THE ROLE OF HOME COUNTRY POLITICAL RESOURCES FOR BRAZILIAN MULTINATIONAL COMPANIES

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ABSTRACT

This paper aims to analyze the interaction between home country governments and Developing Country Multinational Companies (DCMCs). Drawing on evidence from Brazilian multinationals, we explore the mechanisms governments use to influence the internationalization process of domestic companies and the firms’ political strategic responses to them. We point at the fact that FDI (Foreign Direct Investment) outflow from developing countries need to be understood taking from the different contextual environments in which they operate where less organized institutions promote higher levels of government involvement. Our finding support this idea and also indicates that local governments use a series of formal and informal mechanisms in order to drive the international expansion of DCMCs during the entry and consolidation phase.

KEYWORDS: Competitive advantage of DMNCs; Government-MNE interaction; Home country government.
1. INTRODUCTION

This paper aims to analyze the interactions between home country governments and Developing Country Multinational Companies (DCMCs). Building on evidences from the Brazilian political environment and Brazilian multinationals, we uncover the mechanisms of government influence in the internationalization process of domestic companies and firm’s political strategic responses to shape home country political institutions. The research seeks to contribute to a growing body of studies oriented to understanding the international insertion of multinational companies from emerging economies. This is a new phenomenon for which researchers intend to explore the political component embedded in international business activities, which has been only marginally discussed by International Business (IB) or Institutional theory.

Although investment flowing from developing countries started in the late 1970s and 1980s, it has received only scant coverage and has not been studied satisfactorily especially in the context of globalization (Munoz et al. 2011). Recent interest in understanding the internationalization of emerging multinational enterprises (MNEs) can be explained by a systemic change in the global flows of foreign direct investment (FDI) and by DCMCs’ unique features. In 2010, developing and transition economies share of global FDI outflows increased to 28%, up from 15% in 2007 (UNCTAD, 2011), while during the 1980’s DCMCs have accounted only for shares between 3 to 9.6% of world outward FDI. Moreover, DCMCs have special particularities that influence their international strategies. They are generally state-owned or recently privatized companies organized in business groups (in fact, state-backed firms accounted for a third of the emerging world’s foreign direct investment in 2003-10, according to the business press magazine The Economist (2012)), which have adopted distinctive approaches to internationalization considering many of them did not delay their internationalization until they were large, as did most of their predecessors (Bonaglia, Goldstein & Mathews, 2006)) and developed a symbiotic relationship with governments (Schneider, 2009). Thus, FDI outflows from developing countries need to be understood considering contextual factors such as high levels of government involvement, industry structures, ownership patterns, and enforcement of business laws (Wright, Filatotchev, Hoskisson & Peng, 2005).

Governments can supply financial resources to MNEs, create favorable regulations, articulate with foreign governments and international organizations, and even impose barriers to the transfer of factors of production and to ownership control. Their role has been especially active in emerging economies, pointing out to a dramatic revival in state-directed capitalism. Governments can provide not just the hard infrastructure of roads and bridges but also the soft infrastructure of flagship corporations (The Economist, 2012).

Despite the fact that government is point out as an important agent for emerging multinationals, only anecdotal information exists about how, and through which mechanisms, this interaction occurs. This paper fills this gap by providing an in-depth analyzes about the mechanisms of interaction between multinationals and home governments based on evidences from Brazil, a democracy with experiences of both developmental and liberal governments. First, it investigates the influence of the Brazilian government as driving the international expansion of domestic firms in both entry and consolidation phases in the foreign market. Second, our research focuses on the political component of MNE’s activities, incorporating firms as actors not only constrained by the political institutional environment, but also able to shape it. Most IB studies take institutions for granted or only as constraint factors, focusing on how MNEs can mitigate political risk when host countries impose fiscal and regulatory reforms or restrictions to
finance mechanisms (Henisz, 2000; Holburn & Zelner, 2010). In fact, in developing countries, political activity is an alternative corporate strategy to overcome lack of market institutional support. While CPA and IB streams together provide a broad perspective of international business-government interactions, there is a great need for a better integration of the two literatures (Blumentritt & Night, 2002).

To examine the mechanisms of DCMCs-government relation we first present a brief review of the literature of the multinational enterprise evaluating the role assigned to home country governments on IB research. We then describe our research methodology, our study sample and our main findings, including evidences that suggest an association between DCMCs political behavior and home country government above average benefits. Finally, we present a conclusion about our research.

2. DCMCS AND THE ROLE OF HOME COUNTRY GOVERNMENT

Using the theory of the multinational enterprise to frame their studies, researchers have found that the characteristics and behavior of MNEs and DCMNCs are quite different (Sargent & Ghaddar, 2001). FDI from developing countries is typically up-market, where standard technologies are used (Fleury & Fleury, 2011). Also, DCMNCs develop different competences in comparison to traditional MNEs, such as cost advantages and political competences, due to contextual characteristics like their history in political and economic unstable environments and less capital-intensive markets. One of the most interesting features that characterize the internationalization process of DMCs is the involvement of developing country governments that, in the interests of national development, subsidize the international activities of firms from their country (Sargent & Ghaddar, 2001).

Government meaningfully affects firm’s performance, its operations and governance, and the market environment in which it competes (Marcus et al., 1987) because of the way it distributes the burdens and benefits among firms. Boddewyn (1988)’s work was one of the firsts to consider the role of noneconomic variables in international production and integrated it to IB stream. As he points out, studies about MNE-government relations tend to stand by themselves, without attempting to integrate explicitly into MNE theory. His research divided the task environment of a firm in market and non-market components, and stressed the need to account for actors in the non-market sphere, such as governments, since they support market transactions through power and other noneconomic sanctions. Firms interact with the non-market environment through lobbying, public and government relations, alliances with other firms and bribery (Hillman & Hitt 1999) in order to exploit political rents and to raise the transaction costs for competing firms.

Government engagement into promotion of FDI outflows is not a new phenomenon. As Luo (2001) points out, governments are aware that it is through MNCs that they develop the ability to connect the local economy to the outside world. In case of developing countries many agree on the existence of three different waves of internationalization (Ramamurti, 2004); the first taking place in the 60s and 70s and relying on import-substitution policies (Lall, 1983), the second starting in the late 80s driven by the desire of firms’ to become world leaders (Mathews, 2006) and the third starting in the 90s, where firms from developed and emerging nations began establishing in emerging markets. In all cases, governments have been actively implementing strategies that target local firms to build their international competitiveness, and as such, they represent central actors in the third wave of Internationalization (Rasiah, Gammeltoft & Jiang, 2010).
Home country governments can create incentives and barriers to domestic multinationals. Even before a firm becomes an MNE, governments influence the development of its competences. Historically speaking, emerging economies suffered from a remarkable failure to build up firm-specific advantages to drive FDI and make it profitable (Murtha & Lenway, 1994). Local governments tend to engage and even coordinate regulatory and financing activities in order to compensate for these and other historical burdens and the late mover position of DCMCs (Rasiah, Gammelfolt & Jiang 2010). Nonetheless, DCMNCs experience in turbulent environments can have a positive effect on the development of political capabilities, i.e., organizational capabilities for assessing policy risk and managing the policy-making process.

Applying their knowledge developed at home to other countries with similar institutional environments would guarantee DCMNCs a competitive advantage in comparison to MNEs from developed countries (Holburn & Zelner, 2010). The literature also suggests that FDI can be an escape response to home country factors such as high tax rates (Caves, 2007) and lack of institutional alignment with firm’s needs (Witt & Lewin, 2008). Home country external policy may also be a source of different treatment from host country governments (Blumentritt & Night, 2002).

### 2.1 Multinational Political Activity

The way in which governments and firms interact is one of the key components of MNEs’ internationalization theories (Dunning 1993). Since companies depend on governments, to realize their profits it is important that they are politically underwritten in a way that gives them a high degree of representation (Schneider & Soskice, 2009). Through political activity, companies seek to protect themselves from government opportunism (Henisz & Williamson, 1999), and to gain legitimacy and above average political rents resulting from government action as regulator and as factor of production.

The growing entanglement of the public and private sectors has encouraged many corporations to reassess their existing methods for interacting with the government (Marcus et al., 1987). Hillman and Hitt (1999) developed a framework to account for business political strategic formulation. They argue that firms can employ information, financial incentive and constituency building strategies and this decision depends on the issue, its frequency and also on the political environment of the country in which the firm operates (Blumentritt & Night, 2002). There are a lot of mechanisms available, such as lobbying, participation in industry trade associations, and involvement in peak associations.

One of the key decisions companies must make regarding their non-market strategies is related to collective versus individual action. Although individual undertaking may be thought to lead to superior returns in comparison to industry competitors, the initial decision of establishing a public affairs office and developing public affairs capability is costly and difficult to revoke (Blumentritt, 2003). Some economists argue, through the transaction costs theory that the coordination in the nonmarket environment will vary according to the frequency of dependencies and the types of human assets (specific/non-specific) (Ring, van de Ven 2006). When firm and industry interests are congruent, investments in generalizable skills in non-specific human assets at the trade association level are likely to occur. But interests within industries are often seriously divided that they cannot engage in frequent and effective collective action, forcing the firm to invest in specific human assets in order to develop political expertise or acquire it from a consulting firm. It is quite plausible that a single firm facing multiple issues of relevant government dependence will pursue each of these strategies simultaneously (Marcus et al., 1987).
3. RESEARCH METHODOLOGY

We chose to conduct a qualitative analysis to focus on discovering the mechanisms of interaction between governments and DCMCs and their effect on a firm’s international insertion. As a process data analysis, it provides means to conceptualize events and detect patterns among them (Langley, 1999), and the identified patterns can be later categorized and be useful to derive and test new propositions, in our case for future IB research.

Our research was built upon primary and secondary information gathered around two internationalized Multinational Brazilian Corporations, one investment agency, and one business association. We also collected secondary data, such as financial and industrial reports, economic indicators and case studies published from 1994 to 2011. Due to the sensitivity of political issues for firms, the secondary data was an important source for both complementing the phenomena uncovered through the primary data and also for making triangulations.

The interviews were conducted from July to October 2011 and addressed not only the companies' own experiences but also changes in industry and competition patterns. The criterion used in the selection of the organization and informants was that all of them were highly internationalized or directly responsible for the internationalization of Brazilian Companies. This decision led to choosing two companies in the animal protein sector, which has been subject of substantive investments and incentives from the government in the last years. Both of them were ranked in the Valor Multinacionais ranking for most internationalized companies in Brazil. This ranking, published inside or one of Brazil’s most respected business magazines, measures the companies’ internationalization index through number of jobs, assets and revenue. Firm 1 is a $55 billion annual revenue company (Ranking Valor Multinacionais, 2011) with a large stake owned by a public bank organization - BNDESPAR – the commercial branch and integral subsidiary of BNDES (Brazilian Development Bank). Firm 2 was selected for belonging to the same sector of Firm 1, presenting the 3rd largest degree of internationalization in it - according to the same ranking from Valor - and having a good degree of maturity and operational performance, as well as stock ownership by state-owned pension funds.

We interviewed directors, managers and analysts of the areas related to internationalization, institutional and investor relations. We used secondary information as an initial starting point to formulate questions directly related to issues of internationalization and investments, and to policies adopted by the government. In each interview at least two researchers were present to take notes. The interviews were recorded. After the interview our secondary data was complemented with items brought directly from their content, leading us to search the investments made by the companies outside the country, their people, connections, actions and everything related to investments abroad/financing.

In order to allow a holistic view of the process we also interviewed representatives an industry federation and an investment promotion agency. We complemented our secondary review by in-depth research of development and investment banks loans, government programs and government mandates that coincided with those of the agencies. Organization 3 is a private industry federation which mandate is to defend industrial interests in society, including government spheres, by giving assistance on matters as diverse as market research, customs clearance and organizing trade missions through its Department of International Relations and Foreign Trade. At last, organization 4 is an investment promotion agency created by the state government of São Paulo in order to establish ties with foreign offices around the world and attract FDI.
The data was collectively analyzed in group sessions in order to increase internal validity. These analysis sessions took place during the period of May 18 up to November 24, 2011. The examination was conducted using simple categorical qualitative analysis through an inductive method. The construction of the final conceptual framework was devised as a functional model with data and extant literature integration. In order to further validate our model, we conducted a new data collection, essentially from secondary sources, in order to strengthen, refute and refine the framework developed and avoid data miss fitting.

4. DISCUSSION AND FINDINGS

This section is divided in two subsections. The first section considers the influence of the Brazilian government in the internationalization process of Brazilian MNEs and describes ways of government’s influence, considering the institutional channels of dialogue between firms and governments and their ownership and organization properties. The second section identifies corporate political activity mechanisms used by Brazilian MNEs in their home country environment.

4.1 Home country government’s influence on Brazilian MNEs

Research connecting business and politics recognizes the role of the government as a regulator and factor or production (Boddewyn & Brewer 1993). For example, governments regulate industrial relations, create and enforce jurisdiction on hostile acquisitions, release public tenders and own effective controlling interest in corporate entities, as in state-owned companies and sovereign funds. They have the ability to alter firms’ size, market and cost structure and affect the demand for products and services (Hillman & Hitt, 1999). In order to do so, governments use many instruments, as antitrust legislations, taxation, credit lines and direct purchase.

Government’s role is more evident on the initial phases of the internationalization process, specifically, during entry phase in new markets. Even before the international expansion of Brazilian MNEs, the Brazilian government has predisposed industry concentration in strategic sectors in order to build “national champions”, able to compete with incumbent MNEs in the international market. The rapid expansion of Brazilian MNEs has created demand for a stronger governmental involvement during both the entry and expansion phases. Evidence for this is the fact that the Ministry of Foreign Affairs created new organizational divisions to intermediate conflicts between Brazilian MNEs and host country stakeholders (Folha de São Paulo, 2011).

The Brazilian government’s agenda shows a growing interest in national MNEs’ activities. Public policy directed to enhance Brazilian companies’ competitiveness and international expansion has been developed since the 1990’s. Although the government role has changed in comparison to the previous period, characterized by import-substitution industrialization policies, the government has kept its interventionist vies and attains to itself the role of selecting and promoting strategic sectors, as indicated in the following extract from the newspaper The Economist, July 7, 2011):

In some cases the state actively promotes industrial concentration, to help firms gain the scale to compete abroad. In the 1990s a privatizing government got around the scarcity of capital and know-how by coaxing state-owned pension funds to co-operate with private companies, and pushed public banks into giving them subsidized loans. Today Brazil’s firms are stronger and its capital markets deeper. But the government continues to intervene.
As noticed by one of our interviewees, “governments are not unique and cohesive organizations; they have a series of internal disputes” (field note). When it comes to issues affecting MNEs’ international insertion, once they have achieved internal consensus regarding their gravity, they tend to be shared with some government entities. Those entities develop an agenda that aggregates MNEs interests, giving meaning and coherence to business demands. “Governments tend to privilege unique visions about certain issues” (field note), thus public and mixed capital entities that interact directly with MNEs try to consolidate those unique visions before negotiating in other governmental instances, where the dispute for public policies and public budget is stronger. Although the level of business insertion into government’s networks is high, companies cannot neglect the diversity of interests embedded on the public sphere.

The data analysis indicated that governments use a series of formal and informal reinforcement mechanisms to interact with MNEs, notably supply of subsided resources to internationalization, government’s shareholder participation, adoption of favorable regulations and articulation with foreign governments and international organizations. Table 1 summarizes the evidence collected and categorizes such mechanisms. It presents the constructs that we studied as a way of showing the cognitive process we have used to interpret and explain our main findings. Furthermore, it helps to establish linkages between empirical work and conceptual development.

Table 1
Evidences of home country government’s influences on national MNEs

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Evidences</th>
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<tbody>
<tr>
<td>Supply of subsided resources to internationalization</td>
<td>Companies’ material facts related to BNDE’s loans.</td>
</tr>
<tr>
<td>Government’s shareholder participation</td>
<td>BNDES’s loans to animal protein processing Brazilian companies (BNDES website).</td>
</tr>
<tr>
<td>Articulation with foreign governments and international organizations</td>
<td>Principal shareholders of interviewed Brazilian MNE outstanding common shares (company’s website).</td>
</tr>
<tr>
<td>“Conflicts involving Odebrecht, in Ecuador, and Petrobras, in Bolivia, 2008 had demanded that Brazilian Ministry of Foreign Affairs restructured its organization divisions, creating a new Energy department after those episodes” (Folha de São Paulo, 2011).</td>
<td></td>
</tr>
<tr>
<td>Favorable Regulation</td>
<td>Competition policy favorable to international expansion</td>
</tr>
<tr>
<td>“In some cases the state actively promotes industrial concentration, to help firms gain the scale to compete abroad. In the 1990s a privatizing government got around the scarcity of capital and know-how by coaxing state-owned pension funds to co-operate with private companies, and pushed public banks into giving them subsidized loans. Today Brazil’s firms are stronger and its capital markets deeper. But the government continues to intervene.” (The Economist, Jul 7th 2011).</td>
<td></td>
</tr>
<tr>
<td>Technical Regulation</td>
<td>In order to supply international markets you have to comply with international sanitary requirements. Foreign missions can come to Brazil, or they can delegate the licensing process to Brazilian government (field note).</td>
</tr>
<tr>
<td>Thematic or industrial policy</td>
<td>BNDES’s policies are aligned to the Brazilian Productive Development Policy (PDP), which has granted priority to internationalization projects of selected sectors, such as animal protein processing (O Estado de São Paulo, 2010).</td>
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Source: elaborated by authors.
4.1.1 Supply of subsided resources to internationalization

The current context of the Brazilian economy has strong participation of the Brazilian government as financial supporter for private companies combined with a fragile Brazilian stock market and low shares of bank involvement in long-term corporate loans. As stated by The Economist (August 5, 2010):

At the moment, Brazil’s banking system is peculiar: commercial banks lend to the government and supply consumers credit, but do not provide much debt to businesses, which mostly finance themselves from retained profits. And BNDES is practically alone in the long-term loan business. Two-thirds of its revenue comes from loans of over five years. In contrast, private commercial banks get, on average, just 1%.

The importance of BNDES’s resources for Brazilian MNEs is quite evident, as exemplified by Brazilian leaders on the animal protein processing industry. One of our interviewees pointed out that the proceedings to obtain BNDES’s loans started on 2007, when the company traced an aggressive international expansion plan. According to managers, the company looked for BNDES and presented a coherent proposal. They also indicated that it would not be possible to obtain such resources on the market with a similar interest rate. According to Revista Exame (2011), two Brazilian MNEs operating in the animal protein industry have occupied the top positions as BNDES’s loan receivers.

BNDES’s supply subsided loans to projects directly associated with international expansion plans, while other loans aimed to consolidate the company’s presence in domestic market. For example, in 2009, JBS received loans to acquire Bertin, a traditional local competitor. This corroborates our argument on how governments are interested in developing large and concentrated companies in the domestic market, in order to improve their international competitiveness.

4.1.2 Government’s shareholder participation

During the 1990s a series of privatizations and other liberal reforms undertaken in Brazil changed the ownership profile of domestic companies. Nonetheless, there are still important state-owned Brazilian MNEs, like the giant oil manufacturer, Petrobras. Another interesting example is Embraer, global leader of regional jets privatized in 1994, but still under government direct influence since the later has kept a golden share right. Moreover, governments can be shareholders of corporate entities, owning stakes of private and independent corporate entities. BNDES and state-owned pension funds are the main governmental branches to shareholder participation. The governmental influence here is also indirect, it works as a selective tool, deciding which sectors and companies should receive government investment, including cases where government acts as a last resort financial source.

BNDES’s policies are aligned with the Brazilian Productive Development Policy (PDP), which has granted priority to internationalization projects of selected sectors, such as animal protein processing (O Estado de São Paulo, September 20, 2010). In terms of shareholding, BNDES’ guidelines indicate that the bank has to respect a 30% limit. Exception is allowed to infant and technology based companies, when shareholder participation can achieve a 40% share. This limit is an internal best practice for BNDES’ investments. However, in JBS’s case, one of the largest Brazilian MNEs in the animal protein sector, the bank has a stake slightly superior to 30%. If we consider all governmental resources in the stock composition of this MNE, by adding the participation of state-owned pension funds, then government participation would be even
higher. In 2010, BNDES’ stake on JBS was around 17%, but it significantly rose to up to 30% in 2011. The additional financial support was granted in order to help JBS launch its Initial Public Offering (IPO) on the USA stock market. According to material fact available on the MNE’s website, BNDES operation was an important step for the company, reducing uncertainties about the IPO launch and allowing it to improve its capital structure. BNDES policy exemplifies a government’s influence on both entry and expansion phases of internationalization for Brazilian MNEs.

4.1.3 Favorable Regulation

Government is responsible for creating the rules and norms that govern firms’ interactions with employees, suppliers, competitors, and also within the financial, vocational training and social security system, among others. Moreover, governments establish and sustain the mechanisms of enforcement and dispute resolution. Regulatory institutions affect the ways in which MNEs coordinate economic activities and, therefore, the practices, processes and structures that they transfer and adapt to their foreign affiliates.

Previous studies have characterized the Brazilian government as non-facilitator, erratic in the formulation of rules, weak and hostile for private companies (PEARCE, 2001). Some of our interviewees corroborated this idea, indicating that there are major difficulties related to government influence on business in Brazil. Most of the complaints pointed out that bureaucracy, delay on conflict resolution and the complexity, contestability and lack of clarity of the tributary system represented serious burdens to local companies. However, the learning experience at their own country helped Brazilian MNEs in posterior phases of internationalization. The high inflation and political turbulence that characterized the country in the 1980s, served as training for domestic companies. They had to develop competencies such as operational excellence in order to survive in unstable times. Brazilian MNEs are now characterized as flexible and able to rapidly adapt to external changes, which can be valuable even when operating in developed countries because of the financial crisis effects.

An interesting finding of our research is related to Brazilian MNEs’ positive perception about governmental technical entities, responsible for issues like sanitary and external trade regulation. Government – MNEs relations on such issues are mediated through established channels of dialogue, making it easier for firm to register new products, getting permits for new plant factories, etc. In the case of animal protein processing firms, there is an open dialogue with the Brazilian Ministry of Agriculture. This was considered really important for the researched MNE’s export activities since: “in order to supply international markets, companies have to comply with international sanitary requirements. Foreign missions can come to Brazil, or they can delegate the licensing process to Brazilian government” (field note). The Brazilian government has, according to them, the expertise to deal with such requirements.

Another regulatory dimension is related to the competitive policy, which in Brazil reinforces the role government has undertaken to pick the winners in the domestic context and build them to compete in international markets. The newspaper The Economist provides evidence that support this idea:

Antitrust policy has long been weak in Brazil. In the 1990s the country started opening its economy and privatizing firms in order to increase competition. But a study in 2007 by Edmund Amann of the University of Manchester and Werner Baer of the University of Illinois
found that 15 years later, the market share of the top four companies in most sectors had become even greater (The Economist, 2011)

All major players in the Brazilian animal protein sector had been or are under process analysis by the Brazil’s Council of Economic Defense (CADE), national competitive authority with preventive, repressive and educational duties. It is worth to note that CADE can be characterized as a technocratic agency, remaining independent from government pressure on politically sensitive cases (Global Competitive Review, 2009). In the case of our research, one of the firm’s studied was granted an extensive agreement by CADE, allowing a special consideration for the use of highly monopolized products in its international presence (field note).

4.1.4 Articulation with foreign governments and international organizations

MNEs’ access and entrance to new foreign markets often demands the interaction between home and host country governments. The Brazilian MNEs interviewed find that it is quite hard to dialogue with foreign governments without the support of home country institutions. Moreover, as pointed by previous research, MNE bargain power decreases as the FDI has been concretized (Henisz & Zelner, 2005). Thus, home country intervention seems to be a facilitator tool for Brazilian MNEs’ international strategies.

The reviewed evidence on the articulation between home and host country governments indicates the adoption of different and complementary mechanisms, mainly through Ministries and investment promotion agencies (even if they have a mixed capital ownership structure). One example presented in our field notes stresses the Brazilian government’s role for accessing the Japanese swine market. Brazilian exporters faced sanitary barriers that were often alleged to be technical barriers. In order to overcome this barrier, companies looked for government diplomacy assistance. The Brazilian government organized bilateral trade missions, generally involving members of the Ministry of External Relations, Ministry of Development, Industry and Foreign Trade, and Ministry of Agriculture, aiming to talk with their counterparts, exchange information and conduct technical visits. Although government articulation facilitated foreign market access to Brazilian companies operating in this sector, firms can combine their political strategies with market strategies to obtain superior returns. We suggest that following this evidence it is likely that a Brazilian MNE could begin talks with its host country’s partners even before the bilateral agreement had been approved.

Besides opening markets abroad, home country governments can communicate with foreign governments and other host country’s stakeholders in order to solve MNE conflicts, similar to what has occurred with Odebrecht, in Ecuador, and Petrobras, in Bolivia, in 2008. These conflicts led to the creation of a new energy department inside Brazilian Ministry of Foreign Affairs restructured its organization divisions, capable of dealing with the specificity of these episodes (Folha de São Paulo, 2011).

4.1.5 Synthesis of government’s mechanisms of influence

According to our research, home country governments adopt a series of mechanisms to encourage outward FDI, either by giving direct benefits to MNEs in comparison to other firms or by reducing barriers created by other actors. It is important to notice that not all form of influence are converted into MNEs’ benefits, as governments can cause negative effects that speak of the divergences that the plurality of their shared interest possess.
Governments have formal and informal mechanisms to influence MNEs. Formal mechanisms are those expressed in norms and rules, codified public policies, public structures and support apparatus. Examples of formal mechanisms include regulations about limits on ownership, control and cross border transfers of factors of production by an MNE, or competitive policies released by federal government, such as the PDP mentioned before, which draws actions involving several governmental entities together with the purpose of stimulating a greater engagement of Brazilian companies into internationalization.

However, formal mechanisms are often weak and can be replaced by more fluid and individualistic interactions (SCHNEIDER, 2009). This is consistent with the evidence found on the Brazilian environment. Informal mechanisms are based on personal networks and rooted on socially accepted behavioral patterns, such as paternalism and corruption. They are often used by governments to reach specific goals, for instance to select strategic sectors and actors on the domestic market in order to create “national champions”.

In addition, the evidence collected suggests that a significant part of foreign trade and investment issues are treated at the federal government’s level. For such action, the entities that supply direct channels of dialogue with MNEs are commerce related ministries, the development public bank BNDES, and traditional legislative instances. Autonomous agencies, like the Brazilian Trade and Investment Promotion Agency (Apex-Brasil), regulatory agencies, BNDESPAR (BNDES’ commercial branch), state-owned companies and pension funds also influence the channels established to generate dialogue related to Brazilian MNEs.

Table 2 classifies the ways governments influence national MNEs according to types of mechanisms (formal and informal) and channels of action used by governments to operationalize their influence.

Table 2
Mechanisms of government’s influence on national MNEs and channels of actions

<table>
<thead>
<tr>
<th>Mechanisms</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
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<tbody>
<tr>
<td>Formal</td>
<td>Traditional mechanisms of governmental influence through the Executive, Legislative and Judiciary Powers.</td>
<td>Mechanisms created by governments that allow a better adaptation for formal dialogue with private sector.</td>
</tr>
<tr>
<td>Informal</td>
<td>Invisible mechanisms mediated by personal networks and informal institutions that penetrate the public sphere.</td>
<td>Invisible mechanisms, implemented through personal networks with local and foreign decision-makers</td>
</tr>
<tr>
<td></td>
<td>Ex.: selection of “national champions” and corruption.</td>
<td>Source: Elaborated by authors.</td>
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4.2 Political strategies

The regulation of public policy, whether on the district, state or federal level, allows the government to strengthen or undermine the process of a company’s international expansion. Entrepreneurs need to be "aware" of what happens at the federal level and have connections at the
top of the government to track changes in the economic, social and political environment that could affect the company's business. We identified 5 strategies that we list and describe below.

4.2.1 Financial donations to political parties

In an election year it is common for political parties and candidates to request companies to raise funds for their campaigns. While candidates and political parties need funds to strengthen their campaigns and increase their chances of election, companies seek to support candidates with a high probability of election in order to have their industries well represented in the public agenda (Bandeira-de-Mello, 2011). Donations allow companies to maintain very close ties with their supported candidate. The choice of a candidate or party, influences their relationship with the home country government. One of our respondents, a director of one of the leading companies in the agribusiness, said: "to support the elections, we don’t look at the party, we look at people linked to the agribusiness sector who advocate for the sector, if we have a candidate more sensitive to the agribusiness cause, we will support him or her" (field note, September 12, 2011).

Deciding who to support and transferring firm’s resources to his campaign, is a strategic decision for an MNE, and can define how government issues will be managed in the years after the election. When the company hits its bet, the chance to generate pressure in response to a public policy, increases. The same is true for cases of accessing financing and loans from the Government and the official public bank BNDES. Since the government stands as a promoter of economic projects, having a representative supported by the company and elected by the population justifies their political strategies. The decision process of investments and loans from BNDES should be based on technical criteria. Our research indicates that political motivations may also circumvent the institution’s decisions.

Most of Brazilian MNEs operating in the animal protein-processing segment have made political donations. JBS, for example, has donated over US$ 6 millions in support of candidates and political parties, from 2006 to 2010, who were mostly elected. In 2006, 18 supported deputies were elected, the majority of the mid west region and, in 2010, 39 parliamentarians were supported from 15 states. The company is the major donor for the current ruling party, Partido dos Trabalhadores, which is best known for PT (Workers Party), according to the newspaper O Estado de Sao Paulo (December 1, 2010). As the number of legislators backed by the company grew, so did the support for its investments from the public bank BNDES.

The strategy of donation to parties is diverse across sectors, which coincidentally corresponds to sectors that performed well in federal government’s assistance programs to improve social welfare: the Growth Acceleration Program (PAC – Programa de Aceleração do Crescimento). Inside the PAC, the Family Allowance program increased food intake and sugar consumption, and the program My Home My Life boosted the market for real estate developers. These companies have high levels of internationalization, according to Valor-Sobeet index (2010), and are amongst the major donors to elections in Brazil. Donations can also occur after the election year, as shown by the fact that President National Finance Committee of PT (Workers Party) received donations from 46 companies for amounts greater than US$ 6 million after the campaign. According to (O Estado de São Paulo, December 1, 2010):

The biggest individual donation was made by the construction company Queiroz Galvão S/A, at the figure of US$ 1.5 million. But the sector that contributed the most after the polls closed was the sugarcane industry. At least US$ 2.5 millions were donated in the last week of the year 2010. According to some entrepreneurs interviewed by the newspaper O Es-
tado de São Paulo the segment was invited to help closing the debits of Dilma Rousseff’s campaign after the election. Cosan, the largest in the industry, made a donation of US$ 3.5 millions in the past 23 days, while the Amaggi Group participated by donating US$ 1 million.

4.2.2 Personal Connections

Brazilian history of the interaction between state and business had its first milestone in 1930, when entrepreneurs eventually incorporated into the coalition to support president Getulio Vargas. This pact was quintessential to lead to the transition from agro-export economy to the urban-industrial society (Diniz, 2010).

Economic development and democracy have brought Brazil to a new political dimension, where the links between strategic actors inside and outside the political system and its power relations have became explicit. In the Brazilian society, the external actors are entrepreneurs. They are the founding families of companies that have become true symbols of economic advancement and representatives of their sectors in the country. The growth of the Brazilian economy led to the deepening of the market model, with greater linkages with international capital, motivated by a more autonomous insertion of the country and its companies in international markets.

Personal connections in Brazil are powerful mechanisms to influence government decision makers, allowing companies with greater bargaining power with the government in order to stay informed about the policies of their industry. For example, in the agriculture sector, Brazilian MNEs, such as producers of fruit juice and alcohol/sugar cane, have close relations that facilitate access to authorities, enabling their participation in trade missions abroad and private meetings with politician and regulators. In such cases, individual political strategies work better and can be more efficient than actions through associations.

4.2.3 Personal Service

Politicians developed a closer connection with private businesses during Lula’s administration. It is apparent not only by the presence of José Alencar (shareholder of Coteminas, one of the largest textile groups in the country) as vice president of the country, but also by the indication of two other businessmen to join the ministry team. For example, Roberto Rodrigues, previous president of ABAG (the Brazilian Agribusiness Association), and Luiz Fernando Furlan, chairman of the board of Sadia, now BR Foods, a large Brazilian group manufacturer and exporter of food, was indicated for the Ministry of Development, Industry and Foreign Trade (MDIC).

Another example of personal service is that of Jorge Gerdau. This businessman built one of the largest business groups in the Brazilian steel industry, the Gerdau Group, which operates in over 14 countries globally and has revenues of more than US$ 15 billions. Gerdau has been invited many times to become a Minister, but has always declined. Since May of 2011, Gerdau accepted to become the chief of the Brazilian Chamber of Management Policy, Performance and Competitiveness, which is responsible for improving efficiency in public management. Jorge Gerdau has the support of over 200 entrepreneurs and executives to sponsor his project, which campaigns’ slogan is “shock management in our government”. Among his supporters are Carlos Alberto Sicupira, a partner at AB Inbev, Pedro Passos, partner and director of Natura, and David Feffer, chairman of Suzano Holding (Exame Magazine, 2011).

Economic and social position can be a way to access governments and become a player in the power structure. The largest agribusiness Brazilian MNE, JBS, has a new political candi-
date. Jose Batista Junior, the entrepreneur and owner of JBS was invited to join the PSB (Social Party of Brazil) to increase their political participation in the State of Goiás and facilitate its future application for governor. Goiás is the JBS’s home state.

4.2.4 Associations

Even big companies belong to associations because they have an important role in opening the market and a greater power of expression, as asserted by one of our interviewed Brazilian MNEs. Despite the higher potential return of individual strategies, large MNEs prefer to act in associations in some subjects. Even if market regulation occurs through the government, associations allow businesses to be informed about what competitors are doing and to defend their interests when acting together. Associations are considered as a place to be part of, to monitor your competitors or to meet their goals in joint action.

The existence of industry associations is an indicator of organizational capacity of the sector. It is a political way to articulate a strategy. The associations have the power to carry out political actions, to defend industry demands on the government, because they represent a high level of employability and a large slice of the country economically. They can also boost the competitiveness of the country, having the responsibility and power to analyze the market, discussing and requesting changes to the legislation, stimulating openings of foreign markets, change tax rates, price controls, customs control and procedures related to foreign trade (tariffs, quotas, exchange).

The associations can also act as a referee, mediating differences and converging interests. This approach is necessary to strengthen the position of a sector when want to draw to the attention of authorities responsible for a new public policy. The associations have greater bargaining power, allowing the sectors to achieve their goals by accessing the government for an "appeal" of the sector, which results in decisions about public policy, open markets, trade missions and disputes in the World Trade Organization. Even if entrepreneurs have direct access to the authorities through personal connections, many situations can only be heard and discussed when brought to the negotiating table with the industry representative, or, when the association is involved. A good example is the work about Brazilian Union of Sugar Cane Industry (UNICA) that has signed a provisional measure in December 2011 to stimulate the ethanol storage at home and avoid price fluctuation that punishes consumers in harvests of sugar cane. The text of this provisional measure provides federal funding at lower interest rates than the market that producers can build buffer stocks (OESP, December 23, 2011).

4.2.5 Board composed of officials from government or state enterprises

With reference to the members of the boards of internationalized Brazilian firms, we noted that these often have connections with government’s staff. Analyzing the members composing the board of directors of large companies in the agribusiness, construction, pulp and paper, we found the names of career employees of the BNDES (official and public bank), Ministers and officials designated by the pension funds of public companies.

We observed that the MNEs observed have government officials and employees of state-owned enterprises and public banks in their staff. Usually, those people have the participation (they are hired) in the board as an independent advisor. Consequently, they are involved with the company’s strategy and its difficulties becoming responsible for finding a solution to its problems. Our interviewees asserted that when it comes to board members, those that are linked to the government are considered very influential, perhaps because of their know-how in dealing
with the public sector and its peculiarities, especially in a country like Brazil where bureaucracy is so rooted.

5. CONCLUSION

This study works towards a better recognition of the political aspects in DCMCs’ entry and expansion phases in international markets. We focus on the understanding of the mechanisms governments use to foster the internationalization process of national firms and how DCMCs have overcome barriers to compete internationally by nurturing strong ties with home country governments. We aim to contribute to the understanding of how DCMCs differ from traditional MNEs, not only in terms of home country location advantages or disadvantages but also of how these influence the kind of strategies DCMSCs pursue locally and abroad.

Although this study shows evidence that could easily relate to other emerging economies, any potential generalization should take into account that Brazil is an ambiguous member of the state-capitalist camp (The Economist, 2012). Brazil has historically pursued a state driven industrialization policy, but since the 1990s it has implemented broad liberal reforms.

Our findings suggest that although government influence is not recognized as a major motivator of Brazilian FDI, as also suggested by a survey conducted by Valor-Sobeet (2011), it might act like a FDI driver for selected companies. Brazilian “national champions” exemplify the type of DCMCs that has pursued political and market strategies that enable them to catch-up with established internationals players and have access to significant incentives from the Brazilian government, such as subsided capital, facilitated dialogue with foreign governments and favorable competition policies. We argue that there is an association between MNEs’ political connection and the grant of higher political benefits. This is an interesting association that should be better evaluated using quantitative studies and appropriated designs to isolate its causality direction.

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