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Organizational slack as an enabler of internationalization: The case of large Brazilian firms

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ABSTRACT

In this paper, we address an empirical puzzle. We note that a deliberate and serious drive to internationalize has occurred rather late in the evolution of large Brazilian firms. Meanwhile, and despite their late internationalization, these Brazilian firms expanded rapidly and intently. Despite the rich literature on Emerging Market Multinational Enterprises (EMNEs), there is still much contention on what drives rapid EMNE internationalization, particularly for the less explored firms from Latin America. Using an inductive case study of five leading Brazilian MNEs, we bring new insights on this neglected question. We unveil that the existence of organizational slack (of operational, managerial, and financial nature) can indeed facilitate rapid internationalization, particularly when triggered by unique home country conditions (e.g., regulation; rising cost of doing business at home; exhaustion of profitable growth opportunities in the domestic market).

1. Introduction

It is widely agreed that expanding business activity across national boundaries is one of the most important and complex strategic decisions encountered by managers (Johanson & Vahlne, 1977; Tseng, Tansuhaj, Hallagan, & McCullough, 2007). Reasons for internationalization are complex and include resource-, market- and efficiency-seeking motives (Dunning, 1988), as well as a desire to seek strategic assets, escape investment, trade-supportive investment, finance-supportive investment, management-supportive investment and passive investment (Cuervo-Cazurra, Narula, & Un, 2015; Cuervo-Cazurra & Ramamurti, 2015; Dunning, 1993; Guillen & Garcia-Canal, 2009). While the study of internationalization motives has been conducted largely in the context of Advanced Market Multinational Enterprises (AMNEs), some recent research has turned the focus to Emerging Market Multinational Enterprises (EMNEs) (Gaffney, Kedia, & Clampit, 2013; Guillen & Garcia-Canal, 2009; Kirca et al., 2012; Tseng et al., 2007), offering new insights and indication of the distinctiveness of the two types of multinationals (Tan & Peng, 2003).

Nevertheless, studies on EMNEs have not only been rather dispersed, but they have been largely based on Chinese (i.e. Li, Strange, Ning, & Sutherland, 2016; Bhaumik, Driffield, & Zhou, 2016) and, to a lesser extent, Indian firms (Buckley, Forsans, & Munjal, 2012; Ciravegna, Fitzgerald, & Kundu, 2013). Research on EMNEs from different institutional contexts can further advance our understanding of this increasingly important type of global enterprise. Understanding the dynamics of evolution within each emerging market, and identifying the opportunities and challenges domestic markets are facing, we can fully comprehend the ouderlying drivers and conditions that facilitate EMNEs internationalization (Drummond, 2012).

In this paper, we address an empirical puzzle. We note that a deliberate and serious drive to internationalize has occurred rather late in the evolution of large Brazilian firms. These firms have embarked on a major campaign to pursue international opportunities only in the past decade or so, while their counterparts in other emerging markets had begun their internationalization drives at least a decade earlier. Meanwhile, and despite their late internationalization, these Brazilian firms expanded rapidly and intently. In his context, Bell et al. (2003) wrote about “Born-again global firms”, firms that while operating for a number of years on a national base, due to a critical event, they changed the strategy and internationalized rapidly (Bell et al., 2003: 351). Unfortunately, we know little about these firms, their drivers and triggers to internationalization (Kallinic & Forza, 2012). In the current study, we provide new insights on this neglected question, exploring what may have finally prompted but also facilitated large Brazilian firms to pursue late, but vigorous internationalization.

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We adopt an inductive case analysis of five leading Brazilian firms and contribute to the IB literature in two distinct ways. First, we inform the literature about distinct enablers to internationalization that have spurred these Born-again global Brazilian firms'. As argued by Brenes, Montoya, and Ciravegna (2014), Latin American MNEs are underrepresented in the extant literature, a fact which is rather unfortunate given their increasing presence in the global economy. Latin America provides an interesting and rather unique context for testing old theories and generating new insights on the internationalization of EMNEs (Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017). In addition, Latin America is home to some of the most notable global players (Aguilera et al., 2017). Brazil is a particular case among Latin American markets with 11 firms featured among the Boston Consulting Group's (100) global challengers and two firms among BCG's (19) graduates (BCG, 2016). To this end, we investigate five of the largest Brazilian firms that have embarked upon late, but intense, internationalization. All are leaders in their respective industries at home.

Second, we unravel insights on the importance of specific organizational drivers that have motivated and facilitated those Brazilian firms' late – but intense – internationalization. Using an inductive case approach, we seek an explanation based on insights from senior managers, and identify key determinants that led not only to the decision, but also the success of the endeavor. To this end, we reveal one common denominator, the role of organizational slack. We define organizational slack as excess firm resources and capabilities that can be deployed for new strategic objectives. While some limited research has also linked internationalization to organizational slack (Lin, Cheng, & Liu, 2009; Poynter & White, 1984; Tseng et al., 2007), there is scant evidence on the role of slack in the late internationalization of EMNEs. We find convincing evidence which suggests that the Brazilian firms studied here had accumulated substantial slack resources, triggering an accelerated pace of internationalization activities, only when certain facilitating conditions were also present in the home market.

Finally, and in resolving this puzzle, we acknowledge the partial role of increasingly unfavorable home market conditions (e.g., increasing competition, shrinking domestic market shares, legal restrictions to growth in the domestic market, and rising cost of doing business at home), as the "critical incident" denoted by Bell et al. (2003) and Kalinic and Forza (2012).

The remainder of this paper is organized as follows. We first provide a brief review on the determinants of EMNE internationalization and identify the context-specific attributes of the Brazilian market. We then describe the methodological approach, as well as our data collection efforts. We then report our findings and interpretations, and relate these to key theoretical foundations.

2. Determinants of EMNEs Internationalization: the Brazilian case

Deciphering the puzzle of EM (emerging market) firms' internationalization has never been an easy endeavor. Generally assumed to be lacking key strategic resources – e.g., technological, managerial and organizational means – resource, and strategic asset-seeking (Dunning, 1988, 1993) have been frequently presumed to be driving their internationalization activities (Buckley, Munjal, Enderwick, & Forsans 2016; Luo & Tung, 2007). As a result, EM firms would be assumed to be 'pushed' abroad either as a way to obtain external resources so they can more effectively overcome barriers of internationalization and liability of foreignness (Zaheer, 1995), or as a way of escaping increasingly less favorable conditions at home.

Emerging markets are typically more volatile and tend to suffer higher variation in demand conditions. There may be times of reduction (or deceleration) in demand. As argued by Singh (1986), dissatisfaction with performance tends to induce higher risk taking; especially when continuation of past paths (e.g., competition in the domestic arena) "lead[s] to undesirable results due to changes in internal or external environments, top managers intentionally pursue path-breaking strategies" (Kalasin, Dussauge, & Rivera-Santos, 2014: 76–77). Therefore, expectations of lower than desired prospects in the domestic market may prompt a firm to be pushed into taking up international forays as a way of escaping increasingly less favorable conditions at home (Guillen & Garcia-Canal, 2009).

While the recent expansion of Brazilian firms internationally has gained some limited attention in the literature (e.g., Aguilera et al., 2017; Fleury & Fleury, 2009; Williamson, Ramamurti, Fleury, & Fleury, 2013), the case of Brazil poses an interesting puzzle. For many years, the Brazilian firms shied away from international forays, perhaps lacking a global mindset (Da Rocha & Da Silva, 2009; Da Rocha, Da Silva, & Carneiro, 2007). The turbulent political environment and certain macroeconomic deterrents (e.g., foreign exchange volatility, high interest rates, and lack of long-term financing sources), coupled with the deficient logistics infrastructure for exports, prevented most Brazilian firms from undertaking significant internationalization drives, and led them to pursue just a few sporadic export initiatives (Da Rocha, 2003). Furthermore, the possibility of expanding abroad via foreign direct investment was avoided as these firms are typically vertically integrated (as a consequence of lack of access to (foreign or domestic) suppliers in the past), which made it difficult to replicate their domestic market success abroad (Cyrino & Tanure, 2009). Finally, the isolation of Brazil – protectionist policies, geographical barriers (the Andes mountain range, the water lands (Pantanal) and the Amazon Forest), and cultural differences allowed these firms to seek growth opportunities at home (Da Rocha, 2003).

Remarkably, in the most recent decade, many established Brazilian firms have finally made significant ventures into international markets (e.g., Aguilera et al., 2017; Fleury & Fleury, 2009; Williamson et al., 2013). Key external circumstances transforming the Brazilian environment, stimulating as such internationalization, have already captured scholarly attention (Carneiro & Brenes, 2014). Such conditions include: economic, fiscal and institutional stability (after the Real Plan in 1994); the wave of globalization; saturation of the domestic market (for some sectors); economic liberalization and openness to foreign competitors on Brazilian ground; productive reconfiguration and enhanced competitiveness, and privatization. In addition, investments in professional and managerial education, establishment of the Mercosur trade bloc, a new generation of managers (younger, with language skills, professional experience abroad and a global mindset), client following, network pressures, and the availability of long-term funding from BNDES (the national development bank) also made it possible for some firms to engage in international acquisitions. Carneiro and Brenes (2014) report further on the desire to diversify country risk, while Fleury and Fleury (2011) mention the need to develop competitive advantage as a way to address foreign competition.

While the above external factors certainly seem to have contributed to a more favorable environment for firm internationalization in Brazil, the question of *why well-established Brazilian firms took so long to exploit foreign market opportunities in a serious manner* remains an intriguing one. We contend that, while environmental variables paved the way for internationalization, becoming the "critical incident" behind their decision (Bell et al., 2003), internal circumstances had to be in place – before even these conditions arise – for a wholehearted engagement in internationalization. As Guillen and Garcia-Canal (2009: 25) succinctly claimed: "Multinational firms exist because certain economic conditions and proprietary advantages make it advisable and possible for them to profitably undertake production of a good or service in a foreign location."

But what are these proprietary advantages, and how did they facilitate the late but accelerated internationalization of large Brazilian MNEs? These questions remain still largely unanswered. While more and more evidence come to light suggesting that EMNEs are not simply "pushed" into internationalization, but can also be "pulled" into it by their unique resources and capabilities [i.e., experience in addressing poor infrastructure, corruption, bureaucracy, and uncertainty, as