

The process of SME internationalization: British firms entering Brazil

O processo de internacionalização de PMEs: a entrada de empresas britânicas no Brasil

John Child
Suzana Braga Rodrigues

Abstract: This paper examines the experience of thirty-two British SMEs that have entered the Brazilian market or, in a few cases, are still attempting to do so. It aims to discuss the factors that triggered those firms' interest in Brazil and the process of their engagement with the Brazilian market. This allowed the identification of different types of export process and the factors giving rise to each type. Comparisons are also made with the insights offered by current literature. The findings suggest that the recent interest in the use of networking by SMEs is fully justified, and they also support the view that attention should be paid to the role of chance encounters. Trust-based relationships were fundamentally important in the internationalization process of the SMEs. From a resource-based perspective, it was evident that, in a culturally and institutionally distinctive business environment such as Brazil's, technical superiority was a necessary condition, but not sufficient for successful export. Relationship-building competencies were also required. The examination of the forms of relationship between companies and their customers in Brazil revealed three forms of transactional chain and factors associated with their use.

Key words: Internationalization; Network; SMEs.

Although small and medium-sized enterprises [SMEs] are becoming increasingly involved in international business, the difficulties they can face in going abroad mean that they are not as fully represented in the international economy as are large firms (LAMB; LIESCH, 2002). This has given rise to growing interest during the past decade in the process of SME internationalization, not least that of ‘early internationalizing’ small firms which particularly epitomize international entrepreneurship (RIALP; RIALP; KNIGHT, 2005).

In their review, Harris and Li (2005) distinguish within the business and management literature between ‘traditional’ explanations for how firms internationalize and alternative ones which may better account for the case of small firms. The traditional approach has regarded internationalization as an incremental process whereby the extent to which firms can accumulate knowledge about foreign locations determines both the speed and sequence of their internationalization path. It is this knowledge that reduces the ‘psychic distance’ between domestic and foreign business environments (JOHANSON; VAHLNE, 1977). Another well-established perspective derives from the resource-based view of the firm. It considers that involvement in international activities is determined by the resources and capabilities that a firm possesses. These are necessary to overcome the initial costs of entering new foreign markets.

The resource-based view also maintains that inimitable firm-specific distinctive competencies provide a competitive advantage in international markets (GRANT, 1991). Thus successful internationalization may be founded upon a competitive advantage that derives from the knowledge intensity embodied in firms’ products or services. This may provide SMEs with an important basis for early internationalization (COVIELLO; MCAULEY, 1999).

As well as emphasizing that SMEs have to possess their own distinctive advantage or competence in order to succeed abroad, traditional perspectives also identify some of the particular difficulties that SMEs face if they intend to internationalize. Compared to larger firms, they are less likely to employ business development specialists whose job it is to accumulate knowledge about the conditions and opportunities prevailing in other countries. Instead,

an SME may rely heavily on the specific knowledge and contacts that a leading executive has of (some) foreign environments. SMEs will also have fewer financial and managerial resources to meet the costs and demands of new market entry. The investment spent on new market entry represents a proportionately greater financial risk for smaller firms.

The fact that an increasing number of SMEs are 'born global' or internationalize early in their life is a remarkable phenomenon in the light of these difficulties. It has stimulated a number of alternative explanations as to how smaller firms can achieve internationalization (HARRIS; LI, 2005). A common feature of these alternative explanations lies in the way they draw attention to personal and relational factors. They tend to emphasize the significance of key actors in SMEs and the external relationships they are able to develop in support of internationalization. One explanation points to the role of networks in providing assistance and overcoming initial resource and competency gaps (LINDQVIST, 1997). The effective functioning of such networks is seen to depend importantly on the quality of the inter-personal relationships that sustain them (HARRIS; WHEELER, 2005). Another explanation is the presence in an SME of one or more individuals who have a prior exposure to international markets and who possess the appropriate skills to pursue an international strategy (BELL; MCNAUGHTON; YOUNG; CRICK, 2003). Associated with this last explanation is the role of managerial cognition in terms of how managers recognize and decide to exploit opportunities in international markets (ZAHRA; KORRI; YU, 2005). The potential role of serendipity in facilitating SME internationalization has also been noted, in the form of chance events or personal contacts (CRICK; SPENCE, 2005).

The identification of a range of factors that may trigger and facilitate SME internationalization has encouraged the integrative modelling of how they may contribute to different internationalization pathways (e.g. BELL *et al.*, 2003; RIALP *et al.*, 2005). This raises the question of how such factors enter into the processes through which SMEs actually go when accessing new markets. For this, a more holistic research approach is appropriate. Crick and Spence (2005, p. 180) recommend this way forward in the light of their case

studies of internationalizing high tech SMEs, concluding that ‘it would be wrong to indicate that any existing theory could fully explain the firms’ internationalisation and that a “holistic” perspective should be taken’. Crick and Spence found that there were three main initial triggers leading the firms they studied to pursue an international strategy, each consistent with a different theoretical perspective:

- the availability and use of existing contacts (the networking perspective);
- the development and use of financial and managerial resources (the resource-based view of the firm);
- serendipitous encounters (a contingency perspective).

They also found that subsequent internationalization sometimes required the development of new networks, and was contingent on a ‘whole host of events’ (p. 181), whereas further penetration of existing markets could be facilitated by existing networks.

The study reported in this paper accords with Crick and Spence’s recommendations. It closely examines the experience of 32 UK SMEs that had entered the Brazilian market or, in a few cases, were still attempting to do so. Although one of the four largest emerging economies (the ‘BRICs’), Brazil presents potentially high entry barriers to UK firms because of the mutually low familiarity with each country’s language and the bureaucratic complexities of the Brazilian regulatory system. The aim of this paper is to illuminate the factors that triggered the firms’ interest in Brazil and the process whereby their engagement with the Brazilian market proceeded. This permits the identification of different types of exporting process and the factors giving rise to each type. Comparisons are also made with the insights offered by current literature. The paper focuses on why and how the SMEs addressed a particular stage in their process of internationalization, oriented toward one foreign country, rather than the process as a whole.

The next section describes the scope and method of the study. This is followed by examination of the triggers to enter the Brazilian market and subsequent events. The information presented is highly cognitive: it is based

on the perceptions and understandings of the people most closely involved. The theoretical contributions offered by the study are considered in a closing discussion section.

Scope and method

The findings to be presented arise from a study of the experience of UK SMEs exporting, or attempting to export, to Brazil. No data base is available of UK firms that are engaged in business with Brazil, or that are seeking such business, and restrictions imposed by the British Data Protection Act do not permit bodies such as Chambers of Commerce to disclose such information relating to their members. We therefore proceeded to construct a list of SMEs to invite to join the investigation on the basis of consulting experts in the field of export promotion, attending seminars on trade promotion with Brazil, and examining lists of participants in trade missions to Brazil. An SME was defined as having no more than 250 employees. We approached 37 of these companies distributed between the main sectors of British industry known to be active in Brazil although, as mentioned, no data were available on population characteristics. All but four of them agreed to participate and another was omitted because it had not had any dealings with Brazil for the previous five years. The size of this sample was limited by practical considerations of time and funding. As the nature of the study was exploratory, we conducted personal interviews with 37 executives in the 32 companies who were most closely involved with their Brazil business. All the interviews were tape recorded. After establishing the history and profile of each firm, questions were asked about the firm's internationalization strategy, the history of its business with Brazil and the persons involved, perceived differences between the Brazilian and UK business environments and the implication these might have for their business with Brazil. To preserve anonymity, the companies are identified only by number: 1 to 32.

Every company was exporting to Brazil, or actively attempting to enter that market. However, seven companies had not yet secured any business from Brazil, and three (all in the oil and gas sector) were intending to quit the market. In the main, the companies were committed and experienced exporters.

Only nine had less than 50% of their sales deriving from exports. Brazil, however, did not account for much of their overseas sales. The average percentage of total sales by value coming from Brazil was 6.9% and, with the exception of one very small company providing information services exclusively for Brazil, the highest percentage of sales exported to Brazil by any company was 15%.

The age of the firms varied widely, from 2 to 156 years. Only 8 of them could be considered high-tech companies, defined as having IT, information systems, bio-technology and similar products or services. Forty-one percent were 'born global' in the sense of having internationalized immediately on foundation, and a further 16 percent had started to internationalize within 5 years of their foundation. Whether a firm was high-tech or not was not associated with early internationalization. However, younger firms were more likely to have internationalized early in their life ($r = 0.49, p < 0.01$), which is consistent with early internationalization being a rising trend among SMEs. The 15 service SMEs tended to be substantially younger than the 17 manufacturing companies ($p < 0.01$), but the manufacturing versus service distinction did not differentiate between early and later internationalizers.

Within the sample, 11 companies were in the oil and gas sector market, mostly providing services such as surveying and testing. These companies, as a category, tended to be younger than the others, with an average age of 20 years as opposed to 37 years for the non-oil and gas companies ($p = .07$), and they were also more likely to be high-tech ($p < .05$). However, they were no more likely to be early internationalizers than the rest of the sample because some had confined themselves to working in the UK North Sea fields for some years after their foundation.

ENTERING THE BRAZILIAN MARKET

Motive

For many of the companies, Brazil was a new market. Half of them had no more than three years experience of doing business with Brazil. Almost

by definition, all the companies were attracted to Brazil by the prospect it offered of new opportunities for market expansion – the ‘pull’ factor. However, for six of the companies, there was also a ‘push’ factor, namely a decline in or threat to their existing markets, or in one case the saturation of those markets. An example is provided by Company 16, whose primary business is offering advice and other services connected with medical regulatory compliance. Its CEO explained:

At the outbreak of the Iraq war we suddenly lost all our residual business in the United States and all our business in Europe. So suddenly in the space of 2 days we lost two thirds of our [forward] work load which, for us, that was totally beyond our control, at the time unforeseen. And the two ways to deal with that were to look again at the UK market, which hadn’t been our major focus and to try and build that up and also to look at less-aligned countries and that really took us towards looking at the BRIC countries and after a few initial skirmishes I think we probably decided that Russia was too corrupt, India was just plain too difficult and too devious and just didn’t fit, China was at that time – and this is probably just going back 2 or 3 years – it was still looking to be very difficult to get any money we made out of China or to get paid in Western funds, at least for the initial work. So that put our first line of attack on Brazil. So Brazil was our next target market.

One company (9) illustrates how a strong push factor can arise from a heavy dependence on a major customer that expands its scope of internationalization. Its largest customer, accounting for approximately 40 percent of its sales, had started to manufacture in Brazil and wanted the company to supply it from within Brazil. It was not practicable to import the components made by Company 9 into Brazil, both for logistical reasons and because of the high import duties they would attract. The company was seeking a suitable local company to acquire on the grounds that it did not have to capability to establish a new plant, but without any prior experience of Brazil or of previous acquisitions it did not have adequate knowledge to effect an acquisition there either. At the same time, the customer was threatening to

place its business with a local Brazilian company if it did not establish local manufacturing within six months.

Triggers for market entry

There were broadly two types of process that led to consideration of Brazil as a new market. The first involves considered pre-planning based primarily upon a rational strategic analysis. The second originates not with planning and analysis but with serendipitous events that only subsequently lead to an awareness of Brazil as a promising market.

Rational analysis

Twenty-two of the companies decided to take an interest in Brazil because of its perceived market potential. As just noted, this was sometimes combined with an awareness that their existing markets could shrink or face and increasing competitive challenge. Executives in these companies were aware of Brazil's enormous size and of the country's improving economic performance since the reforms of the mid-1990s.

The attraction of the Brazilian market was particularly evident for companies whose activities were connected with the oil and gas sector. Indeed, the sector has sufficient potential for British companies with experience of deepwater operations in the North Sea that its trade association, the Energy Industries Council, has established an office in Brazil. Some companies had anticipated the eventual decline of the North Sea work on which they had previously depended. Company 21, which performs laser dimensional surveys, is one such example. Its co-founder and director explained:

We started looking at overseas offices about 5 years ago or 6 years ago because the North Sea was on a bit of a decline and we've got a lot of mouths to feed, a lot of guys to feed. And we looked at the market, looked at various articles and Brazil seemed to be an up and coming place, you know – a lot of investment there. So let's try Brazil.

Outside the oil and gas sector, one of the most clearly articulated

strategies for overseas expansion was that followed by Company 29. The bulk of this highly successful company's business is selling economic and statistical third-party software. While it sells to 80 countries, it has offices staffed by the company in only five countries outside the UK, including one in Brazil. One of its directors explained the company's rationale for deciding where to place its main exporting efforts:

Our typical thing is to find a country which has a reasonable potential market without lots of people in the market already and basically take it over... Where we come in specifically in Brazil and also places like Poland and so forth ... where we saw, in a way, a gap in the market is where there weren't already re-sellers... So our view is we have competitors in other countries, which is why for instance it's not really worth our while going into France or going into Germany, although one might think it's a more obvious market than Poland or Brazil.

As we have seen in the case of Companies 16 and 21, a rationale calculus for choosing to enter the Brazilian market could also arise from the realization that existing markets were in decline or under threat. This was also stated quite explicitly by the managing director of Company 30 which belongs to the now almost defunct UK machine tool industry:

We saw our market diminishing quite quickly and what we found was we got to start now expanding our foreign markets now, for the company to survive. This is one of the reasons why we've looked at the Brazilian market, we've looked at the Mexican, and so we can keep the company prospering. And obviously hoping to make a profit and keep people employed in this country.

Serendipity

Interest in Brazil among the remaining 10 companies was triggered by unanticipated approaches from Brazilian business people seeking to trade, by encouragement from major international customers, or by chance meetings. Although unplanned, such events generated an awareness of the possibilities

for exporting to Brazil and, significantly, often laid the basis for a trust-based personal relationship to support that business. Company 14 provides an example of this latter process. Its co-owner and technical director recounted how in 1996 he was approached by a Brazilian business man who sought to represent the company in Brazil and who subsequently became its trusted distributor there:

We said to him: “Well, you know, we can do business in two ways. We can either give you this distributorship agreement which you can read and sign it or, you know, we can actually do business on a hand shake.” Do you know what I mean? Because if you know the people personally you can trust them. So he took this, he sort of leafed through it and he sort of said, “Okay, it’s really nice paper. It’s a pity to throw it into the bin”. So he never signed the thing’. [The respondent went on to say that since the Brazilian distributor is a family business]...he’s only accountable to himself. So why would you need a contractual agreement, if you can deal with someone on a personal level.

While serendipity of this kind may lack the rational basis recommended in textbooks on international business strategy, the fact that chance events often take the form of personal meetings can provide for a sound business relationship that adds appreciably to the success of new market entry, as in the case just described. Brazil now accounts for 10 percent of Company 14’s total export sales value. Its technical director described the ensuing relationship with his Brazilian distributor as a ‘socio-commercial sort of relationship with the distributor and his wife’. The initial serendipitous approach can come, as it did in several cases, from a Brazilian business person interested in acting as a local agent for a UK company. However, it could also originate with the opportunity to represent a Brazilian exporter who then is available to act reciprocally as a reliable agent in Brazil once a sound relationship has been established.

As will become apparent in the next section, having a strong personal relationship with a Brazilian partner can be quite functional for coping with an uncertain and distant environment, as well as providing a connection to customer

and other networks in that context. The experience of the firms whose interest in Brazil arose from chance personal contacts strongly suggests that, despite being unplanned, they not only created a new awareness of export possibilities but also provided a sound relational basis upon which to realize them.

DEVELOPING THE MARKET

Networking

Studies of Brazilian culture portray it as strongly oriented toward sociability and inter-personal relationships. It is also characterized by high levels of conflict avoidance and ambiguity. These features reinforce the need to conduct business transactions on a basis of personal liking and trust rather than relying heavily on formal and contractual agreements (RODRIGUES; BARROS, 2002). Dunning (2002) has drawn attention to the contribution of 'relational assets' in international business, and the value for internationalizing SMEs of accessing overseas networks is now receiving greater attention within the literature (e.g., HARRIS; WHEELER, 2005). In view of its culture, these factors are likely to be particularly significant in the case of Brazil.

Out of the 32 firms, 23 (or 72 percent of them) stressed the importance of networking in order to penetrate the Brazilian market. Indeed, many took this to be a usual requirement for smaller firms which cannot afford expensive product promotion and which normally focus on niche market segments where they compete on the basis of a company reputation that is often that of their founders or a small number of key individuals within the organization. SMEs often have the considerable advantage that they are personalized in the eyes of customers or agents whose contact is directly with their owners and/or senior managers. For example, the owner and founder of Company 10, which exports 85 percent of its sales, has built up a reputation and worldwide network which he takes pains to sustain, albeit nowadays through email and phone rather than personal visiting. As he said:

We're talking about relationship between people and companies and if they think we're not doing our job right, we let them go wherever they want, but all the time we're building, building and building and the customer they're selling to might say "I don't

want the block to come from Jo Bloggs. I want it to come from [Company 10],” and that’s the friendliness and the relationship that we try to have with everybody.

The significance of networking in the Brazilian market was elaborated by the managing director of Company 25:

Networking is very important in Brazil. It’s important anywhere, but I think it’s more important in Brazil than anywhere. We had a good network...so, it wasn’t a question of going to Brazil and say ‘Ah, right, now let’s set up a new company; let’s develop; who do we talk to first? Let’s go and talk to the Chamber of Commerce [in Sao Paulo]’. No, we were introduced; we were working already for a major client. Then you build up your network of friends and contacts... in total, we’ve got 12 entities, either an individual or a group of people in an organization, who collectively would help us get into develop the Brazil business. Each of these hang on a network of people...to make a UK-Brazil business work, you’ve got a number of key contacts, 12 to 15, I would suggest probably in both countries.

Acceptance into local Brazilian networks can open the doors to valuable advance commercial information that would otherwise not be forthcoming, or at least in good time, because of the informal way in which much business is initiated. Thus the director of Company 31, which consults for the oil and gas sector, pointed out that since many contracts are not put out to tender, it is vital for his company to be plugged into the network so that ‘people will advise you what’s coming up’.

It is also difficult to overcome the challenges of language and trust in Brazil without personal mediation through a local employee or agent. Brazil’s sheer geographical size and urban dispersion can also make it very difficult for foreign SMEs to establish contacts with relevant business networks without local help. The dispersion factor applies less, however, for oil and gas sector firms for which the city of Macae is a focus and for those whose customers are concentrated in the Sao Paulo industrial area.

The quality of local people who can link a UK company into wider Brazilian networks, and the quality of the relationship forged with them, emerge as crucial success factors. This was a point made in various ways by both successful and unsuccessful network-builders. Among the executives who had successfully developed business with Brazil, many related how their Brazilian agents had made further introductions for them on the basis of the personal friendship that had developed between the two. For example, the export sales director of Company 5, referring to his agent in Brazil, said:

I think most of the business that he does is down again to contacts – personal contacts, his contacts – and so he sells himself and his company to the company, then he uses our products because he trusts our products and so that's how the business develops. It's his contacts as well.

The four companies that had experienced particular disappointment, even losses, in Brazil were all located in the oil and gas-related sector. In each case, the company had failed to link itself into an appropriate network in Brazil. Three of them were unable to find a reliable local employee or agent through whom to access or create the network. In the fourth case, the problem was more one of delay: the company failed to make headway through the local bureaucracy and was planning to withdraw from Brazil, partly because, on the admittance of its CEO, it should have appointed a local Brazilian manager sooner. The Brazilian oil and gas sector has a dominant customer in the form of Petrobras, the country's still partly state-owned petroleum giant. It is crucially important to network with the relevant personnel within Petrobras so as to become an approved supplier either directly to the company or indirectly as a provider to one of the Brazilian engineering companies that serve Petrobras. This situation calls for a strong and continuing local representation either through a company's own employee or through an agent who can establish entrée into the Petrobras network as well as deal with ancillary problems such as the securing of business visas without prohibitive delay and the importation of necessary equipment to conduct tests, surveys and so forth.

These four cases illustrate how the competencies relevant to a new foreign market environment are not just technical in nature. Social and

culturally-sensitive skills are also required. In this vein, the director of Company 31 maintained that if a UK company wants to do well in Brazil, ‘you have to demonstrate your commitment to Brazil, your acceptance of their way of doing business’.

There was little doubt about the technical competencies of the four companies that experienced difficulties in Brazil. They were at the forefront of their fields technically and had expanded abroad with success in other parts of the world. In Brazil, possibly through bad luck but just as likely through an unfortunate handling of relationships, they had failed to gain the support and trust of local partners or staff. In one case, the company found that its local Brazilian partner was trying to take business away from it. Another company (20) lost a considerable amount of money in Brazil and decided to withdraw entirely from the market. Its managing director regretted that he had not spent more time finding the right local staff in Brazil. He explicitly contrasted the company’s technical competencies with problems in its failure to establish trust with its local staff in Brazil:

So there was a lot for us we could bring there – the quality in the way business was done. I still think we would have done it, you know, if we could have ... I wish I had a Brazilian cousin that you could trust. It’s such a good market. I suppose every business person wants to find somebody like themselves because if you can find somebody like yourself you think they’ll do the same.

There cannot, however, be any cast iron guarantee that the trust developed with a local manager or agent will not be vulnerable to temptations placed upon the other party to break the relationship if a better business proposition arises. Local partners can be tempted to set up in competition when they think they have acquired sufficient knowledge and business contacts from the relationship (HAMEL, 1991). This happened to Company 7, when its previous local partner attempted to use the knowledge gained from the company to set up in competition with it. This put at risk the investment Company 7 had put into Brazil and, although it survived the episode and now has a profitable business in Brazil, its managing director maintains that in the

light of its experience it would in future always only go abroad on the back of a sizable and secure contract.

Transactional chains

The companies used, or in some cases were developing, three forms of transactional chain for their business with Brazil. These range along a scale of directness in the company-customer relationship. The first form is a direct relationship with the end customer. This transactional chain was employed by ten companies, primarily in the oil and gas-related sector. Seven of the eleven companies in that sector had established their own offices in Brazil in order to foster direct customer relationships, principally with Petrobras. Also the establishment of a local company in Brazil facilitates payment for work carried out in Brazil. However, the direct relationship chain is the most expensive to maintain, since it requires the employment of staff in the locality and the establishment of an office there. These requirements can strain the financial resources of a small company in two ways. First, they incur direct costs of additional employment, premises, and so forth. Second, they bring the company under the purview of bureaucratic regulations and restrictions which can occasion delay and require the hiring of professional advisors. The risks incurred in using this transactional chain created problems for some of the oil and gas sector companies, as we have already noted.

The second form of transactional chain is less direct. This involves the supply of products and services to Brazil through an agent, a distributor, or a business partner. Exporting through an agent did not necessarily rule out some direct contact with the end customer as well. This was the most common type of arrangement among the companies studied, with seventeen of them adopting it as their primary mode. Three of these companies had Brazilian business partners; the others worked with an agent or distributor. In some cases the longevity and closeness of the relationship with agents or distributors had developed it into a *de facto* partnership. By introducing a principal-agent relationship into the transactional chain, these companies were trading a financial risk that was reduced by dint of avoiding direct investment in Brazil against a higher managerial risk in that they did not have direct control of relations with their customers. This was a prime reason why such companies

in this category placed so much value on trust in their agents and the personal relationship that supported such trust. The chairman of Company 6 made this point very clearly when speaking of his agent in Brazil:

There was an element of risk; there was an element of concern: “I hope this guy is going to be OK”...[but] we went out there and met them and found them to be a charming company, and they’re friends and they have opened up opportunities for us elsewhere.

The third form of transactional chain involves an indirect transaction with the Brazilian market. It operates through supplying major international companies which in turn sell into Brazil. Three companies used this chain, and another two companies used it together with having their own agents in Brazil as well. Accessing the Brazilian market in this indirect way can remove many of the costs and tribulations of more direct relations with that market, but it is accompanied by the risk of dependency. This was presenting a particular dilemma for Company 9 at the time it was studied. As noted earlier, it was offered a major entrée for the first time into Brazil on the back of supplying an established large customer who had itself entered that market. However, the other side of this coin was that the customer was in a position to lay down an ultimatum stating that it would take its Brazil business elsewhere unless Company 9 very rapidly found a way of manufacturing its products in situ.

Nevertheless, as seen from the statement made by the owner and founder of Company 10 (page 7 above), it is possible to enjoy both the advantage of exporting via large international and intermediate customers and retain some leverage over them if your product or service is highly valued by the end-user. Moreover, such customers can through their international scope introduce SMEs to new markets which they might not otherwise be in a good position to research. This was what was happening to Company 9, albeit too precipitously, and it was how Companies 6, 10 and 22 first came to enter the Brazilian market. For example, one of Company 6’s major customers is a multinational in the automotive components field. This customer provided the SME with its entrée into Brazil:

And the first connection with Brazil was because of the XXX organization, and we knew that they had a facility there in Sao Paulo; and I was invited, it was suggested that I went out there to chase business. (CHAIRMAN, Company 6)

Once Company 6 had started to export to Brazil, this same customer's facility out there 'represented sufficient business for us'. As it Chairman explained, Company 6 took a pride in providing secure employment for its 25 staff – five of whom it has made shareholders. Taking on too much business in any one market could oblige it to increase its employment accordingly, with the risk of later of not being able to retain so many people.

Theoretically, the choice by SMEs among alternative transactional modes could be influenced by a number of contingent factors. Service provision is one, insofar as consulting and other services directly provided by people generally requires the presence of the service provider or at least personal consultations with the provider (BUCKLEY; PASS; PRESCOTT, 1992). Second, standardization of the product or service is another potential influence on the grounds that a highly standardized product can be transacted at arms length because it is not subject to modification in local overseas markets. Many high tech products and services also have a bespoke element requiring a direct relationship to the customer in order to configure them to the customer's needs and provide after-sales service. Thirdly, the presence of a dominant customer in the focal market, such as the near monopoly enjoyed by Petrobras in Brazil's oil and gas sector, is likely to encourage a direct transactional mode. The argument here is that the presence of a dominant customer injects market imperfections that have to be overcome by direct lobbying and persuasion. Fourth, a process of market entry triggered by serendipity would seem more likely to result in a mode of export transacting mediated by agents or existing international client firms because the examples provided by the present study suggest that these are often the very people who provide the serendipitous trigger. Last, but not least, one would expect larger companies to opt more often for a direct transactional chain because they can more readily afford to bear the additional set-up costs.

These factors were examined as predictors of the form of transactional chain. Transactional chain was coded according to the three categories identified which constitute a simple three-point scale of supplier-customer relational directness (The first, direct, form was scored lowest and the indirect form was scored highest). Membership of the oil and gas sector was used as a surrogate for customer market dominance, which is valid in the Brazil context. The other variables, with the exception of sales turnover figures, are simple binary scores for high versus low-tech, manufacturing versus service, oil and gas versus other companies, planned versus serendipitous market entry triggers, and product standardization. This last measure was coded on the basis of descriptions provided in interviews and supplemented by an examination of product literature.

Table 1 shows the summary statistics obtained and the direction of the relationship between type of transactional chain and other variables. With the exception of the service versus manufacturing distinction, each of the postulated predictors was related to type of transactional chain. Product standardization was the strongest predictor. The SMEs with standardized products and services were more likely to export through an indirect transactional chain. A significant relationship between product standardization and form of transactional chain remained present even when controlling for the possible effects of other predictors. The second strongest predictor was location in the oil and gas sector. This predicted the use of a direct transactional relationship with the customer. Insofar as the Brazilian oil and gas sector is a surrogate for customer market power, this suggests that the greater the market power of the customer, the more direct will be the transactional chain.

Other predictors were total sales revenue, level of technology and whether entry to the Brazilian market was planned or the result of serendipity. The higher a company's total sales revenue, the more likely it is to use a direct transactional chain. It is noteworthy here that a company's total sales turnover rather was a stronger predictor of transactional directness than was of its export value or that of exports to Brazil. This suggests that it is the overall size factor which is leading to direct transacting with end-customers, perhaps because size makes the additional expense of this approach more affordable

by spreading it over a larger sales revenue. Being a high-tech company also predicted a tendency to use a more direct transactional chain, as did the pursuit of a planned market entry process. The causality behind this last association is open to interpretation. On the one hand, companies planning to enter a new market like Brazil may as a result conduct more research into prospective customers leading them to establish direct relations with those customers. On the other hand, the causality could be the reverse. Companies employing agents or working with large international customers may have a greater opportunity for receiving unplanned suggestions for new market entry because they are already plugged into wider networks through these relationships.

Table 1
Summary statistics for tests of association between form of transactional chain and potential predictors

Form of transactional chain [TC] and:	Direction of relationship (value of p)	Pearson Chi Square (value of p)	Spearman correlation	Pearson's R (value of p)
Service vs manufacturing	Not significant	n.s	n.s	n.s
Product standardization	Higher product standardization predicts less direct TC	11.13 (0.004)	0.58 (0.001)	0.59 (0.000)
High vs. low-tech	High tech predicts more direct TC	5.49 (0.06)	0.41 (0.02)	0.41 (0.02)
Oil & gas vs. other sectors	Oil & gas predicts more direct TC	8.19 (0.02)	0.44 (0.01)	0.42 (0.02)
Planned vs. serendipitous entry	Planned entry predicts more direct TC	4.44 (0.11)	0.37 (0.04)	0.37 (0.04)
Sales turnover	Higher sales turnover predicts more direct TC	5.45 (0.02)*	-0.45 (0.012)	-0.43 (0.12)

* Test of linear-by-linear association

Discussion

The process of SME internationalization to Brazil has revealed a number of findings that are consistent with a number of trends in recent international entrepreneurship analysis and also suggestive of further avenues of research. The significance of networking clearly emerges, both in terms of assisting preliminary contact-making and as a basis for developing business in Brazil subsequently. Some companies had the good fortune to have networking initiated for them through serendipitous meetings. Our findings therefore suggest that recent interest in SME use of networking is fully justified, and they also support the view of Crick and Spence (2005) that attention should be paid to the role of serendipitous encounters.

The ability to access relevant networks is of particular value to SMEs as a means of acquiring the tacit knowledge that can contribute to success in an unfamiliar and institutionally 'distant' market, such as Brazil is for most small British firms. One facet of this knowledge concerns ways of dealing with the complex set of regulations pertaining in Brazil. The director of Company 31 maintained that following Brazilian rules was complex but 'straightforward'. However, this only becomes straightforward with appropriate knowledge, and many companies found that this knowledge was not very explicit. Having the help of a trusted local person with the appropriate tacit knowledge and/or informal contacts within the Brazilian system can considerably facilitate the conduct of business there. We have noted that trade missions are often valued by SMEs more for the contacts they provide than for market information. They were particularly valued by entrepreneurs for whom they could help 'legitimize' contacts they had initiated themselves. We also found indications that one of the virtues of serendipity lies in the way it can initiate an export relationship on the basis of friendship and trust. This may provide a firmer and longer-lasting foundation for the relationship than basing it primarily on contract. This is not to say that contracts are unnecessary; rather to say that they are not sufficient.

From a resource-based perspective, it was evident that in a culturally and institutionally distinctive business environment such as Brazil's, technical superiority was a necessary but not sufficient condition for export success.

Some firms that possessed distinctive technological competencies failed to make headway in Brazil because of managerial failings. These failings point to the importance of social and cultural competencies in unfamiliar environments, including the ability to make good use of local support available from agents, distributors, partners or other potential allies.

Examination of the forms of relationship through which the companies were working with their customers in Brazil revealed three forms of transactional chain. The analytical distinctions between these three forms are sufficiently robust to be associated with the contextual circumstances that would reasonably be expected to predict them. Transactional mode is by no means a novel theme within the literature on internationalization and indeed was highlighted by the so-called 'stages of internationalization' thesis that emerged from studies of Nordic multinationals (e.g. JOHANSON; WIEDERSHEIM-PAUL, 1975). Recognition of the 'born global' phenomenon among SMEs has cast serious doubt upon the general validity of the stages perspective, as well as indicating that various forms of networking can help to offset initial handicaps of insufficient knowledge about new markets. However, there was no indication among the 32 SMEs studied here that the speed with which they had started to export after their foundation was associated systematically with the type of transactional chain they adopted, at least for doing business with Brazil.

Other factors predicted variation between transactional chains and are worthy of further attention within research on SME internationalization. Product standardization was a strong predictor of transactional form. It is possible that there is a mutually-reinforcing process here. Having standardized products may permit less direct relations with customers in foreign markets because local adaptation and installation is not required. At the same time, being primarily a supplier of intermediate goods (especially engineered components) to larger international firms and hence having an indirect relationship with the final consumer, may limit the range of an SME's output so as to encourage product standardization.

Other findings were not so strong, but are nevertheless suggestive for future research. For instance, we took a particular sector, oil and gas, to represent

conditions of customer dominance in the case of Brazil and this predicted the adoption of a more direct transactional chain. Further research is needed to investigate with more direct indicators whether market power is a major factor in accounting for different modes of SME exporting and indeed of internationalization more broadly.

In line with much previous discussion and research, the paramount importance of trust-based relationships was emphasized strongly by virtually all of the SME executives interviewed. The particular importance of trust for smaller companies that can ill afford to resort to legal redress in the event of problems with their customers or agents is clear. When SMEs did become involved with the legal process in Brazil, the process of finding a solution was long and costly. Securing payment is one of the problems that can arise. Only six of the companies were in a sufficiently strong market position to insist on payment before delivery and many had at one time or another had to accept default by customers. As small companies with limited cash flows, SMEs face disproportionate risks in their international business compared to larger firms. They rely to a correspondingly greater extent on establishing mutual trust with their customers and intermediaries. Their personal control of, and identity with, their companies emerged as a facilitator of such trust-building. The study of trust between organizations engaged in international business is of relatively recent origin (CHILD, 2001), and the present study suggests that its role in the internationalization of SMEs deserves further investigation.

Studies of trust often distinguish between ‘traditional’ trust based upon the confidence that arises from close personal relationships and ‘institutional’ trust based upon the protection offered by contracts and other legal provisions (ZUCKER, 1986). If it is problematic to rely upon institutional supports for trust, as appears to be the case for British firms doing business in Brazil, then the more traditional supports for trust assume particularly significance. It appears that the personal confidence vested in firms run by their owners, as most of the SMEs are, becomes a valuable item of social capital in these circumstances. Many instances were cited of how the fact that the British company and/or its Brazilian agent or partner was a personally-managed or family business engendered a special kind of confidence that came from

personal commitment and even 'honour'. Whereas a large company can employ its own specialists, or afford to hire them, to deal with business disputes impersonally through the courts, this can be prohibitively expensive for the small firm. Its advantage in generating personal commitment and trust as an alternative to reducing the risk of internationalization through contracts appears highly significant and is worthy of further attention.

Resumo: Esse artigo analisa a experiência de 32 PMEs Britânicos que entraram no mercado Brasileiro ou, em alguns casos, ainda tentam entrar. O alvo deste artigo é discutir os fatores que provocaram o interesse das firmas pelo Brasil e o seu processo de comprometimento com o mercado Brasileiro. Isso permitiu identificar os diferentes tipos de processos de exportação e os fatores que deram lugar a cada tipo. Comparações também são feitas com os insights oferecidos pela literatura atual. Os resultados sugerem que o recente interesse no uso do networking pelas PMEs é inteiramente justificado, e tais resultados corroboram ainda a visão de que atenção deve ser dada ao papel de encontros que ocorrem por acaso. Relacionamento baseado em confiança foram de fundamental importância no processo de internacionalização de PMEs. Da perspectiva baseada em recursos evidenciou-se que em um ambiente de negócios cultural e institucionalmente distinto como o brasileiro, a superioridade técnica, era uma condição necessária, mas suficiente para o sucesso das exportações. Competências baseadas em relacionamento também eram necessárias. A análise das formas de relacionamento por meio das quais as empresas trabalhavam com seus clientes no Brasil revelou três formas de cadeias de transição e fatores associados com o uso, dessas cadeias.

Palavras-chave: Internacionalização; Networking; PMEs.

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