

THE CHALLENGES OF INTERNATIONALIZATION OF COMPANIES: A BIBLIOGRAPHICAL REVIEW OF THE INTERNATIONALIZATION OF COMPANIES

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SUMMARY

This article reviews the literature on the process of internationalization of companies, its advantages and challenges in the current scenario. The term globalization appeared with greater intensity in Brazil, especially in the 1990s. The factors that led to this intensity of globalization in Brazil were a drastic reduction in the intensity of state involvement in the economy, and consequently, the unprecedented economic opening. Internationalization has become almost mandatory for the survival of companies, both for large companies and for medium and small organizations.

Keywords: Internationalization. Business. International Strategies

ABSTRACT

This article makes a bibliographic review of the internationalization process of companies, advantages and challenges, in the current scenario. The term globalization appeared with greater intensity in Brazil, especially in the decade of the 1990s. The factors that led to this intensity of globalization in Brazil were a drastic reduction in the state's intensity in the economy, consequently of the unprecedented economic opening. Internationalization has become almost mandatory for companies to survive, both for large companies, as well as medium and small organizations.

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1 INTRODUCTION

The term globalization appeared with greater intensity in Brazil, especially in the 1990s. The liberalist process was expanded to several Eastern European countries, and also to emerging countries, such as those in Latin America.

The factors that led to this intensity of globalization in Brazil were a drastic reduction in state intensity in the economy, consequently due to the unprecedented economic opening and the increase in foreign direct investment, due to the privatizations that occurred during this period.

The term had and has a paradoxical meaning, but everyone used it to describe the breaking of national borders. According to Costa; Santos (2011, p. 30), "The current process of globalization originated after the Second World War, where the United States, as the victor, took upon itself the responsibility of rebuilding economic integration in the

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world". The creation of the UN, IMF and WTO in the post-war period helped in the process of globalization and consequently internationalization of companies, dictating forms and regulations for this new era of business rules. From an economic perspective, globalization has transformed the lives of companies as it allows the production and distribution of relatively homogeneous goods to be carried out in larger quantities, leading to gains in economies of scale. Companies thus begin to seek a global economic model Suen; Kimura (1997, p. 2)

Globalization is the increase in transactions between market agents (suppliers, consumers, companies, government control organizations) outside the country. It is a two-way street. In order to advance, it is imperative that nations open their national markets by breaking down the barriers (customs, tax) that separate countries from each other. Beluzzo (1995 as cited in Sales *et. al*, 2015). With the emergence of globalization, the world has become a single market. Despite the protectionism of some nations, companies are increasingly internationalizing, moving to distant regions, with the aim of gaining economies of scale or increasing their market share. (Suen; Kimura, 1997)

The justification for the article is important, since the internationalization of companies is an effective way to increase the global market and competitiveness, facilitating access to resources and people, in the face of the worst health scenario of the 21st century – COVID-19.

This article analyzes the internationalization of companies, which has become increasingly important since the early 1990s in Brazil, with the aforementioned economic liberalization, which has led companies to need to improve their processes and products. It analyzes the main difficulties and incentives for companies in the internationalization process.

For the preparation of this study, a bibliographical research was carried out, using a qualitative approach, with the objective of describing the process of internationalization of companies. In the first moment, the work deals with theoretical issues of the process of internationalization of companies, in the second moment it will deal with the strategies adopted by companies, problems and difficulties, as well as organizational planning that is necessary for a company to internationalize and finally it analyzes the profile of the professional for these companies.

2 INTERNATIONALIZATION

The process of globalization with the opening of the Brazilian market in the 1990s, inserted Brazilian companies into a more competitive environment, internationalization became almost mandatory for the survival of companies, both for large companies and

also small and medium-sized organizations later on. According to Honório (2011, as cited in Texeira and Picchiai, 2018, p. 24)

[...] Increasingly fierce competition requires companies to constantly improve and adapt their products and processes, mainly aiming at reducing costs, with the objective of offering the market and consumers more competitive products. In this context, the internationalization of their activities becomes a matter of survival for many companies. Therefore, it is necessary to prepare to operate in an extremely competitive and dynamic environment, in addition to investing in technology and innovation to face foreign competition, since the expansion of activities in the international market brings with it new challenges, associated with those already existing in the domestic market.

For Costa and Santos (2011), the concept of internationalization has a simple concept, it happens when an organization, whether large, medium or small, begins with some type of involvement or commercial relationship, with customers, suppliers located beyond national borders.

Silva (2002, as cited in Costa; Santos (2011) "the degree of external involvement, materialized in the intensity of international trade in goods and services (commercial insertion), in foreign direct investment (productive insertion), in associations with foreign companies (commercial and/or productive insertion) and in the flows of financial capital."

The internationalization of companies is a growing phenomenon, an example of which is the fact that foreign direct investment (FDI) has increased tenfold and imports have doubled. Macadar (2008).

Why do companies internationalize? According to the Brazilian Trade and Investment Promotion Agency [APEX] (2020). Companies internationalize to increase brand value through international presence; Greater capacity to serve and respond to global customers; Differentiation from domestic and/or less internationalized competitors; Proximity to their end consumers; Reduction of risks through market diversification; Access to cheaper production factors; and Economies of scale.

The internationalization process is a dynamic and complex operation, necessary for the survival of companies in this globalized world. In Brazil, the internationalization of companies occurred late, due to issues of the business environment and policies aimed at protecting national companies. Brazilian companies were in an environment of great uncertainty and discontinuity of fiscal and monetary policies, partially protected from external competition. This was due to different forms of protectionism, such as the import substitution model. With the progressive economic opening already mentioned in the 1990s and after the 1994 Stabilization Plan, such an environment induced the need for companies to

companies to be more competitive in the face of international competition. Hibal, Ghisi; Miranda (2019).

In Brazil, industrialization began in the 1930s, with the model of protection for Brazilian industry. The adopted model - import substitution - transformed the Brazilian industrial park into a conglomerate of outdated industries with little competitiveness on the international scene." Goulart, Brasil; Arruda (1996 as cited in Soto, Alves; Bulé, 2014)

Theories of Internationalization of Companies

The internationalization process is studied in several studies on international strategies, several theories seek to explain and identify such strategies, being classified according to two biases: the economic approach and the behavioral approach.

The economic approach to the internationalization of companies is based on rational logic, that is, decisions are merely economic, such as: economies of scale, location, labor costs, etc. In the behavioral approach, internationalization is carried out gradually, the company must be introduced in a culturally close environment and imperfect market information must be taken into account when making decisions.

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In the product life cycle theory, the internationalization of a company is based on the entry of new products into the foreign market. After stagnation in the domestic market, companies seek new markets to introduce their products when these begin to decline. The company's internationalization is a gradual process. At first, the innovative product is placed in regions outside its surroundings. In the second phase, it goes through the growth phase until the point where exports are consolidated. At the next stage, and at the maximum level of internationalization, there is a direct investment in the foreign country. Production is

standardizes, resulting in lower production costs and ultimately a decline in the product when supply is greater than demand. (Costa, Añez, Mol; Damasceno2017, p. 3)

The Internationalization Theory is a predecessor of the Eclectic Paradigm Theory, which better explains how companies internationalize from an economic perspective. In the Eclectic Paradigm Theory, internationalization is explained by three variables – OLI – or competitive advantages: ownership advantage or owner-specific advantage (O), which are considered competitive advantages such as: technology; human resources; information; brands; patents; production processes, among others. The location-specific advantage (L), the company explores the advantages of a location where labor is available at lower costs, transportation, similar culture and cheaper raw materials. And internationalization (I), when the company has already decided to turn to the world, seeks to be the manufacturer, reducing exchange, uncertainty and information costs.

In the behavioral bias theory of internationalization, companies take into account not only economic variables, but also other non-economic factors. Behavioral models explain much of the internationalization of companies. The theory explains that the internationalization process is gradual and procedural, which contains a series of steps for international relations to be considered mature. In the Uppsala School, companies begin internationalization in nations that are culturally close to their host country (domestic market), and gradually enter the foreign market in stages, increasing commitment and resources.

From the Networks perspective, companies internationalize according to the interrelationships between agents. The global market is seen as a large network, where agents help each other in the gradual process of international expansion. The internationalization process is the increase in the agents' confidence. In the innovation model, companies internationalize gradually and incrementally, they seek organizational learning in the international market, this new market requires planning and knowledge of activities. Costa *et. al.* (2017, p. 5).

Finally, theories with economic and behavioral approaches have the same direction: all theories take into account that for a company to be successful in internationalization, they need to have organizational capacity and be inserted in a favorable microenvironment. Costa *et. al.* (2017).

Entry Strategies

Companies can internationalize in different ways, whether in isolation, as an exporting company, investing directly in the foreign market or seeking collaboration with other companies.

Every strategy for entering new markets will depend on the company and its established objectives and characteristics. Isolated entry or exporting companies are considered primary internationalization, have a relatively high cost and require high administrative management from the company. Indirect exports, through intermediaries, have low risk but relatively low profits. Companies that enter indirect exports have low control over their processes. Cassolet. *al.* (2018, p. 9).

“Entry modes can be divided into: exports, contractual arrangements and direct investments that successively result in an increase in the companies’ commitment in relation to the resources spent on their international development.” Root (1994, cited by Cassolet. *al.* 2018, p.10)

TABLE 01 – INPUT MODES

EXPORT	INDIRECT / DIRECT
CONTRACTS	LICENSING / FRANCHISING / AGREEMENTS TECHNICAL/SERVICE CONTRACT, MANAGEMENT AND PRODUCTION
INVESTMENT	ACQUISITION/JOINT VENTURES/NEW ENTERPRISES

Source: Root (1994)

Table 1 shows a firm's entry mode according to the degree of involvement that the company defines according to its characteristics.

Internationalization: Advantages and Challenges

Direct investment outside the country of origin has shown significant progress in the internationalization of companies in Brazil. Internationalization brings advantages to all economic agents, but joint action is necessary between the government, businesspeople and society. To internationalize, there is first an export and commercial effort, but for a company to become international, it requires changes in the entire organization to understand all cultural diversity. Brazilian companies need to evolve in their strategic objectives to gain competitive advantages and face new realities.

Why do Brazilian companies go international? Brazilian companies go international to secure tax advantages, initially when they opened in the 1990s, but currently the search for competitiveness gains and market growth is the driving force behind companies in Brazil.

For Melo (2020), Brazilian companies internationalize to increase their profits and help local development. At first, companies seek profit, and then they try to position themselves globally and align themselves with the policies of national governments, which promote export promotion policies for the interdependence of nations. There are five reasons for companies to internationalize: New markets, Resources, Efficiency, innovation, and Strategic Partners.

According to Melo (2020), the main challenges include bureaucratic obstacles (legal and administrative), depending on the host country, the company will need to make changes to the product sold, logistics challenges, taxation and rates, geographical position in the southern hemisphere (far from major consumer centers), Brazilian commercial diplomacy, cultural dimension, etc.

In the current Brazilian case, one of the advantages of seeking internationalization is the break from dependence on the local market and the search for increased revenue through currencies that are valued in relation to the Real. In the case in question, with the COVID-19 crisis, agricultural producers prefer to export and increase their revenues due to the parity of the dollar and euro, rather than sell in the domestic market.

Another major challenge is training executives to work in Brazilian transnational companies. Globalization, as already mentioned, is characterized by the absence of borders, companies that think globally, and products that can adapt to different cultures. Executives in this macro environment will have to create value, be flexible, constantly learn, have great ability to absorb information technology, play a multifunctional role, and will need to know how to work in a network.

FINAL CONSIDERATIONS

The factors that increased the level of globalization in Brazil were the reduction of state intensity, economic openness and increased direct investment. In the first phase of this openness, Brazilian companies sought profit, but now companies seek global positioning. The main theories of internationalization explain how companies enter the global market, but it has been noted that none of them alone explains the

search for the global market by companies recently. It is the sum of several theories, which explains internationalization.

The various market entry strategies will depend on the companies' objectives. Breaking dependence on the local market is one of the companies' main objectives. In the Brazilian case, increasing revenue through exports, which were encouraged due to the devaluation of the Real, is the main entry strategy at present. The main obstacles and challenges were studied, and the one that stands out the most is the training of executives for internationalization. They need to be multifunctional and work in networks.

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