hunt, 2004; Rialp et al., 2005a; Weerawardena et al., 2007). These companies have an accelerated internationalization (Weerawardena et al., 2007). Knight and Cavusgil (2004) also state that companies can “expand into foreign markets and exhibit international business prowess and superior performance, from or near their founding” (p. 124).
Several conceptual frameworks, theories referring to born global firms are present in the literature (Rialp et al., 2005b). Two of the most cited theories are the ones developed by Oviatt and McDougall (1994) and Madsen and Servais (1997). Oviatt and McDougall (1994) designed a theory that describes the four necessary and sufficient elements that explain the existence of sustainable born global firms: (1) organizational formation through internationalization of some transactions; (2) strong reliance on alternative governance structures to access resources; (3) establishment of foreign location advantages; and finally (4) control over unique resources. This theory mainly argues why these firms may become possible (Oviatt and McDougall, 1994; Rialp et al., 2005b).

Madsen and Servais (1997) also develop a theory about born global firms. According to Rialp et al., (2005b) Madsen and Servais’ theory discusses that the development of these firms is likely to be affected by the characteristics of the environment, of the organization itself and of the founder/entrepreneur. Madsen and Servais (1997) question why this born global phenomenon happens. According to them, it happens because of three interrelated factors, which are: “(1) new market conditions; (2) advances in technology in production, transportation, communication; (3) more sophisticated capabilities of the founders and entrepreneurs who establish born global firms” (p. 565). Chetty and Campbell-Hunt (2004) also believe that the market conditions and the internationalization of competition influence the creation of born global companies.
Madsen and Servais (1997) also identify international skills that companies need to obtain, prior to their birth: “Market knowledge, personal networking of the entrepreneur, or international contacts and experience transmitted from former occupation, relations, and education” (p. 564-565).

Madsen and Servais (1997) argue that born global firms’ early internationalization is facilitated by innovation within the firm. Weerawardena et al., (2007) believes that “innovation needs to be centrally located in any comprehensive attempt to model accelerated internationalization, regardless of the nature of the industry in which the firm competes” (p. 296).

Nowadays born global companies are emerging in significant numbers around the world and are becoming widespread (Knight and Cavusgil, 2004; Chetty and Campbell-Hunt, 2004; Rialp et al., 2005a; Weerawardena et al., 2007) Rialp et al., (2005a) believe that the tendency for the near future, will be an increasing development of new born global firms, rather than more traditional oriented firms.

This born global phenomenon is becoming universal, because born global firms are seen in all major trading countries around the world (Knight and Cavusgil, 2004; Rialp et al., 2005a), e.g., Germany, New Zeland, Israel, the United States, Sweden, Australia, and Canada, among others. Therefore, they affirm this “phenomenon is not country-specific” (Rialp et al., 2005a, p. 156).

Chetty and Campbell-Hunt (2004) argue that most research on born global firms focused on knowledge-intensive industries; therefore, born global firms were considered a new concept. They argue that these born global firms were
also seen in traditional industries. In other words, this indicates that although most of these firms appear in this knowledge-intensive industry, this phenomenon is not bound to it, because it is occurring in other industries as well.

Born global firms focus on growth through international sales. According to Chetty and Campbell-Hunt (2004), in order “to achieve this, the firms produce highly specialized customized goods for international niche markets, and they have access to international networks and international financial markets” (p. 61). These born global companies are highly specialized companies and they tend to target niche markets worldwide and thus tend to be involved in diverse markets (Madsen and Servais, 1997; Chetty and Campbell-Hunt, 2004).

Knight and Cavusgil (2004) found in their study that born global firms’ managers “begin with a global vision, and devise a collection of capabilities at the strategy and organizational-culture levels of the firm that give rise to early adoption of internationalization and success in a broad range of foreign markets” (p. 137). Knight and Cavusgil (2004) argue that born globals acquire international experience faster than traditional firms. Madsen and Servais (1997) also suggest that is a pre-requisition for entrepreneurs to have international experience, in order to have international expansion.

Madsen and Servais (1997) believe born global firms perceive the world as one big market, rather than as a collection of small markets, and these firms do not confine themselves to only one market. These companies see international markets as opportunities not as obstacles. Freeman, Edwards and
Schroder (2006) argue that born global firms “are not overly influenced by ‘psychic’ proximity” (p. 35), but rather influenced by their network.

Rialp et al., (2005a) conducted a study that analyzed 38 different articles from 1993 to 2003 that refer to this new early internationalization phenomenon. They try to extract general patterns in this subject. Rialp et al., (2005a) found that most of the literature on born global firms has been descriptive, exploratory and focused on a specific location or a specific industry.

Rialp et al., (2005a) found several internal and external factors of the firms that appear to influence the born global phenomenon. They cite:

1. managerial global vision from inception;
2. a high degree of previous international experience on behalf of managers;
3. management commitment;
4. strong use of personal and business networks (networking);
5. market knowledge and market commitment;
6. unique intangible assets based on knowledge management;
7. high value creation through product differentiation, leading-edge technology products, technological innovativeness, and quality leadership;
8. a niche-focused, proactive international strategy in geographically spread lead markets around the world from the very beginning;
9. narrowly defined customer groups with strong customer orientation and close customer relationships; and,
10. flexibility to adapt to rapidly changing
external conditions and circumstances. (Rialp et al., 2005a, p. 160).

The present study examines two internationalization of firms approaches: the traditional one and the born global. Based on the literature discussed above, this study will classify a company from the traditional approach, as one that has the following criteria: (1) its internationalization process takes time, firms internationalize later, after achieving a good domestic market base; (2) internationalization is slow, gradual and follows incremental stages; (3) in the company’s foundation, the manager focuses only in target the domestic market, and later the company expands to foreign markets; (4) the company does not require a great use of its business network to achieve the global market faster; (5) market commitment are growing slowly and gradually gaining from previous experiences both in the domestic market and foreign markets; and (6) companies approach the international market by entering countries with less psychic distance first, and later expand to more distant psychic markets.

On the other hand, the born global firms are the ones which: (1) internationalize early in their live; (2) Internationalize faster/quicker; (3) have a global vision since their inception, e.g., the manager has a global mindset; (4) require a greater use of their business networks to achieve the global market faster; (5) have high market commitment since their foundation, mainly because these companies has required superior internationalization knowledge; and (6) approach the international market as a single market, and enter several countries at the same time.
Table 3 summarizes the expected differences in terms of criteria that will distinguish the traditional approach versus the born global approach.

Table 3: Comparison of Key Features in Two Internationalization Approaches

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Traditional Approach</th>
<th>Born Global Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time of Internationalization</td>
<td>Later.</td>
<td>Earlier, from the beginning.</td>
</tr>
<tr>
<td>Speed of Internationalization</td>
<td>Slow, gradual.</td>
<td>Faster.</td>
</tr>
<tr>
<td>Manager's vision and target</td>
<td>Target domestic market first and then international markets.</td>
<td>Global vision since its inception, manager has a global mindset.</td>
</tr>
<tr>
<td>Business Network</td>
<td>Not critical to achieve success in the global market.</td>
<td>Necessary to achieve success in the global market.</td>
</tr>
<tr>
<td>Market Commitment</td>
<td>Growing slowly, gradually</td>
<td>High since inception.</td>
</tr>
<tr>
<td>Approach to International Market</td>
<td>Target countries in order of physical distance.</td>
<td>Target the global market, several countries at the same time.</td>
</tr>
</tbody>
</table>
CHAPTER 3: THE BRAZILIAN SHOE INDUSTRY

This chapter analyses the Brazilian shoe industry, and will be divided in three parts. The first part focuses on how the Brazilian shoe industry is positioned within the global shoe industry. The second part focuses on the background of the shoe industry in Brazil, which provides some understanding of how this industry has been historically structured in Brazil. This historical background is relevant in order to understand the shoe industry’s current situation. Thus, the last part focuses on how the Brazilian shoe industry is currently structured.

3.1. The Brazilian Shoe Industry’s Position in the Global Shoe Industry

The importance of the Brazilian shoe industry goes beyond the Brazilian economy; it is a major player in the international marketplace (Kayser, 2008).

“The larger availability of raw material, the existence of advanced machinery, and the large number of component suppliers are combined with product technology and innovation, making the Brazilian footwear sector one of the most important in the world” (Kayser, 2008, p.33-34).

ABICALÇADOS (Associação Brasileira das Indústrias de Calçados, the Brazilian Shoe Industries Association) emphasizes that Brazil plays an important
role in the world shoe industry (ABICALÇADOS, 2009). Table 4 shows the top five producing countries, as well as the top five importers, exporters and consumers, of shoes in 2006.

Table 4: Top Shoe Producers, Importers, Exporters and Consumers Countries in The World, in Millions of Pairs

<table>
<thead>
<tr>
<th>PRODUCERS</th>
<th>IMPORTERS</th>
<th>EXPORTERS</th>
<th>CONSUMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>COUNTRY</td>
<td>PAIRS</td>
<td>COUNTRY</td>
<td>PAIRS</td>
</tr>
<tr>
<td>China</td>
<td>9.600,0</td>
<td>USA</td>
<td>2.371,2</td>
</tr>
<tr>
<td>India</td>
<td>960,0</td>
<td>Japan</td>
<td>572,9</td>
</tr>
<tr>
<td>Brazil</td>
<td>796,0</td>
<td>U.K</td>
<td>443,0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>630,0</td>
<td>Germany</td>
<td>438,4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>560,0</td>
<td>France</td>
<td>394,8</td>
</tr>
<tr>
<td>Others</td>
<td>2.722,8</td>
<td>Others</td>
<td>4.454,0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15.268,8</td>
<td>TOTAL</td>
<td>8.674,3</td>
</tr>
</tbody>
</table>

Source: SATRA (2008), elaborated by UIC ABICALÇADOS (2009), taken from Resenha Estatística ABICALÇADOS (2009), translated by Campos (2011)

As described in Table 4, in 2006, Brazil played an important role in the world shoe industry. Brazil was the third top shoe producer in the world, the fifth top exporter and the fifth top consumer.
3.2. The Brazilian Shoe Industry Background

The development of the Brazilian footwear industry started in 1824, with the arrival of German immigrants to the south of Brazil. These immigrants settled in Vale do Rio dos Sinos, in the state of Rio Grande do Sul (see Figure 6), which is the area that this study will focus on. This area still remains one of the most important production centers for shoe companies in the country. Among other things, these immigrants brought a leather manufacturing culture to Brazil and started to produce handcrafted shoes in that area (ABICALÇADOS, 2009).

In 1888, the first factory was established in Vale dos Sinos. The demand for the product increased, and therefore there was an expansion of production in that area, which became an important “shoe cluster” within Brazil. The shoe companies in the south of Brazil continued to grow and in 1968 they exported for the first time, to the United States (ABICALÇADOS, 2009).
Until the 1960s most of the Brazilian shoe production was directed to the Brazilian market and the shoe industry was dependent on Brazilian population growth and income expansion. She argues that the Brazilian shoe industry entered the international market by the end of the 1960s (Anderson, 2001).

The development of Brazilian shoe exports is described in Figure 7. This figure shows a graph representing how many millions of dollars worth of shoes Brazil has exported per year. From these data, it is noticeable that the country began to export small amounts of shoes in the 1970s, trending upward across the next 2 decades. As the graph shows, this scenario changed in 1994 and
1995, when there was a significant decline in exports compared to the previous year, which will be discussed later in this section. It is also important to highlight that in the last five years, this industry has maintained a high level of exports, which makes the shoe industry an important industry to be analyzed.

*Figure 7*: Brazilian Shoe Industry Export Throughout the Years (Millions of Dollars)


In the 1970s, the volume of shoe purchase orders from international buyers grew, due to that, the shoe industry had to improve and developed more
modernized shoe production processes to keep up with these orders. There was an improvement in the quality of the product since the shoe producers were targeting a more demanding market (Anderson, 2001). During the 1970s and 1980s, shoe production directed for the external market increased by 500%, and about two thirds of this production was exported to the United States (Anderson, 2001; Kayser, 2008).

According to Reis (1994), as cited in Neto and de Almeida (2008), in the 1980s the Brazilian government started an export incentive policy. The government began to promote exports by offering subsidies and tax reductions, among other benefits, to companies that were exporting. Therefore, in order to take advantage of these benefits, shoe companies expanded their exports significantly (Neto and de Almeida, 2008).

Neto and de Almeida (2008) argue that in 1994, the scenario switched with the implementation of new government policy called “Plano Real”. This policy appreciated the value of the Brazilian currency compared to the dollar, and the exportation began slowing down. Gorini and Siqueira (2002) agree that by opening the Brazilian economy in 1994, the shoe industry reduced its production and the cost of shoes became higher. The Brazilian companies then had to reduce the domestic price of shoes in order to try to increase sales. Gorini and Siqueira (2002) also argue that the decrease of exports in 1994 and 1995 is connected to two factors:

1) The Brazilian companies that traded in the international market suffered from the appreciation of the Brazilian currency.
2) These companies began to face Chinese competitors who entered the market with better prices, due to their lower cost of production.

Neto and de Almeida (2008) also support this argument by stating that these changes took away the Brazilian products’ competitiveness in the world market. Perera, Kerr, Kimura, Lima and Filho (2008) also address the problem faced by this “shoe cluster” in 1994. They show that, until the year 1993, the industry had been successful in sales. However, in July of 1994, this scenario changed completely. The Brazilian shoe companies suffered a significant loss in their competitiveness and, therefore, their sales declined.

Following Gorini and Siqueira’s (2002) argument, Perera, et al., (2008) believe that this problem was associated with the economic policy that caused the appreciation of the Brazilian currency. Their article reports that in 1995, the Brazilian footwear industry suffered an immense crisis. This crisis brought negative consequences to the sector, including a decrease in production.

Perera, et al., (2008), however, use a different argument than Gorini and Siqueira (2002) regarding the cause of this crisis. They argue that the impact of the crisis was increased by the lack of experience of managers, who were not prepared to face these changes.

*The Economist* (1995) shows how the shoe industry was structured in 1995. A survey done by the Brazilian Confederation of Industries illustrates that the industries less prepared to face foreign competition were the clothing and the shoes manufactures. This report argues that the industries had potential; however, the shoe companies utilized obsolete management styles and
technology, which made them less competitive. Also, the fact that only a few companies in the cluster had a brand gave them another disadvantage. The Economist (1995) mentions “quality” as another obstacle in preventing success of shoe companies. The report argues that there was no Brazilian footwear company that had earned an ISO 9000 certificate, which is “one of the basic measures of international quality” (4th paragraph).

It is clear to see that the Brazilian shoe industry underwent hard times between 1994 and 1995. However, as Gorini and Siqueira (2002) mention in their article, in 1996 shoe exports increased compared to the previous year. They argue that this improvement was due to the companies’ efforts and also because these companies improved the quality of their products, which opened the doors again to the international market.

According to Neto and de Almeida (2008), in 2000 the footwear industry recovered external sales. In 2004, Brazil was considered the third most productive shoe-producing country in the world and also was the fifth in exports.

3.3. The Brazilian Shoe Industry Today

The Brazilian shoe industry is one of the main manufacturing segments of the Brazilian industrial sector (Kayser, 2008; ABICALÇADOS, 2009). According to Kayser (2008) shoes are one of Brazil’s most exported products and are also considered one of the main items of Brazil’s trade balance.
Shoe production in 2008 achieved 803 million pairs, with 166 million being destined to exports. In 2007, the shoe industry employed around 300,000 workers. (ABICALÇADOS, 2009). The success of the shoe industry in Brazil is mainly due to the existence of a “large number of raw materials suppliers that allowed the development of a supply chain with participants at all levels of inputs required for shoe production” (Kayser, 2008, p. 33). ABICALÇADOS (2009) states there are over 2,400 component suppliers in Brazil and over 800 leather producers.

Gorini and Siqueira (2002) mention how the shoe companies are structured today. They suggest that shoe companies are heterogeneous when it comes to technology and role in the market. In the Vale do Rio dos Sinos region, for instance, the shoe industry is focused on the international market. Gorini and Siqueira (2002) also classify these companies according to their size as follows:

- “Grandes Empresas” (Large Business): mainly focus on the domestic market. Advanced technology and more marketing expenses are required.
- “Medias Empresas” (Medium business): generally focus on leather shoes to export. They usually have different levels of technology and marketing expenses.
- “Micro e Pequenas Empresas” (Micro and small business): mainly focus on handcrafted shoes.

The shoe industry in Brazil is characterized by regionalized production (Kayser, 2008). According to ABICALÇADOS (2009), the Brazilian footwear
industry today is concentrated in the Northeast (represented by the states of Ceará, Paraíba and Bahia), Southeast (represented by the states of Minas Gerais, Rio de Janeiro and São Paulo) and Southern areas of Brazil (represented by the states of Rio Grande do Sul and Santa Catarina). Figure 8 shows a Brazilian map highlighting states of Brazil that produce shoes.

Figure 8: Shoe Producing Brazilian States.

Source: Resenha Estatística ABICALÇADOS (2009)
It is important to understand how much of the shoe production is concentrated in each region of the country (Figure 10). The following Figure 9 shows which states belong to each country and the following map graph highlights the shoe production in Brazil by region, in 2007.

\[ 	ext{Figure 9: Regions of Brazil.} \]


Translated by Campos (2011)
Figure 10: Graph of Proportion of Shoe Production by Region in Brazil
Source: IEMI elaborated by UIC ABICALÇADOS (2009), taken from Resenha Estatística ABICALÇADOS (2009), translated by Campos (2011)

Figure 10 shows that the Northeast currently has the most significant shoe production in Brazil. As mentioned earlier, the shoe industry started in the Southern areas of Brazil, which are the most developed areas of the country. However, it is possible to notice through this graph that today there is a tendency of companies to produce in the Northeastern region of the country.

This high concentration in the northeast is discussed by Gorini and Siqueira (2002). They argue that there is a current tendency, which allows companies to migrate to regions that offer lower production costs and more cost-effective labor. Therefore, companies can get an advantage because they can
compete with low prices in the market. Also, this tendency has given the chance for new shoe companies that are now developing in areas that offer this low cost opportunity.

It is also important to highlight what each of these states represents to the shoe industry in terms of export. Figure 11 shows how many US dollars worth of shoes are exported by each state (data from 2008). And the following Figure 12 how many pairs are exported by each state in 2008. These graphs are useful to understand how the exports are concentrated in certain areas rather than other areas.

![Pie chart and bar graph showing shoe export data by state in 2008.]

*Figure 11: Dollar Value of Shoe Exported from Brazil by State.*

Source: MDIC/SECEX elaborated by UIC ABICALÇADOS (2009), taken from Resenha Estatística ABICALÇADOS (2009)
Comparing the two graphs above, it is clear that Rio Grande do Sul has almost 60% of the total revenue in export; however it is only exporting 31% of the total pairs of shoes that are being exported. On the other hand, Ceará has been only achieving 18.4% of the total export revenue, and is exporting 34.6% of the total pairs of shoes. This implies that Rio Grande do Sul focuses on exporting higher value shoes, less volume compared to Ceará, which is exporting lower value shoes and in larger volume. Ceará, Paraíba and Pernambuco are states from the northeast area of Brazil, which are now emerging in this shoe industry.
When it comes to export, Neto and de Almeida (2008) show that in 2004, research was done with 87 companies inside the Franca cluster in São Paulo. The results of their research show that 70% of these companies’ exports was done with an agent and using other companies’ brands.

Gorini and Siqueira (2002), state that the Brazilian shoe companies’ intentions are based only on buying raw materials and producing shoes. Therefore, these companies allowed their foreign clients to dictate strategic issues such as: product design, brand names, distribution, prices and promotion. These functions are extremely important to “the control of the process and represent about two thirds of shoes' final price” (Gorini and Siqueira, 2002, p. 3).

Neto and de Almeida (2008), also state another problem that the Brazilian shoe export industry faces today. They believe Brazilian companies still depend too heavily on the United States. Most of the Brazilian shoe companies have been exporting to the United States.

ABICALÇADOS (2009), shows that this scenario has been changing slowly, and that today Brazilian shoe companies are not only exporting to different countries but also have significant trade with these countries. ABICALÇADOS (2009), also shows that Brazil is only exporting 25.7% of its production to the United States. Figure 13 shows the ten main destinations of Brazilian shoes and the proportional value each of these countries represents:
Figure 13: The Main Destination of the Brazilian Shoe Exports.

Source: MDIC/SECEX elaborated by UIC ABICALÇADOS (2009), taken from Resenha Estatística ABICALÇADOS (2009), translated by Campos (2011)

Overall, this chapter showed that the Brazilian shoe industry plays an important role in the global shoe industry. This chapter described the Brazilian shoe industry history and how it is currently situated. This chapter also showed that this industry is growing and it has been expanding its exports. Thus, this industry has a great potential in the Brazilian economy.
CHAPTER 4: METHODOLOGY

This study is intended to analyze the internationalization of Brazilian shoe firms located in Vale Rio dos Sinos, Rio Grande do Sul, Brazil. The main objective of this research is to understand managers’ perception of their companies’ internationalization processes. In order to do that, as discussed earlier, this study tries to answer the following primary research questions:

1) Why did these Brazilian shoe firms decide to internationalize?
2) How are they operating in the international market? Which mode of entry is this company using?
3) What strategies did these companies use to internationalize? Do they follow a pattern or a model?

Because the focus of this research is on the internationalization process as a whole, and the relationship between this process and the overall strategy of the firm, the most appropriate way to study it is via qualitative research where in those actually involved in the process can describe both their actions and their reasoning for taking those actions.

This research is theoretically grounded and empirical, using both documentary evidence (secondary data) and personal interviews (primary data). This chapter is divided in three sections: Instruments, Participants and Procedures.
4.1. Instruments

The secondary data can be found in the literature review (chapter 2) and in the description of the shoe industry (chapter 3). The information found in both chapters was important in designing the two interview schedules, which consisted of broadly open-ended questions, in order to avoid guidance. One interview schedule was addressed to the shoe association (ABICALÇADOS) and the other was addressed to shoe manufactures.

The interview schedule designed for ABICALÇADOS asked about the industry as whole, and the one, designed for the shoe manufactures, asked about the specific company. The following Table 5 demonstrates why each of the questions was designed and how it can help to answer the research questions. Each topic has at least one broad question that covers it. The idea behind these questions was to cover the antecedents of the internationalization process, by asking their strategy, and also this process's consequences, by asking about their performance. The performance is important in order to evaluate how this company is situated in the international market. In conclusion, all these questions were designed to evaluate how companies' internationalization behaviors are seen from the manager/owner/director's perspective.

After creating these interview schedules, this researcher applied to Ohio University's IRB (Institutional Review Board) to get permission to carry out interviews. The IRB application contains the consent forms and the two interview
schedules in both English and in Portuguese. The consent forms and the interview schedules can be seen in Appendix

Table 5: Interview Schedule Questions Mapped to Research Questions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Research Question</th>
<th>Question for shoe firms</th>
<th>Question for ABICALÇADOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivations to Internationalize</td>
<td>Why did these Brazilian shoe firms decide to internationalize?</td>
<td>What stimulated you to start exporting? To continue? To go to new markets? (why)</td>
<td>Does ABICALÇADOS provide any help to these firms in their export efforts? What?</td>
</tr>
<tr>
<td>Modes of Entry</td>
<td>How are they operating in the international market? Which mode of entry is this company using?</td>
<td>How would you describe your firm’s international activities?</td>
<td>How would you describe the international activities of Brazilian shoe manufacturers?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specifically, how would you describe your exporting (what)? a. Probe timing (when) b. Probe country-markets (where)</td>
<td>Specifically related to exporting, what have you observed?</td>
</tr>
<tr>
<td>Internationalization of Firms Models</td>
<td>What strategies did these companies use to internationalize? Do they follow a pattern or a model?</td>
<td>Do you have a “typical” process for exporting – or does it vary by market? (how) a. If so, could you please describe it? b. If not, why not?</td>
<td>Have you observed a “typical” process among shoe exporters? a. If so, could you please describe it? b. If not, why not?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How would you describe your success with exporting? What do you think contributes to this result? What ideas do you have about how to improve these results?</td>
<td>What have you observed about the success of Brazilian shoe exporting? What do you think contributes to this result? What ideas do you have about how to improve these results?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How satisfied are you with the results your company has achieved? a. In international markets overall? b. In exporting, in particular?</td>
<td></td>
</tr>
</tbody>
</table>
4.2. Participants

The initial interview was conducted with representatives of the shoe industry association (ABICALÇADOS). Next, these representatives were asked to provide referrals to shoe manufacturing companies. These companies had to have the required characteristics:

1) The company had to be a shoe manufacturer;
2) The company should be located in Vale do Rio dos Sinos; and
3) The company had to be involved with international operations.

4.3. Procedures

After the IRB application was approved in June, 2010, an email was sent to ABICALÇADOS explaining what this research was about and asking if they would be willing to contribute to this study. ABICALÇADOS replied by saying they were interested in this research and would be willing to assist with this study. Then, an interview was scheduled with them, the last week of August, 2010, in Vale do Rio dos Sinos, RS, Brazil, where they are located.

A visit took place in August 18th, 19th, 2010; ABICALÇADOS introduced this researcher to a consultant in the shoe industry who provides services to them. This consultant accompanied the researcher during the visit. Conversations with this consultant took place during this time.
It is important to mention that before conducting all interviews the researcher explained what this study was about, and requested each interviewee to sign a consent form. After the participant signed this consent form and granted permission to begin, the interview was conducted. All interviews were recorded and transcribed later.

The first interview was conducted with the director of ABICALÇADOS. The director of ABICALÇADOS also encouraged the researcher to pursue the qualitative approach. According to him this study had better chances of succeeding by writing the history of shoe companies from a qualitative perspective, rather than collecting quantitative data. By adopting a qualitative approach the researcher would bring a richer and more valuable contribution to the shoe industry.

At the end of the interview with the director of ABICALÇADOS, he was asked to recommend some companies to interview. Then, he suggested six companies and also helped in scheduling the meetings with these companies. Because of his influence, the interviews took place with the owners, directors and export managers’ of these companies, rather than with lower level employees who might otherwise have been the only available respondents. In one company, two interviews took place; compared to the other companies where only one interview was conducted.

The same procedure with the consent form and the transcription was conducted with the shoe firms. Because these interviews took place in August 2010, all interviewees based their answers on the results their companies had in
the previous year (2009), thus, data from 2010, 2011 were not considered. Therefore, this study only covers until the year of 2009.

After conducting all interviews, the recordings were transcribed and then translated. The information collected during those interviews is expected to answer the three research questions mentioned earlier. Thus, the analysis and discussion in the following chapter is based on these interviews. The interviewee’s comments are classified in the next chapter according to the typology defined in the literature review.
CHAPTER 5: ANALYSIS AND DISCUSSION

This section analyzes and discusses data collected in the field, and relates it to the literature review presented in chapter 2 and the shoe industry presented in chapter 3. As mentioned in the methodology chapter, interviews were conducted with the shoe association (ABICALÇADOS) and with six shoe companies in order to answer the research questions. Each section addresses the research questions, in the order as they appear. Thus, this analysis tries to identify possible patterns, similarities and discrepancies among these companies concerning their motivations to internationalize, the modes of entry they adopted, their strategy to internationalize their operations and how are they internationalizing today, respectively.

As shown in the methodology chapter, the interview conducted with ABICALÇADOS was focused on the industry, and therefore, according to the director of ABICALÇADOS, the answers provided were not based on a specific company but on the general industry. The interviews with the companies were either conducted with the export manager, director or the owner of the company. In both cases it is important to highlight that the results show the respondents’ perception of how their companies are operating in the international market.
5.1. Overview of the Companies

As mentioned before, all these companies have several characteristics in common. They are shoe manufacturers located in Vale do Rio dos Sinos region, and they are operating in the international market. This study refers to them as company A, company B, company C, company D, company E, and company F, in order to preserve their identity. Table 6 summarizes some general information about each company.
### Table 6: Overview of the six companies

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of ownership</td>
<td>Private</td>
<td>Family</td>
<td>Family</td>
<td>Private*</td>
<td>Family</td>
<td>Private</td>
</tr>
<tr>
<td>Current % of total revenue gained from export</td>
<td>N/A</td>
<td>15%**</td>
<td>90%</td>
<td>50%</td>
<td>30%</td>
<td>20~30%</td>
</tr>
<tr>
<td>Number of countries the company is selling in</td>
<td>N/A</td>
<td>Over 70 countries</td>
<td>53 countries</td>
<td>Over 100 countries</td>
<td>Over 70 countries</td>
<td>N/A</td>
</tr>
<tr>
<td>Main market they are selling in order of volume of transaction and importance</td>
<td>United States &amp; Europe</td>
<td>Europe, United States &amp; Latin America</td>
<td>Europe, Latin America</td>
<td>Europe &amp; Latin America</td>
<td>Latin America &amp; Europe</td>
<td>United States, Latin America &amp; Europe</td>
</tr>
</tbody>
</table>

N/A - Not available
* Company D is becoming public within the next two years.
** Two years ago, Company B used to export 70% of the total revenue.
*** In 1987 the company exported sporadically, the company only started to invest on exporting in 2005

### 5.2. Motivations

The first research question is “Why did these Brazilian shoe firms decide to internationalize?” In order to answer this, the researcher collected data on
these companies’ motivations to enter their first a foreign market and to continue to operate in the foreign marketplace.

Companies change their motivations for operating in the international market over time. In the past (mid 1900s) companies had a motivation to export that has not necessary remained the same today, due to the changes that have taken place in the economy.

5.2.1. Earlier Motivations

The earlier motivations were considered from the three companies that were established earlier (from 1945 to 1965). Following is Table 7 that summarize the early motivations.
Table 7: Earlier Motivations

<table>
<thead>
<tr>
<th>Earlier Motivations</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunistic</td>
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<tr>
<td>Government Incentives</td>
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<td>Chance to export products</td>
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<td>Market Driven</td>
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<td>Follow customers abroad</td>
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<tr>
<td>Defensive Reasons</td>
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<tr>
<td>Domestic Market Saturation</td>
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<tr>
<td>Survival</td>
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<td>Exploiting different economic condition</td>
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<tr>
<td>Strategic</td>
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<tr>
<td>Geographic Diversification</td>
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<tr>
<td>Exploiting different Product Life Cycles</td>
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<tr>
<td>Achieve economies of scale and improve productivity</td>
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<tr>
<td>Opportunity seeking, growth, increase sales and profit</td>
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<tr>
<td>Search for specialized knowledge and technology</td>
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<td>Search for inputs</td>
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</table>

According to the director of Company A, in 1976 there was a big foreign demand for shoes and Brazilian customers had low purchasing power, so there was no market for this product in Brazil. The director affirms there was a need to export. The need was based on the need to fill a demand gap in the domestic market, given its seasonality (in the domestic market the sales only happen six
months of the year: December, January, February in the Summer and June, July and August in the Winter). Responding to this seasonality can be seen as, “exploiting different economic conditions” in terms of motivation. Thus, Company A was motivated at first to enter the foreign market based on: the necessity to survive; responding to foreign buyers’ orders, making up for seasonality and domestic saturation. As mention before in Company B’s history, the export manager of company B agrees that during this time it was a necessity to export and there was a high demand for their products.

According to the owner of Company C, in 1971, the motivation was a matter of “opportunity” provided by the market. The Brazilian Government gave incentives for exporting, which increased profit. The company also felt it was necessary to increase sales, and the domestic market at that time was not as big as it is today and was more seasonal (full of ups and downs). Company C’s owner also sees the rise of agents who were looking for manufacturers who could produce a lot (100,000+ pairs of a single model) as a motivation to export. The opportunity to receive payment at sight was also very tempting. Foreign buyers were looking for companies in Brazil to manufacture their products.

It is important to notice that the three companies all mentioned “survival” and “chance to export products” as a motivation. The “government incentives” motivation mentioned by Company C is also mentioned in Chapter 3. By analyzing the answers provided by these companies, it can be concluded that their earlier motivations can be seen as more reactive than pro-active, since the companies only mention “opportunistic” and “market driven” motivations.
5.2.2. Current Motivations

The current motivations were considered for the six companies that were interviewed. Following is Table 8 that summarizes these companies' current motivations.

Table 8 illustrates that these companies are motivated by the three types of motivations: Opportunistic Motivations, Market Driven Motivations and Strategic Motivations. Compared to the earlier motivations, companies are now motivated to take a more pro-active approach and invest in the international market. It is important to highlight that whether directly or indirectly, all companies cite that they are now investing in the international market, seeking an opportunity to grow, and to increase their sales and profits. The manager of Company B affirms: “In order to grow your company and to increase your revenue you have to go beyond the borders of your country.”

“Geographic Diversification” is the second most cited motivation, because companies are currently trying to diversify their markets and/or clients. These companies are doing this in order to not become dependent on one market and/or one international client.
### Table 8: Companies’ Current Motivations

<table>
<thead>
<tr>
<th>Motivations</th>
<th>Comp. A</th>
<th>Comp. B</th>
<th>Comp. C</th>
<th>Comp. D</th>
<th>Comp. E</th>
<th>Comp. F</th>
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<tbody>
<tr>
<td><strong>Opportunistic</strong></td>
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<td>Government Incentives</td>
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<tr>
<td>Chance to export products</td>
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<td><strong>Market Driven</strong></td>
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<tr>
<td>Follow customers abroad</td>
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<tr>
<td>Defensive Reasons</td>
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<tr>
<td>Domestic Market Saturation</td>
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<tr>
<td>Survival</td>
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<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Exploiting different economic conditions</td>
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<td>X</td>
<td>X</td>
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<tr>
<td><strong>Strategic</strong></td>
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<tr>
<td>Geographic Diversification</td>
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<td>X</td>
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<tr>
<td>Exploiting different Product Life Cycles</td>
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<td>Achieve economies of scale and improve productivity</td>
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<td>Search for inputs</td>
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</table>
“Government Incentives” is the third most cited motivation. The three different companies that cite this motivation make different arguments. Company E cites the government tax incentives and bank benefits provided by the Brazilian government to produce in the Northeast of Brazil. Company F, cites the “Brazilian Footwear” program from APEX (Agência Brasileira de Promoção de Exportações e Investimentos, the Brazilian Agency in charge of promoting Brazilian exports and investments) as a key incentive.

According to the owner of Company F, this program supports shoe companies in the last 5~6 years. This program subsidizes shoe companies to go to international trade fairs and promote their products. Company B, on the other hand, mentioned the lack of Brazilian government incentives in the manufacturing industry. According to the manager of Company B, other countries offer incentives to produce overseas, and might have free trade agreements that the company can take advantage of by producing there. For instance, Company B is currently producing in the Dominican Republic to export to the United States. The reason is because the Dominican Republic and the United States have a free trade agreement, and therefore, the products do not have tariffs between both countries.

An “Exploit different economic conditions” motivation was mentioned by three out of six companies. Two of the companies’ arguments were based on the fact that the international market helps with seasonality. In other words, according to the owner of Company F “When the company is exporting the timing is perfect, because when the company is not producing to sell for the domestic
market, they are producing to export.” The owner of Company F provides an example: For instance, the company usually produces for the domestic market until December 10\(^{th}\), so the goods will be at the stores one week and a half before Christmas time. However, after Christmas, sales slow down in Brazil. So from December 10\(^{th}\), until mid of February the company produces for the international market. The company has to ship all goods in February, so the timing is perfect, because once the company is done producing for the domestic market, the company will start to produce to export. Therefore, the international market came to meet the needs of the company’s production. The manager of Company B also cites this motivation, but considering the exchange rates. According to him, exchange rates fluctuate and become a threat. For instance, if a company sells a product today to an international client, the price this company is negotiating is based on the exchange rate of today, however, this company needs time to produce and most likely the company will only deliver this order in three months. When the client receives the product, he has first to sell it, and then to pay for the production later. At this point the exchange rate might not be the same, and the company may lose money.

The domestic market is seen by two companies as a limited market. According to the manager of Company B “it gets to a point that you can’t grow anymore, only competing against your competitor, so why not use your skills to go abroad.” The director of Company D believes the company is motivated to go overseas because the international market is the door to expand its business.
According to the director of Company D “Our main strategy to grow and the domestic market is limited.”

The motivation “Achieve economies of scale and improve productivity” was also mentioned by two companies. Company B is going abroad looking to decrease the company’s costs. According to Company B’s manager, the market establishes the price, so the company has to build its cost based on the price. The owner of Company C argues that instead of developing products for each small clients, the company decided to focus on offering these small clients the mix of products they were already producing. Then, Company C would sell more quantity and the fixed cost would be reduced, generating economies of scale and therefore increasing profits. This way, the company does not need to impose a minimum quantity to order. If a client required a small order of a specific shoe out of the mix offered, this product would not be produced, because it is not worth it to develop the shoe for such a small quantity.

The manager of Company B mentions the “search for inputs” motivation. According to him, the company is searching for a market that offers a lower labor cost work force, since shoe manufacturing is a very intensive labor industry, the cost of labor significantly influences the costs of the product.

The owner of Company C states, the “chance to export products” remains one of the company’s main motivations. He said that before, the clients would come and ask for their product, but now this changed. Today some international customers have begun to recommend the company to other clients. According to him, “The process simply happened!” The clients come to the company, not the
other way around. They come because they have heard of the company, because a friend told them, or even one time, a client came by mistake, looking for another company and ended up being their customer.

Even though the literature review only covered the motivation cited in Table 8, two other motivations appeared when the companies were interviewed. Both of them can be considered strategic, because they have a pro-active approach. Company A states “Bond with customers” as one of the motivations to continue exporting. The desire to maintain and enhance partnership and relationship established with these customers, stimulated them to continue to export.

Company E also states another motivation “brand name recognition”. According to the manager, the company was motivated to export in order to consolidate the brand. “Exporting helps in the development of this brand” said the manager. Once customers know that this brand is spread over 70 different countries, they think more highly of it, and its visibility and brand name recognition are improved.

5.3. Modes of Entry

As mentioned earlier, all companies interviewed are involved with the international market, but not necessarily using the same modes of entry to target this foreign market. Based on this, the second research question to be addressed
is: “How are they operating in the international market? Which mode of entry is this company using?” This research found that the six companies were using different modes of entry to go overseas. Table 9 summarize which modes of entry, each of these companies is using.

Table 9: Modes of Entry of Each Company

<table>
<thead>
<tr>
<th>Modes of Entry</th>
<th>Comp. A</th>
<th>Comp. B</th>
<th>Comp. C</th>
<th>Comp. D</th>
<th>Comp. E</th>
<th>Comp. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Export</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Direct Export</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Licensing</td>
<td>X</td>
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<td>X</td>
<td></td>
</tr>
<tr>
<td>Joint Venture</td>
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<tr>
<td>Direct</td>
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<tr>
<td>Investment</td>
<td>X</td>
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</tbody>
</table>

As Table 9 shows, most of the companies are exporting directly. Companies E, C and F are still exporting indirectly, with the help of an agent/distributor overseas. According to the manager of Company E, this distributor plays an important role in the process, because he knows the target country better (cultural, political, social, economic aspects). Companies B and D have franchise stores all over the world. These stores are single-brand stores, which only sell their brand.
Company B and D are doing direct investment. Company B has two manufacturing plants overseas (one in Argentina and one in the Republic Dominican). On the other hand, Company D opened one office in each of the main markets they were exporting to (Chile, Argentina, Peru and Mexico). The main objective of these offices was distribution (logistics). These offices would import products and distribute them locally.

Based on the literature review, and considering the companies’ modes of entry, companies B and D are the ones that have higher commitment, take more risks, and are likely to have more control and more profits; and company E is the least, as shown in the following Figure 14:

![Diagram showing the level of commitment, risk, control, and profit for companies B, D, C & F, and E.]

*Figure 14: Companies Level of Commitment, Risk, Control and Profit.*
5.4. Internationalization Models

The last research question this study proposed is: “What strategies did these companies use to internationalize? Do they follow a pattern or a model?” In order to answer these questions, this section looks at each company’s internationalization process and tries to fit the process into one of the two models described in the literature review (the Traditional Model and the Born Global Model).

According to the Director of ABICALÇADOS, currently there are four different patterns that can be seen in the shoe industry:

- The First Pattern (also known as the old pattern): This pattern can be associated with “outsourcing” that was mentioned in the literature. The owner of Company F defines this pattern as “companies that would not sell, they would be bought.” This model was often applied in the 1960s, when the shoe companies began to export. In the 1970s this model was also frequently followed. Shoe companies would work on a subcontracting system, and the Brazilian companies would not have a brand. Thus, the companies classified in this pattern exported under their clients’ brands. The largest foreign fashion companies would hire an agent that would look for Brazilian companies to produce the product the foreign companies desired. Thus, Brazilian shoe companies were exporting indirectly.

The agents were responsible for developing partnerships with these Brazilian shoe manufacturers, and in exchange they would receive a commission. Most of these agents were Brazilian, but there were also a few
North American agents. Some agents would help the Brazilian manufacturers with the technical design and specifications of the shoes, and most agents would oversee the production process and the quality control process. The agents would also provide help with the bureaucratic processes of exporting (shipment, export documents, international logistics, etc).

For the first 20 years of using this model, the main target was the North American market. The American clients would provide the materials to produce the shoe, explain how they wanted it to be produced and how much they would pay for it. According to the director of ABICALÇADOS, for 25 years this model prevailed in the shoe industry. During that time, the manufacturers would produce 40-50 thousand pairs of shoes per day exclusively for export. Companies would not have any activity in the domestic market. Thus, the shoe manufacturers in the Vale do Rio dos Sinos region began their export based on big foreign clients that would order thousands of pairs of one single model, so there were large production runs. During that time, there were also government tax incentives in the shoe industry.

The director of ABICALÇADOS affirms that in the 1990s the scenario changed. The production costs of Brazilian shoes increased and the agents started to look for new sources that could produce shoes more cheaply than the Brazilian shoe manufacturers could. When China decided to enter the market in 1995, Asian competition in the shoe industry started to grow. Chinese manufacturers offered a more competitive price. Thus, Brazilian shoe companies became less competitive. This was primarily because labor in China is very
cheap, and the shoe industry is very labor intensive. In the 1990s these Brazilian shoe manufacturers began to lose their market share and shoe production decreased. The exchange rate fluctuations also contributed to the decrease the Brazilian competitiveness.

This pattern lost its applicability in the 1990s because the Brazilian companies were not able to compete on price or make a product with noticeable advantages over Asian competitors. In the mid-1900s shoe companies realized they needed to use a different strategy to target the international market. According to the director of ABICALÇADOS, shoe firms needed to promote their products and to become known in the global market with their own brands. Brazilian shoe companies realized that they were lacking customer loyalty. In order to create loyalty and awareness, they had to improve the quality of their products, adding value to them by creating their own brand. The shoe entrepreneurs needed to be more involved in the entire process, with foreign market promotion, sales, logistics, etc. The change from the old pattern was not easy, and this behavior still exists in the industry. However, more and more companies each day are changing their approach towards the international market.

- The Second Pattern: This pattern includes Brazilian shoe companies that are mainly in the domestic market but export randomly. These companies export, but exporting is not part of their directive, and they do not want to have a regular participation in the international market. These companies are not investing in promotion of their company overseas, or investing in export sales strategies.
Companies that follow this pattern are, however, receptive to overseas demand. The products they produce are focused on the domestic market and they only export if an international buyer gets interested in their product and wants to buy it. They also export in order to fill up their orders when there is seasonality in the domestic market or when the domestic demand is lower.

The second pattern can be associated with the Traditional Model, because companies that follow this pattern are first focusing on the domestic market and become involved with the international market eventually. Therefore, companies classified in this pattern would be in the first stage of the Traditional Model.

- The Third Pattern: Companies classified in this pattern balance their sales in the domestic market and the international market. Their success in the domestic market provides a scale structure for these companies to compete in the international market, and for them to have a solid performance in this market. The companies that are going to target both markets usually generate higher quality products in order to meet the more rigorous demands of the international market. Due to this, the domestic market also gets the advantage of this product development process.

  The companies associated with this pattern can be also associated with the Traditional Model, because the companies first target the domestic market, and once they achieve success domestically, they use their expertise to go international.

- The Fourth Pattern: Includes companies that focus on the international market and try to develop a strategy for each of these markets individually.
These companies are focusing on internationalization. Therefore, the companies classified in this model are associated with the Born Global Model.

According to the director of ABICALÇADOS, Company D is the most successful example of this pattern. Company D has been developing franchise stores with their own brand all over the world. The director of ABICALÇADOS believes this pattern is the least common, and according to him only two companies in Brazil would fit this model: Company D and a company in the state of Minas Gerais.

The director of ABICALÇADOS affirms there are currently several Brazilian shoe companies choosing to target an international market through the opening of a manufacturing plant in foreign countries. For instance, today there are four or five companies producing in Argentina. There are also companies producing in the Caribbean in order to sell to the United States, taking advantage of the trade agreements between these countries and the United States.

The director of ABICALÇADOS also states that the Northeast of Brazil is being seen as another opportunity for Brazilian shoe manufacturers. There is currently a trend for shoe firms to migrate their production to the Northeast of Brazil, due to government tax incentives and because this region offers cheaper labor when compared to that of the south and southeast of the country. The shoe industry is very labor intensive and cheap labor is an attractive process.

According to the director of ABICALÇADOS, most of the companies that are operating in the international market are classified under the third pattern. These companies have some simple export sales and promotion that is mainly
done by participating in international trade fairs, where the company makes contacts with international buyers. These contacts may result in international sales after a period of time.

In order to classify the six companies, it is important to understand their history and how they are operating in the market today.

5.4.1. A Brief History of Each Company and How They are Operating in the International Market Today

It is important to mention that at some point in the interview, 100% of the interviewees felt it was necessary to describe their history and/or the history of the shoe industry in Vale do Rio dos Sinos in order to make their point. The interviewees believed that the knowledge of their history would facilitate better understanding of how they operate today.

5.4.1.1. Company A

The director of Company A has been in the shoe business for 45 years. The company started out following in the first pattern described above. The company focused on selling great quantities of cheap shoes to foreign markets. According to the director, the company started to export in 1976. In that year, the company signed a long term contract with an American company. The contract
dictated that this company would produce and export shoes under the American client's brand. The company used to export a pair of shoes for around US$10. Later, Company A changed its approach and began to produce higher quality shoes. The focus changed from quantity to quality. Company A then set a goal to produce 500 pairs per day. At its peak the company was producing 2,000 pairs per day. Currently the company only produces around 1,000 pairs per day. Company A sells a pair of shoes to the domestic market for between R$140 and R$300, and to the international market for between US$25 and US$40. Sometimes the company has to increase its production based on the customers' demand, but demand is seasonal. Company A tries to expand whenever it is possible. In other words, the company produces and exports a high quality shoe with a high price.

Company A still has a significant contract with the American client, and exports with the client's brand. However, the company now exports fewer shoes using high quality, rather than a high quantity with lower quality and lower price. The director of Company A affirms that the company exports on daily basis, all year long. He also affirms that the company has launched its own brand, selling products of the same quality, but only for the domestic market.

The director of Company A is satisfied with the international partnership the company has with overseas clients. The director affirms that today the company sees as a threat: the crisis in the American market, the exchange rate fluctuation, the higher cost of producing shoes and the competition. The director states: "If a client buys a pair of shoe for 40 dollars in 2009, he expects to buy
them for the same price in 2010, however the cost increases and the company has to adapt cost, to reduce labor, negotiate raw material price, etc.” He also states that the Chinese competition does not affect Company A because the company only produces high quality shoes and the competition for this kind of product comes mostly from Europe.

The director of Company A suggests that the main solution for the currency fluctuation would be: “to save money when the currency is in our favor, so when the scenario changes, we have some money saved.” The company does not face many obstacles in exporting because it focuses on producing excellent quality products. The director believes that the secret is “to be worthy, have a good product at a good price.” But according to him, price is not always in the company’s hands due to the exchange rate.

The quality of the product Company A produces is a competitive advantage, because there are only a few competitors producing high quality products. The director of Company A affirms that if he had to change the company strategy, he would produce custom-made tailored shoes, he would open a new business that would sell about 5 to 10 pairs per day.

In conclusion, Company A was first classified in the first pattern. When the scenario changed, Company A had to adapt its strategy by investing in quality rather than quantity. The company today can be considered in the second pattern, because the Company is still dependent on one big American client, and still exports with the clients’ brand. The company focuses on the development of its own brand for the domestic market, not for the international market.
5.4.1.2. Company B

According to the export manager, Company B is a family business that was founded 65 years ago (1945), following the first pattern discussed previously in Vale do Rio dos Sinos. The export manager affirms that Company B was producing and exporting shoes for a foreign client, using the client’s brand.

In the 1980s, when most companies were exporting mainly to the American market, this company decided to implement a unique strategy: the company decided to work with more than one client, in order to not be dependent on one single brand. According to the manager, Company B also decided to use direct export rather than indirect export. At that time, most of the companies in the region would produce 100% for only one client overseas, and export using an intermediary.

At the time, Company B built a reputation for developing high quality products and investing in the knowledge to make the technical design and specifications, which gave the company a competitive advantage. The company expanded by selling its products directly to retail stores, and also by developing two of their own brands. Company B is responsible for all processes of these two brands: development, production, distribution and sales. One of the brands has been sold in 15 different countries and also has a franchise in the United Arab Emirates. Company B also produces high quality products for its clients, using its clients’ brand.
Company B currently produces sports shoes, which represent a different sector of the shoe industry than the one they used to be involved in. Company B also used to have an international license to sell a famous sport shoe brand. Company B opened two manufacturing plants abroad (one in Argentina, close to Rio Grande do Sul, and one in the Dominican Republic to serve the United States' market, due to its tariff benefits). The company also has some production facilities in the Northeast of Brazil (Ceará and Bahia) because of government incentives for the industry in this region.

In the past, the dynamic was to produce millions of pairs of only 3 to 5 models, all year long. This scenario changed, and today companies are expected to produce a million pairs of 150 different models. Company B currently has the capacity to produce 70 thousand pairs per day, and has several businesses, producing several different products, has several different brands, and targets several market segments. Company B offers different levels of price and quality for different market segments.

Company B diversifies its products. It produces kids’ shoes, high quality women’s shoes, average quality women’s shoes, sports shoes, etc. The company decided to invest in the sports segment because 20% of all shoes sold in the market are “sport shoes”. They decided to enter this market because there was a big demand for it, although there is a lot of competition with China and famous brands.

Company B does market research and selects the right products based on respective cultural differences in each market abroad. Company B has a different
brand to target each market segment, always considering customers’ and markets’ needs. The company also uses a different brand for each geographic location, so a brand that is used in the southeast is not the same brand promoted in the northeast of Brazil. Some brands are only used for exports, and have a higher quality standard. Company B also produces high quality shoes for famous foreign brand clients. These clients make the style design and Company B does the technical design and specifications. The ability to do their own technical design and specifications are unique advantage Company B has, because no other company in the Vale do Rio dos Sinos area has the know-how needed to perform these technical design tasks. Basically, its clients design the product, drawing what they want it to look like, and Company B does the engineering behind it, so it will be produced to look like the drawing made by the client.

In the current scenario, the export manager of Company B is not satisfied with the results of the exports of the company. Today this company only exports 15% of its total revenue. Two years ago, the company exported 70%. The manager believes the reasons for this decrease are: exchange rates, costs became too high to compete in the international market, and the world economic crisis of 2008. The manager believes that parts of the cause of his firm’s results are not in the company’s hands, “it is the market’s fault” as he says. He states that if the 2008 crisis had never existed the results would be better. Today, the market is unstable. According to him, people tend to not buy on impulse when there is a crisis, thus, sales decrease. However, the manager added that the international market is improving sales now.
Although the volume of exports decreased, the company kept the same clients. The reason behind this is because it is hard to acquire a new international customer. The manager believes the best way to improve the company’s export and become more competitive is to: develop new suppliers, improve the company’s “lead time” of production, improve its delivery time, and search for new markets that offer tariff incentives, etc.

In conclusion, Company B was also first classified in the first pattern. However, when the scenario changed, Company B adopted a strategy based on diversifying their clients, their product mix, investing in their own brand and decreasing their producing costs by moving their production to places that offered incentives, like the Northeast of Brazil and the Dominican Republic. The company today can be considered in the third pattern, because the Company focuses on both the domestic and the international markets.

5.4.1.3. Company C

Company C is a family business that was founded 62 years ago (1948), which from the inception has had targeting the domestic market as its main goal. From 1948 to 1970, the company mainly sold to the Brazilian market. However, the kind of shoe this company produces (moccasins) has a higher demand abroad, so in the late 1960s the company began to export following the first pattern discussed earlier.
In 1977, Company C started to export with a big British client. This client required higher quality and ordered less volume of shoes compared to the American clients. Because of this, Company C focused on the European market in the 1980s. In the 1990s, 90% of Company C’s export was based on this one British company. Company C would sell to this British client using the British client’s brand.

In the late 1990s, the company decided to focus on the domestic market, which the owner affirms was growing at that time. For this reason, Company C started to produce products that would be more acceptable to Brazilian customers. Company C decided to use this strategy because it did not want to be dependent exclusively on exports, especially after the difficulties the company had had with the exchange rate fluctuation.

Company C decided to focus on producing moccasins during this time. A big client that operates mainly in Latin America but also in other parts of the world liked Company C’s product and Company C got the license to produce for this big client. This new client was different from the British client because the style design and technical design and specifications were now under the control of Company C. However, company C continued exporting with the client’s brand. This client today represents most of the company’s business. Besides this client, Company C also has some representatives in Europe and exports make up 90% of its total revenue. The company also has some clients that are distributors, so these clients order a high volume and sell it to small clients (indirect export).
Currently, Company C usually exports FOB (Free On Board), it is not worth it to do the entire logistics to the clients’ store, because it increases the cost and they become less competitive. Since most of the shoe manufacturers in Rio Grande do Sul export FOB, it is possible that some clients consolidate their shipments. According to the owner of Company C, the company does not participate in international trade fairs.

The owner of Company C is satisfied to have survived all obstacles. “We are still alive” as he affirms, meaning that the company is still in business and is making profit. The company is exporting 90% of its total revenue. This indicates that the company is not only exporting, but living based on exports.

According to the owner, most of the manufactures are now focusing on the domestic market, rather than on exports, due to the exchange rate, because it increased the shoe prices and makes it hard to sell and make profit. Company C’s strategy is to remain focused on exports but targeting more than one big client, and diversifying its markets. The owner also mentions that the company has a competitive advantage based on the product they are focusing on (moccasins). This product that requires technology and a specific knowhow to produce it (the company has this expertise), some parts of this shoe have to be made manually and craftsmen have to follow a pattern to maintain the high quality. There is a demand for this product and there are few manufacturers that focus on it, therefore, the company has a competitive advantage.

In conclusion, Company C was also first classified in the first pattern, but when the shoe industry was facing problems (1990s) the company decided to
focus on the domestic market. Later, the company again got offered again a chance to export and succeed because of the type of product they focus on (moccasins) and because they decided to take advantage of economies of scales. Company C today exports 90% of their production, is still dependent on big clients, still uses indirect exports and most of the company’s exports are done with the client’s brand. Therefore, Company C can still be classified in the first pattern.

5.4.1.4. Company D

As mentioned previously, Company D is the best example of companies that follow the fourth pattern. Company D started in 1991 with the mission of becoming a global brand. Company D was founded when there was a crisis in the shoe industry. With the valuation of the dollar, Brazilian companies became less competitive in the international marketplace. According to the director of Company D, during this time a lot of shoe companies that used to sell to the American market under a client’s brand were experiencing financial hardship or became bankrupt. This company saw the crisis as an opportunity, because many manufacturing plants were being sold for very little. Company D produced products that were well accepted in the domestic market.

Three or four years after the company was established, they decided to export. The first markets Company D targeted were countries within the
Mercosur agreement and in Latin America. After getting some international experience and knowledge about the market, the company decided to export to countries in Central America, North America, Europe, etc. Today Company D sells in over 100 countries around the world. Six years ago, Company D adopted a strategic plan that sought to deal with the threat of the fluctuation of the exchange rate and the risks of it. At this point the company was selling its product to a multi-brand channel. This was not the best option, because it made the company vulnerable. The multi-brand channel could decide not to buy the company’s products anymore if the product had a less competitive price. Therefore, Company D came up with the following strategy: in order to be strong and develop a brand, this company would have to develop its own channel of distribution (to create their own single brand store). At this point, the company hired a consultant to help implement the strategy. Company D went from producing and selling a product in a multi brand store to selling it in its own single brand store. After five years of developing this new strategy, the company opened their first single brand store. Today, 70% of the company’s business is in these single brand stores. These stores are either franchised or the company owned.

Currently, Company D has 150 stores in Brazil and 120 abroad. Company D’s brand is now being recognized all over the world and is becoming better recognized internationally. One of the benefits Company D gets from all this success with its brand is to be able to show its consumers who Company D really is. The company has also developed a mix of products to sell in their stores.
Before, Company D would only sell some kinds of product to the multi brand stores, because the multi brand stores would only buy a product that was missing to complete their mix of products. Therefore, the company’s level of visibility is higher with the single brand stores, because the company is now promoting through the stores windows 24 hours a day, and because many people will pass by and see it in the mall or on the streets. Today the company only sells to select renowned multi brand channels outside of its own stores.

The director of Company D affirms that “the companies that are successful today are the ones that are selling a mix of product, have a good price, and have a brand.” The director makes the comparison that “whoever sells products without a brand, is selling their souls”. This is because if a company does not have its own brand, the company becomes more vulnerable to the oscillation of the market. Thinking this way, Company D decided to invest in a brand, in design, in the product and in the quality of the product. The director says that companies that think this way are the most likely to survive in the international market in the long term.

The director of Company D affirms that before entering a new foreign market and having a plan to expand, the company does marketing research, does a SWOT analysis and identifies their main competitors. The research gives direction on how to enter into the foreign market. The company only does this research on the market in which they are willing to invest; today it’s about 11 markets (five in Europe: Italy, Spain, Portugal, Germany and France, and five in Latin America: Argentina, Chile, Peru, Mexico and Colombia, plus Brazil). The
company has partnerships in these countries and has an office in Italy that coordinates expansion projects in Europe. The company also has an office in five different countries in Latin America. However, in the markets in which the company only has small investment, the company does not do market research; they only try to meet customers’ needs. Now, the company’s strategy is to invest in the European market because this market is going through an economic crisis and this creates an opportunity to buy stores very cheaply.

The company participates in international trade fairs (Italy, Germany, São Paulo). The director of Company D believes it is important to understand different markets and to create a marketing strategy for each of these markets. The company has to think ahead and base their fashion designs on those of the northern hemisphere, because that is where fashion trends originate from.

Company D today produces in the Northeast of Brazil because of government tax incentives and because of the cheap labor, since the shoe industry is very labor intensive. Both of these factors make it more competitive to produce in the Northeast. The director affirms that if in couple years, it is no longer competitive to produce in Brazil (due to the exchange rate, for instance), the company will search for alternatives and produce in a different country, like Argentina, Mexico, or anywhere else that provides more competitive advantages. The company is preparing for this scenario.

The director of Company D is satisfied with their results, but the company is always seeking perfection. The company’s performance is within the expected range for what was planned. Company D focuses on quality rather than quantity.
(volume of sales). Company D does not focus on big growth, but on a gradual and steady growth of a solid brand.

Company D sees the exchange rate and the “Custo Brasil” as problems. The last problem is associated with inflation, which made the cost of producing shoes higher and the cost directly influenced an increase of the price. In order to overcome these difficulties, the company is adopting the strategy to sell the right volume, at the right time, doing it the right way, so the company will gain customers that will come back to buy again, no matter if the market is going through economic difficulties/crisis or not.

5.4.1.5. Company E

Two interviews were conducted with this company, one with the president of the company, who is also the owner, and one with the export manager. Neither the president nor the export manager provided much information on the history of the company. They focused on explaining the history of the shoe industry as well as the company’s current situation.

Company E started in 1987 focusing on producing men’s shoes. The company started to export since its foundation. In the beginning, the company would export sporadically. The company began to invest in export in 2005, when the company bought a women’s shoe brand and started to focus on developing both brands in the international market. Then, the first market the company
entered was Finland. Company E started to export to Finland because the company had developed a partnership with one distributor there. According to the company’s manager, Company E has always been targeting the international market through the use of intermediaries, which are either a local distributor for a foreign market or an exclusive representative of the brand in that country.

According to the manager, before Company E sets an agreement with a distributor the company evaluates if the distributor has experience with the market and experience in the shoe business. The company also evaluates the distributor’s appearance and business acumen. In other words, Company E looks to see if the distributor has a sales team, if they have a warehouse, how long they have been importing, what other brands they work with, etc. Once the distributor is selected, Company E provides training to the distributor and, sometimes, to the main clients overseas. The company’s representative comes to Brazil twice a year, and together with the manager of the company they select the mix of product that the clients will sell in their market. According to the manager, the main advantage of having a local distributor is because the distributor is from that market and knows it very well. The distributor knows what would sell and what would not, and how to promote the brand while respecting cultural differences. Another advantage of having a distributor is because it is financially cheaper to have a distributor than it is to open an office abroad, train sales force, hire managers to take care of the office, etc. Based on these arguments, Company E plans to keep working with a distributor in each market,
because the company sees this as an extremely necessary tool. The company also works with representatives in the domestic market.

Company E usually sends samples and catalogs to potential clients and to current clients. The company also participates in international trade fairs (2 in Brazil, 1 in Italy and 1 in the U.K.). Company E’s distributors also participate in local and international trade fairs. Clients of Company E also recommend other potential buyers.

Company E only sells its products in multi-brand stores. The managers state that some companies are adopting the strategy of having their own store selling only their product, making franchises of this brand’s stores overseas. In order to adopt this strategy the company has to offer a mix of different products, for different prices. This is because once a customer enters a store looking for a specific product; if the store does not have the product then the customer most likely will not return to this store again. So, the company that decides to adopt this strategy has to offer a complex and complete mix of products as well as having to know their consumers very well. The manager of Company E states that although Company E offers a complex mix of products, there are still some products that the company does not produce and the company does not want to invest in this.

The company only produces one mix of products for each season. This mix of products is designed to meet the domestic and the international market. Some products of the mix might sell better in one market rather than the other, so the company only offers the product that will meet that market’s needs. For
instance, a sport shoe would not be a good choice to try to sell in Europe because there is a high competition for this kind of shoes there because the major sport brands have a heavy presence there. Another example would be to offer an open shoe to very cold countries, where it would not sell.

The manager of Company E believes it is important to be present in each market and to use a different strategy to target each of them. Because each market has its own unique characteristics, the company focuses on producing a global mix of products to be able to meet all customers’ needs. According to the manager, Company E may adapt its products to different markets.

Company E invests in their own brand. This company has two brands, one that targets the women’s market, and one that target the men’s market. Company E has a focus on a market segment. The company targets young, urban, fashionable, and independent consumers. The company offers a comfortable product through the use of technology and great design. Company E uses advertising campaigns to promote its products that are always full of colors, details, and sensual elements to target their market segment.

The manager of Company E usually visits its main clients to see how much of its products are being sold, how the products are displayed in the store, how much of the total product in the client’s store their products represent, and how the competition is doing in comparison to their product. The company invests in marketing and promotes its products through media, local events (like a rock concert in Finland), and fashion magazines (examples include Playboy in Serbia and a local magazine in Argentina). The manager also cites that once in
Finland the company sponsored a hockey team, which provided them with free advertising in a magazine. In Finland the company is now also sponsoring the TV show “Big Brother”. According to the manager “this was only possible because of the local partnership with the distributors.” Thus, Company E considers the distributor to be very important in their strategy.

Company E is now producing in the Northeast of Brazil. The company decided to move production in order to survive the competition. The company decided to produce there due to government incentives. According to the president of Company E the Northeast has its own barriers today, especially with logistics, because the supply chain has not been developed yet, and there is a need for training the labor in that area because they do not have experience in working with this industry. Recently the Northeast has been cultivating a culture of producing shoes and the Northeast is growing this industry.

The manager of Company E is satisfied with the performance of the company. The manager has expectations to reach markets in which the company still does not work and gain more market share in markets where the company currently only has some small transactions. The manager also expects to increase the volume of exports. The manager expects to get more profit in the future. Today, due to the unfavorable exchange rate and the crisis, the company has reduced its profit margins to keep exporting. The main goal for the next year is to reduce cost and increase profit margin.

In conclusion, Company E was first classified in the second pattern, because the company started exporting randomly. However, in 2005 Company B
began to invest in their brands and invest in diversifying their clients, and their product mix by offering the right product to the right client. The company also migrated to the Northeast of Brazil in order to reduce costs of production. The manager of Company E believes the key to success for his firm is to use an intermediary to export (indirect export). The company also sells its products in multi brand stores. Today the company exports 30% of its total revenue and focuses also in the domestic market; therefore this company can be currently classified in the third pattern.

5.4.1.6. Company F

Company F was founded in 1979. Company F has been exporting since 1982. The company also started out by following the first pattern. The owner states that the company would produce about 100,000 pairs for one American client, with the help of an agent (indirect export). At this point, the company did not know who the client was and would negotiate the shoe production almost like a commodity, as the owner affirms.

In the 1990s the company started to lose its market share to Chinese companies. The company’s production decreased to 3,500 pairs per day. Today Company F only produces 1,500 pairs per day. According to the owner of Company F, today Brazilian companies have to deal with the “Custo Brasil” (term used to represent the operating cost of producing in Brazil, usually this term is
used to indicate that the cost increased and is higher than it used to be in the past). The “Custo Brasil” increased the cost of producing shoes and therefore the Brazilian shoe companies became less competitive when compared to Asian producers.

Being aware of the current situation, the company decided to adopt a different approach in order to reduce its price. Before, the company used to sell to an agent that would sell to another agent in U.S. that would sell to the final client. Their idea was to cut out the agents in order to get a more competitive price. The company was trying to compensate the higher “Custo Brasil”, exchange rate variation, and all the other factors that made the Chinese firms more competitive by cutting out the agent’s commissions and offering a better price directly to the foreign buyers in the market. The logic the company used was that instead of waiting for the external demand to come and make orders, the company would go to the international market and try to find customers to sell to. The company created an export sales department and decided to participate and invest in international trade fairs. Company F still exports today under this new strategy, but in a smaller quantity than before.

The owner of Company F is satisfied with the company’s results. However, he believes they could improve. He thinks the company is going slowly and consistently. He believes what contributes to this result is the lack of investments in marketing by Company F. He believes in order to improve the current results; the company should invest more in marketing and in international trade fairs.
Company F is performing very well in the domestic market because it is investing in the domestic market. The company promotes and advertises its products in fashion magazines in Brazil but the company does not promote its products in the international market. Due to that, the owner states that this company is still unknown in the international market, even though they already developed some clients' loyalty.

In conclusion, Company F was first classified in the first pattern. When the Chinese competition arose in the shoe industry, Company F adopted a different strategy: the company focused on decreasing their costs, and in order to do this, the company cut out the intermediary. Company F also started to invest in attending international trade fairs due to ABICALÇADOS support. The owner of the company affirms that the main focus of the company is the domestic market, where they are investing in promoting their brand. Therefore, Company F can be classified today in the second pattern.

5.4.2. Brand

As discussed previously, not all of the six companies are exporting with their own brands. The companies that are now exporting with their own brands are developing a strategy to promote their products overseas. The following Table 10 shows how each company is exporting, concerning the brand:


Table 10: Do Companies Export with Their Brand or Their Client’s Brand?

<table>
<thead>
<tr>
<th></th>
<th>Comp. A</th>
<th>Comp. B</th>
<th>Comp. C</th>
<th>Comp. D</th>
<th>Comp. E</th>
<th>Comp. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export with own</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>brand</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Export with clients'</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>brand</td>
<td>X</td>
<td>X</td>
<td>X*</td>
<td>X**</td>
<td>X*</td>
<td></td>
</tr>
</tbody>
</table>

* The majority of the companies export
** The company does co-brand

The table shows that only one company is exporting exclusively with its own brand: Company D. Company D focuses on a global brand. All Company’s D exports are done with the company’s brand. As mentioned previously, Company D also has international franchise stores with its own brand.

Company E only exports with their own brand to multi brand stores, with one exception: The company has a co-brand with an important American brand. Therefore, that product is sold overseas with the co-branding. Company B, on the other hand, exports for several big clients with these clients’ brands. However, the company also exports with its own brand to multi brand stores. The company also has franchising overseas with its brand and single brands stores with its brand.

Companies C and F prefer to export using their own brand. However, most of their clients require these companies to export with the clients’ brand. The owner of Company F affirms that usually when there is a distributor involved
in the process, the company exports with the client’s brand. The table also shows that only one company is still exporting exclusively with its clients’ brand: Company A. Figure 15 also helps to illustrate the idea behind the table:

![Diagram showing Export with clients' Brand vs Export with own brand]

**Figure 15:** Companies Export Branding.

### 5.4.3. The Traditional Model x The Born Global Model

The literature review presented two models of the Internationalization of Firms: the Traditional Model and the Born Global Model. This researcher created Table 3 in the literature review that expresses the differences in some criteria that distinguish these two models. Based on Table 3, this researcher created Table 11, that combines data collected in the field for the six companies and compares their profiles.
Evaluation of each company was based on the following criteria:

- **Time of Internationalization:** Compare the year of establishment with the year of the first export.

- **Speed of Internationalization:** Based on the history of the company and the timing of strategic changes.

- **Manager’s Vision and Target:** Based on the focus of the company. If the company focuses on the global market or domestic market as their priority.

- **Business Network:** Based on the number and variety of clients all over the world and the extent to which the firm is dependent on them for revenue and profits.

- **Market Commitment:** Based on modes of entry, discussed previously.

- **Approach to International Market:** How are they approaching the market: several countries at the same time, or first countries that are “psychically” close to Brazil.

Based on data in Table 11, it can be seen that only one company completely fits one model. Based on the criteria stated above, Company D can be considered a “Born Global” company. The others firms do not follow one single model, because they have characteristics of both models. Based on the data, it can be implied that one company tends to be more traditional, and others tends to be more born global. However there is no pattern that fits them all.
Table 11: Internationalization Models Criteria Applied to the Companies

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Comp. A</th>
<th>Comp. B</th>
<th>Comp. C</th>
<th>Comp. D</th>
<th>Comp. E</th>
<th>Comp. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time of Internationalization</td>
<td>Later (more than 10 years after foundation)</td>
<td>N/A</td>
<td>Later (about 10 years after foundation)</td>
<td>From the beginning (3 years after foundation)</td>
<td>From the beginning</td>
<td>From the beginning (3 years after foundation)</td>
</tr>
<tr>
<td>Speed of Internationalization</td>
<td>Slow</td>
<td>Faster</td>
<td>Slow</td>
<td>Faster</td>
<td>Faster</td>
<td>Faster</td>
</tr>
<tr>
<td>Manager's vision and target</td>
<td>N/A</td>
<td>Currently has a global vision</td>
<td>Focuses on international market</td>
<td>Global vision since beginning</td>
<td>Is now focusing on international market</td>
<td>Focuses more on the domestic market</td>
</tr>
<tr>
<td>Business Network</td>
<td>Small business network, dependent on few big clients</td>
<td>Large business network, dependent on few clients</td>
<td>Small business network</td>
<td>Large business network</td>
<td>Large business network</td>
<td>N/A</td>
</tr>
<tr>
<td>Market Commitment</td>
<td>Less</td>
<td>High</td>
<td>Less</td>
<td>High</td>
<td>Less</td>
<td>Less</td>
</tr>
<tr>
<td>Approach to International Market</td>
<td>Target United States and Europe</td>
<td>Several countries at the same time</td>
<td>Several countries at the same time</td>
<td>Several countries at the same time</td>
<td>Several countries at the same time, focuses on Argentina.</td>
<td>Target United States, Latin America &amp; Europe</td>
</tr>
</tbody>
</table>

N/A – Not available

These data show that companies D and B have higher commitment, risks, profits and control, and are the ones that are investing more in their own brands.
and also can be classified as adopting a more Born Global Model. These data also show that Companies A, F, C, respectively are the ones that are exporting the most with their clients’ brands and at the same are more appropriately classified in the Traditional Model. These implications show that the modes of entry, the brand choice to export and the Models are interconnected. Therefore, the company that is investing more in their brand, most likely targets the international market with a global approach.

The data also show that the four patterns that ABICALÇADOS offered or suggested can be connected with the models. Based on the companies’ histories, they could be classified within the following pattern in Table 12:

Table 12: Companies Classified in ABICALÇADOS Patterns

<table>
<thead>
<tr>
<th></th>
<th>Past</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>1st pattern</td>
<td>2nd pattern</td>
</tr>
<tr>
<td>Company B</td>
<td>1st pattern</td>
<td>3rd pattern</td>
</tr>
<tr>
<td>Company C</td>
<td>1st pattern</td>
<td>1st pattern</td>
</tr>
<tr>
<td>Company D</td>
<td>-</td>
<td>4th pattern</td>
</tr>
<tr>
<td>Company E</td>
<td>2nd pattern</td>
<td>3rd pattern</td>
</tr>
<tr>
<td>Company F</td>
<td>1st pattern</td>
<td>2nd pattern</td>
</tr>
</tbody>
</table>
Figure 16 illustrates the observed relationships between the patterns of behavior of the six firms studied and the two primary models discussed in this study.

![Figure 16: Traditional Model vs. Born Global Models Applied for Companies](image)

Comparing the ABICALÇADOS pattern with the Models, it can be seen that Company D is classified in both as the most internationalized company. Companies B and E come after Company D, which also matches ABICALÇADOS patterns. There was a divergence when comparing Companies A, C, F because the criteria used were different.

In conclusion, this analysis not only answered each of the three research questions proposed, but also tried to find a correlation between them. This study suggests that there are different currently motivations among companies and this might have influenced each company to take a different strategy and use a different modes of entry. Therefore, even though most companies went through the same history background, when the scenario changed, they had to adapt,
and each of them decided to take a different path, making them not follow one single pattern.
CHAPTER 6: CONCLUSION

This research investigated the internationalization process utilized by Brazilian firms in the shoe industry, in Vale dos Sinos, RS, Brazil. The research provided a better understanding of shoe companies’ motivations to go abroad, the modes of entry chosen to enter the international market and which strategies these companies were using. This study tried to identify if the companies fit or not in the Internationalization of Firms Models provided in the literature, by analyzing their history and behavior in the international market.

5.1. Findings

There are two types of findings that can be extracted from this research: First, from the literature review section, and second from the results of the analysis and discussion of the findings of this research.

5.1.1. Findings from the Literature Review

The main contribution of this research to the literature is in the “motivation” section. The researcher found that there is a lack of research that deeply analyzes the motivations for a company to internationalize. The researcher found most of the literature on this topic cites and/or describes different kinds of
motivations a company could have to get involved in the international market. The study found that different authors label the same motivations with different names. However, the researcher did not identify any study that classifies different motivations in various categories.

Thus, the researcher’s contribution to the literature is based on gathering all the possible motivations in the literature and classifying them into three different categories. Each category was also labeled and identified as being more re-active or pro-active. Based on this, a table was created. This study confirmed in its analysis and discussion that each motivation was associated with the “re-active” or “pro-active” criteria and this made the categorization more sustainable.

This research also contributed to the literature in designing two tables, one that summarizes the pros and cons for each mode of entry and another that defines criteria to differentiate the traditional approach to internationalization from the born global approach to internationalization.

5.1.2. Findings based on the Analysis and Discussion

The Brazilian Shoe Industry started its involvement with the International market in the 1960s. During this time, the companies were motivated to internationalize their business based on “government tax incentives” motivation, and on the “chance to export their products” motivation. Because the domestic market was saturated and the chance to export their products arose from foreign
buyers that would make orders, the shoe manufacturers focused their businesses on the international market. The companies were not proactively involved in the international market; their motivations mainly came as an unforeseen opportunity or were market driven.

The main destination of the exports was to the United States. The North American companies used to order a substantial quantity of one model of shoe, providing the design and requiring the Brazilian shoe manufacturers to use the American clients’ brand. The process was done with the help of an agent (indirect export). This behavior was common in the Vale do Rio dos Sinos region from the 1960s to the mid-1990s.

In the mid-1990s, the Brazilian shoe industry started to face difficulties with exchange rate fluctuations, and competition from the Asian market, which generated an increase in the production costs. During that time, companies went bankrupt, and the ones that remained in business had to find an alternative strategy to overcome these difficulties. This study showed that out of the six companies analyzed, all of them are operating today in the international marketplace, but each of them adopted a different strategy to survive:

- Company A: Invested in quality;
- Company B: Diversified markets and product mix, invested in its own brand, and decreased production costs by migrating their production;
- Company C: Invested in products that have higher demand (moccasins), and exported great quantities to take advantage of economies of scale;
- Company D: Invested in their brand, targeted different countries at the same time, and sold in their own single brand stores;
- Company E: Invested in their brand; used the an intermediary to obtain success in the foreign market and sold products in multi brand channels; and
- Company F: Cut out the intermediary to decrease the cost of shoes and participated in international trade fairs.

Even though each of these companies adopted a different strategy, all of them survived and are still operating with the international market. This shows that there are different ways to compete successfully within the same industry and the same location. All of these managers had to respond and adapt to continue in business, since they all adopted a unique strategy, there is no pattern. Thus, understanding the motivations for why each of them decided to invest in the foreign market was necessary.

This study expected to find and did find more reactive motivations before the mid-1990s and more proactive current motivations. This expectation was confirmed as this study showed that in the past, the motivations were more reactive (opportunistic and market driven). Recently the motivations changed, as can be seen in the three patterns: opportunistic, market driven and strategic. The current motivations tend to be more proactive when compared to the past. The reason why the motivations changed over time is because the scenario changed and the companies had to adapt.
This researcher was expecting that the company that had the most “pro-active” motivations would be associated with the Born Global Model. However, this did not happen, because Company A was the only company that actually mentioned only “strategic motivations” which are seen as the most proactive motivation. Company A was later classified as one of the companies that has less investment in their brand, and is considered the company most closely associated with the traditional model. On the other hand, Company D also has a more pro-active approach, because it mentioned “market driven” and “strategic” motivations. It is the only company that focuses solely on its brand and is 100% associated with the Born Global Model. Therefore, companies that have more pro-active motivations can be associated with different models and have different strategies concerning their brands.

This study also examined the modes of entry the companies use to enter a foreign market. The study expected that companies would use similar modes of entry, and it found that each of the companies is entering the market differently.

The last topic this study investigated concerned looking at how well the companies would fit in one of the two internationalization models (the Traditional Model and the Born Global Model). Again, there was no pattern. Some of the companies were more associated with the Born Global Model (Company D), and some more associated with The Traditional Model (Companies A and F). The analysis done with the criteria selected in the literature review showed that only one company closely fit a model: Company D. The other companies had some
characteristics that classified them as more likely to be one model rather than the other, but also shared characteristics with the opposite model.

This study expected to find and actually found a more traditional approach of internationalization before the mid-1990s, and a more born global approach currently. Therefore, the researcher believes that the future will be dominated by companies having more in common with the born global approach.

Today, most of the shoe companies are trying one way or the other, to diversify their markets, because they do not want to be vulnerable and dependent on one single market. However, not all of the companies are investing today in a brand and this might be an important element for the shoe industry today. The data collected showed that the companies that are most internationalized invested in their own brands.

This study analyzed each of the three research questions separately. However, it is important to see the overlap between them, because the motivations of firms to go overseas impact on the modes of entry they select to use, and the strategy that they adopt. Consequently, this affects the behavior of the company during the internationalization process, and they might follow different models based on that.

The data collected in this study showed that all companies went through the same shoe industry background and that the earlier motivations were similar among the companies. The reason might be because they were all focusing on the same strategy.
However, when the scenario changed and each company had to adapt to survive, each company decided to focus on a different strategy. The data collected on the current motivations showed that companies were also having different strategies. The fact that they decided to focus on a different strategy might influence them to have different motivations. These different motivations might have generated the desire in a company to increase more or less their level of commitment, risks, profits, control; which influenced the mode of entry which each of these companies chose to use.

The motivations, the strategies, the modes of entry, the choice to invest in a brand or not and their company history influenced the companies' behavior in the international market, and how they were classified within the Models. All these Brazilian shoe manufacturers are located in the same region, and are successful in the market, using different strategies. Thus, this study shows that each company is unique and has its own peculiarities, which made them target the international market differently.

The internationalization process happened in different ways for each of the firms because this process is based on the managers', directors' and owners' perceptions and the decisions they take. Thus, what one interviewee might believe is the key to the success, another interviewee might think is what a company should not adopt. Therefore, this study concludes that there is no formula to internationalize.

This study also found it interesting that the director of ABICALÇADOS mentioned that currently ABICALÇADOS has a very consistent program that
supports companies that have the intention of insert in the international market; the program is called the “Brazilian Footwear”. This program has the support of APEX Brasil (Agencia Brasileira de Promoção das Exportações e de Investimentos; the Brazilian government agency that promotes exports and foreign investments) and SEBRAE (Serviço Brasileiro de apoio às micro e pequenas empresas; the Brazilian government agency that supports micro and small businesses). According to the director, within this program, APEX provides financial support to shoe companies to promote their products overseas. This could be by doing trade missions, by participating in international trade fairs, by hiring consultants in marketing, advertising and media, and by maintaining and distributing a system of commercial intelligence with privileged information about selected markets. SEBRAE is also supporting this program by providing, when necessary, training support to companies in many aspects of exports when it is the first time of the company exporting. They provide training courses in different areas, such as: product develop, calculation of sales price, etc.

This “Brazilian Footwear” program was only mentioned by one company (Company F). Because the other companies did not mention it, they might not be involved in it and the researcher believes it might be a great opportunity for these companies’ managers to be aware of the benefits this program provides. It is recommended that companies’ managers, owners and directors should learn more about this program and try to get benefits from it. It might improve their strategy to target the international market.
The director of ABICAÇADOS stated that currently they are launching a project called “Brazil Landed”. This project would help companies become more competitive in logistical costs by doing shipment consolidation to the same destination. Different companies would produce their goods and deliver them to the port; the shipment would be consolidated, so it would be cheaper to transport. When the goods get to the port of destination, they would clear customs and then an agent will separate which merchandise belonging to each client.

Further, new programs are being developed to help exporters all the time. One key to success for firms in this industry is to be sure that all firms which can benefit from these new programs are aware of them.

5.2. Limitations

The main limitation of this study is concerning the selection bias due to the fact that this study focused on companies in the same industry. This study did not look at any company that was not a shoe manufacturer. Therefore, the results obtained can not be generalized for any other industry.

The other selection bias is related to the fact that all these companies were located in the same region. Therefore, this study did not analyze any company from the other shoe producing areas of the country. As a result of this, this study cannot be generalized to all Brazilian shoe manufacturers. The results
also do not reflect how the shoe industry is structured in other countries around the world, since the only focus of this study is in Brazil.

The last select bias is associated with the fact that this study only looked at companies that were successfully operating in the international market. This study did not examine companies who used to export and failed in the international market. Therefore, the strategies adopted by companies that are no longer in business were not taken into consideration.

Because this study only focused on six companies, the results obtained in the analysis and discussion chapter are also limited, if this study would have gotten a larger sample, this could represent the reality of the industry better.

The last limitation this study present is about the fact that there is only qualitative analysis. If more manufacturers were able to participate in this study, a quantitative approach could have taken place and a different type of analysis could have been conducted.

5.3. Suggested Future Research

The main suggestions for future study are related to the “motivations to internationalize.” A deeper analysis of the literature concerning motivations is suggested. As mention previously, not much has been done on this topic, especially concerning the measurement of motivations.

It is also suggested that future research apply the tables created in the “motivation” and “internationalization model” sections to studies of different
industries across different countries. This application could show if the table created is helpful for understanding the behavior of different companies in different parts of the world.

Other future research can be built from the results found in the analysis and discussion chapter. It would be a good idea to interview a greater number of companies that met the criteria (same industry, same location, operating in the international market) to try to do a more complete quantitative analysis across firms. Also a quantitative approach would be another way to understand this topic.

A different way to look at the internationalization of firms would be to do future research looking at companies' performance. Companies' performances can be associated with their motivations, strategies and modes of entry to operate in the international market. Thus, looking at these companies’ performance might help to understand their internationalization process.

This study also did not focus on the virtual internationalization process, where companies are involved with the international market by doing online transactions. Since this is a tendency that has been growing around the world, this would be another topic to research, to see if virtual internationalization plays a role in their business and how relevant it is for a company today.
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http://www.ibge.gov.br/ibgeteen/mapas/imagens/brasil_regioes_gde.gif


http://www.ihu.unisinos.br/index.php?option=com_noticias&Itemid=18&task=detalhe&id=35991


Title of Research: Internationalization of Brazilian Firms: An analysis of Brazilian Shoe Companies

Researcher: Luísa Antunes Garcia de Campos

You are being asked to participate in research. For you to be able to decide whether you want to participate in this project, you should understand what the project is about, as well as the possible risks and benefits in order to make an informed decision. This process is known as informed consent. This form describes the purpose, procedures, possible benefits, and risks. It also explains how your personal information will be used and protected. Once you have read this form and your questions about the study are answered, you will be asked to sign it. This will allow your participation in this study. You should receive a copy of this document to take with you.

Explanation of Study

The current phenomenon of globalization affects organizations in a way that can intensify and expand their activities in foreign markets. Within this context, this study will investigate the internationalization process utilized by Brazilian firms. This research will focus on Brazilian firms in the shoe industry.

This study aims to contribute to the success of shoe firms by analyzing their internationalization process. The main objective of this study is to analyze Brazilian shoe firms’ behavior in internationalization by understanding firms’ motivations, their patterns used to go abroad and managers’ perception of their performance.

This study should add to our understanding of what motivates shoe companies to go abroad, what patterns the shoe firms are using to go abroad and what the managers’ perceptions of the performance of these companies are.

Risks and Discomforts

No risks or discomforts are anticipated for you as a result of participating in this study. If at any time a question that is asked makes you uncomfortable, you may choose not to answer it.

Benefits

The benefit that will come from this study to society is a better understanding of shoe firms’ behavior in internationalization. This study aims to contribute to the success
of shoe firms by analyzing their internationalization process. This research will provide some suggestions to shoe firms’ managers in their process of expansion in the international market.

Confidentiality and Records

No names of participants will be published, although the records will be labeled with the subject’s company identification. Only the researchers will ever see this information.

Additionally, while every effort will be made to keep your study-related information confidential, there may be circumstances where this information must be shared with:

* Federal agencies, for example the Office of Human Research Protections, whose responsibility is to protect human subjects in research;
* Representatives of Ohio University (OU), including the Institutional Review Board, a committee that oversees the research at OU.

Compensation

No compensation will be given.

Contact Information

If you have any questions regarding this study, please contact Luisa Antunes G. de Campos at lc149809@ohio.edu or call (55) 31-86496801 or (1) 740 331-5286.

If you have any questions regarding your rights as a research participant, please contact Jo Ellen Sherow, Director of Research Compliance, Ohio University, (740)593-0664.

By signing below, you are agreeing that:

- you have read this consent form (or it has been read to you) and have been given the opportunity to ask questions
- known risks to you have been explained to your satisfaction.
- you understand Ohio University has no policy or plan to pay for any injuries you might receive as a result of participating in this research protocol
- you are 18 years of age or older
- your participation in this research is given voluntarily
- you may change your mind and stop participation at any time without penalty or loss of any benefits to which you may otherwise be entitled.

Signature___________________________________________ Date __________
Printed Name_________________________________________
APPENDIX B: OHIO UNIVERSITY CONSENT FORM (PORTUGUESE)

Formulário de Consentimento de Participação em Pesquisa da Ohio University

Título da Pesquisa: Internacionalização de empresas brasileiras: uma análise das empresas no setor de calçados.

Pesquisadora: Luísa Antunes Garcia de Campos

Você está sendo convidado(a) a participar em um estudo de pesquisa. Para que você possa decidir se deseja ou não participar neste projeto, você deve entender sobre o que é o projeto, assim como os possíveis riscos e benefícios. Serão informadas as finalidades, os procedimentos, possíveis benefícios e riscos. Será informado, também, de que maneira suas informações pessoais serão usadas e protegidas. Após ler este consentimento e suas perguntas sobre o estudo serem respondidas, sua assinatura será solicitada. Isso permitirá sua participação no estudo. Você receberá uma cópia deste documento.

Explicação do Estudo

O fenômeno atual da globalização influenciou as organizações a intensificar e expandir suas atividades para os mercados externos. Nesse contexto, este estudo visa investigar sobre o processo de internacionalização de uma empresa adotada por empresas brasileiras. Este estudo foca nas empresas brasileiras do setor de calçados. Este estudo visa contribuir para o sucesso das empresas de calçados a partir da análise dos processos de internacionalização. O objetivo principal deste estudo é analisar o comportamento das empresas ao internacionalizarem, a partir de uma melhor compreensão dos motivos que levam as empresas expandirem suas atividades para o exterior, dos padrões usados pelas empresas ao entrar em um novo mercado e da percepção dos gerentes com relação aos resultados obtidos.

Riscos e Desconfortos

Esta pesquisa não prevê riscos ou desconfortos aos participantes. Se em qualquer momento você se sentir desconfortado com alguma questão, você pode optar em não respondê-la.

Benefícios

Os benefícios que esta pesquisa visa trazer para sociedade é uma melhor compreensão no comportamento das empresas do setor de calçado ao se internacionalizarem. Este estudo visa contribuir para o sucesso das empresas de calçados através da análise dos seus processos de internacionalização. Este estudo trará sugestões
para os gerentes das empresas do setor de calçados sobre seu processo de expansão para o mercado internacional.

Confidencialidade e Registros

Os nomes dos participantes não serão publicados. No entanto, os registros da pesquisa serão etiquetados com os nomes das empresas participantes. Somente os pesquisadores terão acesso a essas informações.

Adicionalmente, enquanto todos os esforços serão feitos para manter sua informação relacionada ao estudo confidencial, poderá haver circunstâncias em que essa informação seja compartilhada com:

* Agencias federais, por exemplo, o Office of Human Research Protections, cuja responsabilidade é a proteção dos humanos participantes em pesquisas;
* Representantes da Ohio University (OU), incluindo o Institutional Review Board, um comitê que supervisiona as pesquisas na OU.

Compensação

Não haverá compensação.

Informações para Contato

Caso você tenha quaisquer perguntas relacionadas a este estudo, favor entrar em contato com Luisa Antunes Garcia de Campos através do e-mail lc149809@ohio.edu ou do telefone 55-31-8649-6801 ou 1-740-331-5286.

Caso você tenha quaisquer perguntas relacionadas aos seus direitos como participante em pesquisa, favor entrar em contato com Jo Ellen Sherow, Director of Research Compliance, Ohio University, 1-740-593-0664.

Ao assinar abaixo, você está concordando que:
• Você leu este formulário de consentimento (ou ele foi lido para você) e você tem direito de questionar.
• Conhece os riscos da pesquisa.
• Entende que a Universidade de Ohio não tem a política e plano de pagar por nenhum dano que você possa receber como resultado da sua participação na pesquisa.
• Você tem mais de 18 anos de idade.
• Sua participação nesta pesquisa é voluntária.
• Você pode desistir da sua participação a qualquer momento sem penalidade ou perda de qualquer benefício que você possa receber.

Assinatura ___________________________ Data ______________
Nome ________________________________
APPENDIX C: INTERVIEW SCHEDULE FOR THE SHOE INDUSTRY ASSOCIATION (ABICALÇADOS) AND FOR SHOE MANUFACTURERS

(ENGLISH VERSION)

Interview Schedule for Industry Association - ABICALÇADOS

1. How would you describe the international activities of Brazilian shoe manufacturers?
2. Specifically related to exporting, what have you observed?
3. Does ABICALÇADOS provide any help to these firms in their export efforts? What?
4. Have you observed a “typical” process among shoe exporters?
   a. If so, could you please describe it?
   b. If not, why not?
5. What have you observed about the success of Brazilian shoe exporting?
6. What do you think contributes to this result?
7. What ideas do you have about how to improve these results?
8. Is there anything else you would like to add?
9. Would you please recommend firms that I should contact for this research?

Interview Schedule for Shoe Manufacturers

1. How would you describe your firm’s international activities?
2. Specifically, how would you describe your exporting (what)?
   a. Probe timing (when)
   b. Probe country-markets (where)
3. What stimulated you to start exporting? To continue? To go to new markets? (why)
4. Do you have a “typical” process for exporting – or does it vary by market? (how)
   a. If so, could you please describe it?
   b. If not, why not?
5. How would you describe your success with exporting?
6. What do you think contributes to this result?
7. What ideas do you have about how to improve these results?
8. How satisfied are you with the results your company has achieved?
a. In international markets overall?
b. In exporting, in particular?

9. Is there anything else you would like to add?
10. Would you please recommend other firms that I should contact for this research?
APPENDIX D: INTERVIEW SCHEDULE FOR THE SHOE INDUSTRY ASSOCIATION (ABICALÇADOS) AND FOR SHOE MANUFACTURERS (PORTUGUESE VERSION)

Interview Schedule for Industry Association - ABICALÇADOS

1. Como você descreveria o envolvimento das empresas produtoras de calçados com atividades no mercado internacional?
2. Dentre as atividades internacionais, como você vê a exportação especificamente?
3. A ABICALÇADOS fornece algum tipo de ajuda a essas empresas que desejam exportar? Quais tipos?
4. Você observa algum “processo típico” de comportamento entre os exportadores de calçados?
   a. Se sim, você poderia descrevê-lo, por favor.
   b. Se não, por que não?
5. O que você tem observado sobre o sucesso de empresas de calcados que estão exportando.
6. O que você acha que contribui para esse resultado?
7. Quais outras idéias você tem para melhorar esses resultados?
8. Tem mais alguma coisa que você gostaria de acrescentar?
9. Você poderia, por favor, recomendar algumas empresas que eu possa contatar para participar dessa pesquisa?

Interview Schedule for Shoe Manufacturers

1. Como você descreveria o envolvimento da sua empresa com as atividades internacionais?
2. Especificadamente, como você descreveria o processo de exportação
   a. Tempo (quando)
   b. Para quais mercados (onde)
3. O que motivou sua empresa a começar a exportar? A continuar? A entrar em novos mercados (porque)
4. A empresa tem um “processo típico” ou um padrão usados para exportar – ou varia de mercado para mercado?
   a. Se sim, você poderia descrevê-lo por favor.
   b. Se não, por que não?
5. O que você descreveria sobre sucesso da sua empresa nas exportações?
6. O que você acredita que contribui para esse resultado?
7. Quais outras idéias você tem para melhorar esses resultados?
8. Quanto satisfeito você está pelos resultados atingidos pela sua empresa?
   a. No mercado internacional?
   b. Nas exportações, em particular?
9. Tem mais alguma coisa que você gostaria de acrescentar?
10. Você poderia, por favor, recomendar outras empresas que eu possa contatar para participar dessa pesquisa?