Co-evolution of Internationalization Strategies: The Case of Vale

Autoria: Suzana Braga Rodrigues, Marleen Dieleman

We clarify the role of non-market strategy in MNE internationalization by presenting a framework that links market- and non-market strategy, and we argue that non-market strategy development is a process of co-evolution that is intricately linked to both external and internal factors. We ground our arguments and extensions with an in-depth multi-method case study of Vale, a Brazilian mining multinational.
INTRODUCTION

When does non-market pressures become a salient factor in defining the strategy in multinational enterprises (MNEs) the internationalization process of a multinational? Non-market strategy - or the coordinated actions firms undertake in public policy arenas (Bonardi, Holburn and Vanden Berg, 2006: 1209) - has been extensively researched (Boddewyn and Brewer, 1994). Non-market strategy is particularly crucial for multinational enterprises (MNEs), as they face home and host country governments with whom they have many times to negotiate to get access to opportunities and resources (Boddewyn and Brewer, 1994).

The non-market strategy literature has advanced our understanding of the drivers of non-market strategy (Lux, Crook and Woehr, in press), the types of political strategies firms can employ (Boddewyn and Brewer, 1994; Hillman and Hitt, 1999), and their effects on firm performance (Faccio, 2006; Hillman, Zardkoohi, and Bierman, 1999) and on policy outcomes (Bonardi, Holburn and vanden Bergh, 2006). Hillman et al (1999) noted, however, that still not sufficiently understood how internationalization strategies are formed, implemented and absorbed at different levels of the firm.

In this paper we address this challenge by extending our understanding of the conditions under which non-market aspects become salient in internationalization strategy. It examines how a combination of macro environments and changes at the firm level can create the conditions for non-market pressures and strategies to arise and gain force. Under given contingencies, non-market strategy can be a crucial component of the firm overall strategy (Baron, 1995; Henisz and Zelner, 2012), and therefore both market and non-market dimensions, have to be considered together, and over time. We argue that the changing constellation of market and non-market drivers combined with drivers internal to the firm (e.g. leadership) give rise to different types of market and non-market strategies which influence and reflect the MNE internationalization trajectory. Non-market strategies can be pivotal to MNEs in the natural resources industry, in particular in energy, mineral and oil in which exploration and exploitation activities are highly regulated, and in many cases, dependent on government goodwill. Given the that exploitable natural resources are available in geographical locations where political risks are high, foreign operations of companies in the industry tend to be subject to different types of political risks. Establishing good relationships with governments therefore, can be critical to unobtrusive implementation of MNEs global strategy.

We analyze, in particular, Vale’s relationships and interdependence with the Brazilian government. Though we recognize the relevance of non-market strategies in host countries governments, this paper focus in particular on how the company’s internationalization strategies unfold over time with non-market drivers at home. The literature on MNEs global strategy has so far focused on host country context as sources of uncertainties that motivate non-market strategies. We will look at the home country context instead. In that way we expect to extend knowledge on non-market strategies and their immediate context.

To do so, we apply a co-evolutionary lens, which allows one to investigate mutual causalities at different levels of analysis (Lewin and Volberda, 1999) and by a longitudinal case study with focus on internationalization of Vale, a Brazilian mining MNE. We used a multi-method approach that included interviews, media analysis, and an analysis of firm documents including board decisions and annual reports. Vale operates in a global, yet highly regulated industry. The vast publicity received by Vale in its home country, together with a unique access to insiders by researchers enabled us to study non-market strategy as a multi-level, dynamic aspect of the overall firm strategy. Another advantage of our case is Vale’s relatively rapid internationalization and de-internationalization cycle. This allowed us to study the formation of non-market strategy under
different conditions but within a single firm. Furthermore, the focus on a Brazilian MNE could not have been more appropriate to elucidate non-market influences. The past ten years has witnessed a more significant intervention of the Brazilian government in state enterprises, even in those listed in international financial markets such as Petrobras, and Vale.

Our case allows us to construct a fine-grained account of non-market strategy evolution and tease out the mechanisms by which non-market strategies come into shape and become salient because of consequences on their performance and public reaction. We show how market - and non-market strategies are intricately linked, with non-market drivers giving particular salience to contentious issues, of strategic importance to the company in short periods of time. We also reveal how market and non-market strategies appear more or less integrated in certain periods and under what circumstances the firm was able to resist and insulate its strategic decisions from non-market pressures (Dieleman and Boddewyn, 2012), whereas in others it experienced a shock, thus showing how the dynamics resembled a situation of punctuated equilibrium (Van de Ven and Garud, 1994).

Our contribution is two-fold: we show how non-market drivers impact the company’s internationalization strategy, and how such drivers vary over time in intensity and content. Second, we tease out co-evolutionary dynamics that together explain a firm’s internationalization trajectory, and we thereby suggest a novel approach to investigating what Baron (1995) referred to as integrated market and non-market strategy.

LITERATURE: Non-market drivers and internationalization strategy

MNEs face substantial external and internal complexity since they may be exposed to different non-market and market pressures. The literature suggests that the salience of non-market factors for MNEs depends on internal organizational factors, the nature of the industry locally and globally, as well as on the broader institutional environment in the home and host country (Henisz & Zelner, 2012; Rehbein and Schuler, 1999). We briefly review the literature below.

Organizational environment

Internal factors that influence the firm’s strategy and its intention to internationalize include firm size, resources, past experience, and structure (Getz, 1997). Organizations with more resources and bargaining power are argued to be more likely to engage in political activity (Child, Rodrigues and Tse 2012). The structure of firm ownership has an effect on a firm’s propensity to engage in political activity (Ozer, Alakent and Ahsan, 2010). State ownership changes (e.g. partial privatization) affect incentives for top management and as a consequence can alter a firm’s internationalization strategies (Cuervo and Villalonga, 2000).

Industry environment

Industry-related drivers are an important explanatory factor for whether firms engage in corporate political action (Getz, 1997; Hillman, Keim and Schuler, 2004), in particular concentration, regulation, industry size and industry homogeneity. For instance, research finds that in concentrated industries very large firms have more proactive non-market strategies (Salamon and Siegfried, 1977; Schuler, 1996; Hillman, Keim and Schuler, 2004). Also, where firms are engaged in heavily regulated industries, or those where firms are more dependent on governments (for instance when the government is a major customer), prior research found a higher propensity for firms to proactively engage with governments and politicians (Grier, Munger and Roberts, 1994). Politically important industries (e.g. defense, agriculture, mining) may also receive more government attention for their role in government implementation and plans for development (Rodrigues and Child 2008). Governments may encourage domestic firms in such industries to internationalization (Buckley et al., 2007) or to reduce investment in foreign markets. Firms in the
oil and mining industry have also been associated with close relationships with governments and cronyism.

While most research examined variance across industries and industry characteristics, there is a broad recognition that industry-related factors change over time. For instance, research on the global electricity industry shows the extent to which industry regulatory environments can change over time and how this impacts non-market strategies (Zelner, Henisz and Holburn, 2009). An important change is the way in which governments participate and/or invite private interests to enter and withdraw from these industries through manipulation of the ownership share (Ordeix-Rigo & Duarte 2009).

In addition, non-market strategies differ depending on the stages of an investment: For instance, at the planning stage non-market factors may influence which countries to expand to (Kobrin, 1979). Obtaining political support during the establishment of the firm can lead to a first mover advantage (Frynas, Mellahi and Pigman, 2006), but the sustainability of such advantages depends on industry-related factors. Some studies show that political ties in host countries may turn into a liability (Sun, Mellahi and Thun, 2010), and government may reverse policies by withdrawing its support once investments have been made (Zelner, Henisz and Holborn, 2009). Withdrawal and disinvestment, whether due to institutional constraints (Witt and Lewin, 2007), or due to market-related factors, typically require another set of non-market strategies. Our argument is that the bargaining power of an MNE in different stages influences the investment intensity and location and in this way shapes non-market strategy over time.

**Institutional environment**

It is well understood that the institutional context impacts firm strategies (Hillman, 2003) and non-market strategies are particularly salient in situations where the rule of law is weak (Faccio, 2006; Henisz and Zelner, 2003) and in which companies are in the hands of host governments and politicians intending to protect external interests (Garcia-Canal and Guillen, 2008). Political uncertainty or upheaval in the host country may decrease the likelihood of firm entry, but increases non-market behavior in firms already present. Sometimes these strategies can result in greater uncertainty for the firm if its political alliances are set with the wrong side (Siegel, 2007).

Though the great bulk of publications of non-market behavior has focused on host country environments as risk factors, the internationalization patterns of MNEs also depend on the home country environment (Guillen and Garcia-Canal, 2009; Cuervo-Cazurra & Gene, 2008) with firms from emerging economies following different internationalization paths as those from developed countries. The former can be used by unstable or weak governments to advance their political interests in the home market, by establishing projects abroad which could strengthen their political projection at home. Non-market factors in home countries, therefore, may induce firms to internationalization, for instance as domestic monopolies end due to liberalization (Goldstein, 2007) or because government policy stimulates the development of national global champions (e.g. Buckley et al., 2007).

**Non-market drivers and the evolution of internationalization strategy**

While drivers of non-market strategy are well researched, there is less work on how they interact over time and impact the evolution of both the market- and non-market components of firm strategy (Lamberg et al., 2004), even less so in the context of global strategy. Our objective is to enhance our understanding of how an MNE internationalization strategy co-evolves with changes in national politics, with changes in the bargaining power between government and the private sector. To tease
out multi-level dynamics over time we use a co-evolutionary framework encompassing non-market and market factors, non-market and market strategies, internal factors to explain a firm’s internationalization strategy in the process of internationalization. Over time, we expect to see different constellations of factors, and different dynamics. Co-evolution theory (Andriani and McKelvey, 2009) suggests a number of possible dynamics, including scaling or dampening effects, or periods of equilibrium punctuated with chaotic shifts. At this stage we do not know what type of dynamics produce a firm’s internationalization trajectory, and we further investigate this in the case of Vale after first describing our methodology.

METHODS
In contrast to extant studies on non-market strategy most of which use large samples of firms at one point in time, we researched one company over a longer period. This allowed us to investigate the evolution of the internationalization strategy in its non-market and market components. We chose Vale, the Brazilian mining multinational, as it went through more than a decade of internationalization and de-internationalization. Vale is interesting as it was a relatively “new” multinational firm, allowing us to study the evolution of non-market aspects from the outset. The nature of the firm – a privatized state-owned enterprise of considerable size and operating in a highly regulated, global industry where nationalism played a role, added to the salience of non-market pressures and strategies. As such the case is not representative but rather an extreme case where the phenomenon of interest is more easily observable (Eisenhardt, 1989). We studied Vale’s internationalization process from 2001-2012.

Data collection
We decided to study the evolution of Vale’s internationalization at different levels by looking at internal factors, company strategies, industry drivers, and macro-economic factors. To do so we used a multiple methods approach relying on a variety of sources, namely: 1) Face-to-face interviews; 2) questionnaires; 3) document analysis and 4) use of secondary data. Because questionnaires and interviews mainly focused on political risks in host countries, in the present paper we mainly use document analysis. However, the case description and its interpretation required the use of every information source at our disposal, including interview and questionnaire data.

The data collection began with interviews, which primarily addressed Vale’s internationalization strategy and drivers. The interviews were semi-structured and included questions about motivation, internationalization trajectory, including mode, time of entry and sequence. They involved face-to-face meetings with 49 senior and middle managers from the headquarters and subsidiaries of Vale. Out of those, 28 interviews were conducted with managers of subsidiaries in seven developed and less developed countries, namely, India, Gabon, Switzerland, Canada, South Africa, Mozambique and Angola. Although the research had not initially focused on non-market strategies and drivers, these issues emerged quite strongly and associated with risk at home and host countries.

The survey questionnaire was based on the findings and insights obtained during the interviews and was intended to provide a broader view of Vale’s internationalization process and trajectory in different regions. It included questions about the external and internal challenges of internationalization, such as political risks and trust in governments of home and host countries, and other subjects, such as managing foreign operations. The document analysis included three different types of sources: 1) Company’s annual reports from 2001-2012; 2) official internal documents on investments and divestments during the same period from Vale’s R&D unit that handled overseas investments; and, 3) internet information from media sources gathered systematically using online
databases with search term “Vale”. We also consulted databases on mining and metal prices, and financial information on competitors (Reuters, UN Comtrade, World Bank).

**Data analysis**

All data were systematically analyzed and eventually put together an internationalization timeline by the authors illustrate Vale’s evolution as a multinational firm in the context of micro, meso and macro factors (Figure 1). The internal documents were used to make a table of decisions and coding them for investments, divestments, and so on (Figure 2). These documents contributed to understand a geographical footprint of the company over time, which showed the countries Vale entered and exited over time (Figure 2). The company financials were put into a spreadsheet, along with those of competitors, with special attention to segment information on assets and sales outside the home country (Figure 3). The interviews were reviewed to elicit non-market episodes in the company’s history and this resulted in a table which illustrates the tensions between non-market and market tendencies present in the process of the shaping of Vale’s internationalization strategy. The survey results contributed to compose the company’s international strategy; and newspaper items on Vale were reviewed. Interview results helped us to prioritize the most important factors for Vale’s internationalization trajectory.

**Figure 1: Vale Internationalization Timeline**

**CASE RESULTS**

Figure 1 summarizes Vale’s internationalization strategy over time and its coevolution with market and non-market factors, globally and at home. We first describe the internationalization strategy and then delve into the explanatory factors for this pattern in the subsequent sections.

**Vale’s internationalization strategy**

Vale (formerly called CRVD) was formed in 1942 by Getúlio Vargas, who was then President of Brazil, as a state-owned enterprise. Vargas did so with a specific political agenda in mind, namely to help modernize Brazil’s economy through industrialization. In 1952, he created BNDES
(National Bank for Economic and Social Development) to finance the industrialization process. It subsequently became one of Vale’s major shareholders. Vale’s internationalization began as an exporter in the 1970s with its increasing iron ore production capacity (Nossa Historia, 2012) and it became the largest exporter of iron ore in the global market. The company also adopted a strategy of diversification through minority acquisitions and international joint ventures, and added aluminum, manganese, phosphates fertilizers and other minerals to its portfolio. Although Vale continued to be an important anchor of the Brazilian economy and generated a significant share of the foreign currency, its internationalization pace slackened substantially during the 80s and 90s due to the so-called Brazilian “lost decade.” Exports, therefore, remained the key internationalization strategy until its privatization in 1997. Following privatization, Vale expanded its global presence by reorganizing its portfolio, divesting itself of non-core businesses in Brazil and developing foreign interests and joint ventures, thus moving beyond its national export role and becoming an international mining company. Meanwhile, it consolidated its domestic iron ore business by acquiring local iron ore producers, thereby controlling 85 percent of the 300 million tons of iron ore produced in Brazil annually. At the same time it diversified its product portfolio by moving into the non-ferrous metals market through strategic acquisitions. Now an aspiring global mining company, Vale’s shares were listed on the New York Stock Exchange (NYSE) in 2001, and later in others, including EuroNext Paris and the Hong Kong Stock Exchange.

In 2008, Vale became the world’s second-largest metals and mining company and the largest in the Americas. That year Vale was also the world’s largest producer of iron ore and iron-ore pellets and the world’s second-largest producer of nickel. Minerals related to fertilizers, such as potash and phosphates, have since been added to the company’s portfolio. Embarking on a diversification strategy required specialized knowledge and the development of competencies in exploration and exploitation of different minerals. A combination of organic growth and acquisitions seemed to be an appropriate way to do so. According to the Internationalization Council on Mining and Metals (2012) mine production has undergone a shift from underground to open pit mining techniques. This meant identifying and moving into geographic regions that offered a potential for high yield, but had seen little exploration activity. As such, R&D and diversification automatically meant internationalization and the adoption of a high risk strategy, e.g., moving into areas of the African continent. Inevitably, problems cropped up in a number of the new investment sites where Vale had initiated exploration, for instance in Mongolia, Mozambique and Gabon, prompting Vale to withdraw from a number of overseas exploration projects, and delay others.

Figure 2 illustrates the internationalization and de-internationalization process through an analysis of the number of countries Vale is active in. Vale’s geographic footprint shows an increase in the number of foreign exploration contracts in different countries from 2003 to 2007, but a contraction in its global exploration activities thereafter, and after a surge in 2010-2011 it closed many of its overseas operations. A similar picture of frantic expansion until 2007 and problems and withdrawals was seen in the decisions of the R&D department.
As evident in Figure 3, the company’s performance was impressive during the years of 2003 to 2011 inclusive, not only in exports – i.e., revenue from foreign sales – but also in the growth of local and foreign assets. Vale was predominantly an exporter in the beginning of the last decade; its overseas assets were limited, especially compared with industry peers whose overseas assets as a percentage of total assets were much greater. It gradually increased its foreign assets throughout the decade, achieving an increase of around 10% in these assets towards the end of the decade. However, from 2010 onward we see a decline in foreign assets. Foreign exploration decisions grew until 2009 to sharply decrease from that year onwards. Disinvestments sharply increased in 2012 after Ferreira took control. This is in line with his strategy of focusing on the Brazilian market, and on narrowing product and geographic scope. In 2010, shortly before the company withdrawal from many overseas markets, its CEO stated the following:

Vale’s proposition is not about being in Brazil and having Brazilian minerals alone. Although Vale should still focus on bulk products – such as iron ore, the pricing curve is normally set by long-term contracts – we have been constantly reviewing opportunities to make strategic acquisitions worldwide and developing logistic solutions that support our mining activities. As a consequence, we are right now actively engaged in mineral exploration efforts in 22 countries around the globe. (Khanna, Musacchio and De Pinho 2010, p.5)
Internal drivers and strategy

Internal factors are important in explaining Vale’s internationalization trajectory, in particular ownership, leadership, and organizational design. Starting out as a state-owned enterprise, Vale was privatized in 1997, although the government retained a minority share until 2001. It reported its best-ever financial performance with profits of R$ 1,029 billion for 1998, a new record for the recently privatized companies in Brazil (Company Report, 1999). Valepar, a consortium of Bradesco (a private bank); BNDESPAR (investment branch of the Brazilian Development Bank [BNDES]), and several pension funds, currently controls Vale. Although the government no longer had a direct stake in the company’s operation since privatization, it was still able to influence the company’s strategy through BNDES and the state pension funds such as Previ (Bank of Brazil Pension Fund), Funcef (a savings bank pension fund) and Petros (Petrobras’ Union Pension Fund), all of which were shareholders. The government also bought back a fair amount of Vale’s share to regain control of the company in the mid-2000s.

Until its privatization in 1997, Vale was predominantly a national company, which concentrated mainly on the national market for iron ore. It remained loyal to its ethos as a state-owned company until Roger Agnelli’s appointment as CEO in 2000. The former banker put together a team with banking and asset management experience. Agnelli’s ambition was for Vale to become the global mineral industry leader: “It would be no surprise for Vale to find itself among the biggest and best companies in the world. (...) Or rather it won’t be a surprise, but it will still need a lot of work.” He also believed in geographical and product diversification. He noted that:

Vale used to be fundamentally an iron-ore company. Today, it has the biggest portfolio of investments in the global mining industry. We used to operate essentially in Brazil. Now we are in 36 countries.

In terms of design, since beginning in 2002, global exploration (R&D) has been seen increasingly as a core competence. The Board extended the mandate of DIPM (R&D Department in Belo Horizonte) to purchase, sell, cede, transfer and explore mineral rights. From 2002 to 2011, the department led and controlled global resources for exploration, whereas exploitation activities (mining production and selling) were the responsibility of various units within the corporation. Agnelli granted DIPM substantial power, funds, and independence from other units.

Vale strengthened its exploitation capabilities [exports and related activities] while simultaneously increasing exploration and R&D, aiming to become independent of traditional markets by re-focusing on the less developed markets in Africa and Asia. In accordance with its plans to increase exploitation and exploration in a combined approach, Vale added coal to its portfolio, with coal mining projects in Mozambique in 2003. It diversified further by acquiring interests in potassium (Argentina, 2004) and phosphate (Peru, 2005). Vale took an important step in exploration, as well as in exploitation, with its acquisition of the Canadian company, INCO, in 2006. This enabled Vale to include nickel in its core business and to advance its standing as a global player. In 2007 the company acquired AMCI Holdings and its operations in Australia and China. At that time, Vale also obtained exploration rights in Brazil, Angola, South Africa, Argentina, Chile, Gabon, Guinea, Mongolia, Mozambique and Peru, becoming the fourth largest mining company in the world (Nossa Historia, 2012).

In November 2011, Agnelli was replaced by Murilo Ferreira, whose style and vision had a significant impact on the company’s evolution. One of his first priorities was to refocus Vale on its core in exports of Brazilian iron ore and to scale down the foreign operations. The DIPM unit, which had become one of the most powerful units within Vale and the symbol of its globalization of Vale, saw its power and its leading role in the internationalization wan. Although all global mining firms restructured after the collapse of prices in 2007-2008, Vale’s development was extraordinary.
From that point it re-focused its attention on Brazil and on iron ore, coal and steel primarily. As such, in the last phase the company’s market and non-market strategies were again aligned, and consequently Vale dropped in the ranking of the largest global mining firms.

**Market drivers and strategy**

As apparent in Figure 1, Vale’s internationalization strategy has changed substantially over the past 12 years, and this can partly be explained by a) global changes in demand and supply, b) the nature of the industry. At the macro level, the stunning economic growth of China drove commodity prices to a peak in 2007. In 2013, China consumed 40% of global metal production (PwC 2013). Vale was able to benefit by selling Brazilian iron ore to China. In 2009, China overtook the US to become Brazil’s largest trading partner, with 12% of Brazilian exports and 13% of Brazilian imports to and from China. The export of primary products from Brazil has steadily increased as a percentage of total exports, from 26% in 2001 to 47% in 2012, overtaking manufactured products to become the largest percentage of Brazilian exports in 2010 (UN COMTRADE database).

In 2008, the economic crisis in Europe and the USA began to impact China and prices for metals and minerals plunged, putting an end to the rapid growth of the entire industry. Pressure from the Chinese in 2008 led to a reduction of 45 percent in prices (Musachio, Khanna and Bernhardson 2010). As pressures from China began to mount in 2009, Vale reacted by entering the shipping industry and increasing its competitiveness by including transportation costs in its total price. Over the past decade, the bulk of the value of the global mining industry has been created in emerging economies, as opposed to developed markets, and the growth in demand for metals and minerals was likewise primarily driven by strong growth in emerging markets. In particular, Chinese imports of metalliferous ores and scrap grew to become its third largest single import type in 2012, with an import value of USD $159 Billion (9% of its total imports), as compared to USD $7 billion in 2001 (3% of its total imports), according to the UN COMTRADE database. The economic crisis that occurred in Europe and the US further contributed to drawing attention away from the developed countries to the emerging and less developed markets. Given these changes in demand and supply, it was not surprising that Asian and African countries became the focus of attention of Vale’s strategy during the past decade.

The past decade was turbulent for the global mining industry: Of the top-40 companies in 2012, only 35% were consistently within the top 40 over the past decade. Between 2012 and 2011, there were 5 changes in top 40 companies, of which 3 were replaced by new entrants. In recent years however, starting in 2007, BHP Billiton, Rio Tinto, Vale and China Shenhua have consistently been the top 4 companies in terms of market capitalization. In 2013, the market capitalization of the top 40 players was dominated by diversified global players, which formed 38% of the top 40’s market capitalization (PwC 2013). According to Business Monitor Internationalization estimates, from 2004 to 2012 the value of the global mining industry showed an increase from US$358 Billion to US$1159.5 billion, and the rapid growth and internationalization of Vale has to be seen in the context of a rapidly growing industry, where all major players where cash-rich and expanding. The largest of these players all engaged in diversification as metal and mineral prices were rising across the board. Vale’s strategy was similar to the industry leaders in that it engaged in a race to control resources globally for a range of minerals when facing increased demand from a rising China. When prices fell, all miners restructured, and most experienced changes of strategy and spin-offs, as well as a new CEO.

**Non-market drivers and strategy**

As mentioned, Vale was originally established to help the industrialization goals of Brazil’s government. By the mid-1970s, it had already become the world’s largest iron ore exporter
accounting for 16 percent of the sea-born market for this raw material. By 1976, it was Brazil’s leading earner of foreign exchange.

Vale has been affected by commodity prices as much as it has contributed to shaping them, by offering better deals to the Chinese through the incorporation of transportation costs. It also had to face the reaction of its competitors, Rio Tinto and BHP Billiton, which responded by establishing alliances for price control in the Australian market. Through Vale, Brazil took advantage of China’s growth by tying its own economic growth to that of the latter. The company became a major player for the government in this regard, by not only increasing exports to China, but also by acting as a trade facilitator and investing in logistics in transoceanic transportation. Below we describe in detail the type of non-market forces that impinged upon Vale from 1997 until 2011, when Agnelli resigned from his position as CEO.

First, the privatization of Vale in 1997 had a significant impact on the company’s agenda and performance. State-owned enterprises in Brazil have usually been viewed by the government not only as vehicles for implementation of economic plans, but also as political allies and facilitators of their political agendas. With its export profile, Vale played an important role in the government’s economic policy by generating hard currency in excess of Brazil’s external debt, thereby forestalling interference by the IMF. Second, the appointment of Agnelli as CEO for ten years was in accordance with the neoliberal policies that promoted the largest privatization program in the country’s history. Agnelli, with his 20 years of experience as a bank executive, fitted the requisite profile for the neoliberal government and shareholders alike. Vale’s privatization, nevertheless, left openings for the government’s interference in management’s plans and priorities through the influence of the pension funds and the Brazilian Development Bank. The change of government in 2002 represented a more concrete possibility of the Brazilian government’s interference in the company’s affairs and strategic decisions. Agnelli’s appointment as CEO in 2000 had been secured by Bradesco, which held around 21 percent of Valepar, a controlling shareholder of Vale, less than two years before Lula took office as President of Brazil and the left-leaning PT (Workers Party) became dominant in Brazilian politics.

In order to avoid government influence in the company’s strategy, one of the first measures Agnelli took was to convince the government to sell its remaining stockholdings. He also swapped Vale’s share in CSN with the steel company’s shares in Vale to avoid a situation where Vale was forced to participate the development of the steel industry. Agnelli believed that creating value for shareholders should take precedence over all other priorities, including those of the government. As such, it became essential for Agnelli that the government’s remaining shares were, although, as noted earlier, political influence could still be wielded at Board level through the pension funds’ representation. Despite privatization and the company control now in the hands to private interests, Agnelli still had to confront divergent interests on the Board as, by that time, the influence of the pension fund representatives had increased substantially, via the Central Workers Union, a left-wing arm of PT. Agnelli’s views were that Vale should maintain its core business – the production of iron ore – but should also diversify its product portfolio by engaging in mineral exploration around the world and learning through acquisitions (Khana, Musacchio and de Pinho 2010).

In May 2011 Murilo Ferreira, an experienced mining executives and former CEO of INCO, was nominated Vale’s principal executive following the election of President Dilma Rousseff in 2010. Several press reports suggested that the government had influenced Ferreira’s nomination. He diverged from his predecessor on Vale’s relations with the Brazilian government by considering the latter as the main stakeholder. The Business of Mining, June 22, 2011 summarized Ferreira views and strategic thoughts about the company. Among his ten stated priorities, four were related to the government’s vested interest, namely, improving government relations, discussion of new royalties
and taxes with the government, creating the conditions for development of metalurgical coal business in Latin America, and thus helping to further develop the steel industry in Brazil. In contrast with Agnelli, who seemed to insulate the company from non-market pressures, Ferreira’s sought to accommodate non-market pressures, as illustrated below:

I do not see the need for considering the government’s and the company’s objectives as apart....In fact these are complementary. The governments at the federal, state and municipal levels need to be involved in discussions about setting up a new mine. We need to knock on their door and for a licence to operate. Our objective is to expand our iron ore market in Brazil, considering that Vale’s market share in Brazil has dropped. The steel industry, instead of building new plants, is migrating to the mining business... (Sindiquímica-PR, 2011).

In the period before the election for Dilma Rousseff, tensions between the government and Vale’s former CEO warmed, involving the core of Vale’s internationalization and the strategic intention to diversify its product-portfolio. Besides the encroaching internationalization crisis in 2008, which suggested caution in expansion strategies and downsizing, Rousseff seemed to have other expectations for Vale. Table 1, compiled using newspaper sources and internal documents and interviews, summarizes the type of tensions and issues at stake behind the market episodes that emerged between Vale’s management and the government from 2001-2012. Although Vale’s management viewed the company as a global player whose strategies should be guided by creating value for shareholders, the government, regarded the company as predominantly an SOE whose main duty was to serve the government and its political projects and party. The former CEO’s belief was that the corporate identity should be associated shareholder value, by continuous enhancement of the company’s market capitalization, whereas the government sought to please its supporters, PT and political allies.

Table 1:
Vale and the Brazilian government

<table>
<thead>
<tr>
<th>Tensions/risks at stake</th>
<th>Vale’s Strategic Intentions</th>
<th>Government Interests (plans and views for Vale)</th>
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<tbody>
<tr>
<td>Company ethos</td>
<td>A global player oriented towards the market and generating value for shareholders</td>
<td>Mostly an SOE; facilitator of government’s and party’s political plans and ambitions; contribution to the country’s development</td>
</tr>
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<td></td>
<td>Market value as the main parameter</td>
<td></td>
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<tr>
<td>Growth</td>
<td>Achieve global industry leadership</td>
<td>Vale predominantly a national player</td>
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<tr>
<td>Exploitation</td>
<td>A core competence</td>
<td>Foreign currency generator; balance of payment control; lending to IMF in 2006; income tax revenues</td>
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<td></td>
<td>Bargaining power with the government</td>
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<td></td>
<td>Monopolistic advantages</td>
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<tr>
<td>Exploration</td>
<td>R&amp;D as core competence; product &amp; geographic diversification; big three global positioning ; acquisition as means to achieve exploration/exploitation; investment in shipping (gaining comparative advantage)</td>
<td>No particular interest in Vale becoming a global player; Vale’s contribution to government’s plans; preference for investment inside Brazil in sectors prioritized by the government</td>
</tr>
<tr>
<td>Main stakeholders</td>
<td>Shareholders, controllers, financial sector</td>
<td>Voters and PT political allies</td>
</tr>
<tr>
<td>legitimacy Sources</td>
<td>Customers &amp; competitors, NYSE</td>
<td>PT (Workers Party and political allies)</td>
</tr>
</tbody>
</table>

The two key actors also differed in what they believed should be the company’s goals and strategy. Vale intended to become a global player and mirrored its mining competitors in designing its own strategy, while the government was interested in the company’s value to the national economy and for its role in development plans. Thus, while exploitation activities were seen as ways to finance growth through geographical diversification and innovation in exploration competencies, the
government insisted that the mining industry did not require technological innovation, therefore Vale should become involved in steel manufacturing for use in products with higher technological content. The sources of legitimacy that shaped Vale’s corporate identity were therefore behind a political dispute which fed non-market episodes in different periods of the company’s life.

In other host countries Vale had to confront unpredictable governments as a result of the global race to secure mineral resources in institutionally weak settings. It lost some of the battles for mineral rights to Chinese state-owned competitors, whose governments stood behind them with promises of extensive infrastructure, something the Brazilian government did not match. Although such failures and forced withdrawals due to non-market pressures were not unusual in the industry, they do explain part of Vale’s de-internationalization trajectory. In addition, overseas failures, like the ones in Gabon and Mongolia, were widely publicized and further undermined the credibility of Vale’s strategy at home, in particular when mineral prices came down after 2007.

**Market and Non-Market Strategy**

- Reduction of government’s influence through controlling board nominations and participation
- Gaining geopolitical power through increase in size and scope
- Building legitimacy through and with capital market institutions
- Building legitimacy through cash and tax contributions to Brazil
- Ceding and compromising

**National Player**
State-owned Enterprise

**Innovation and Growth Route**

**Global Player**
one of the ‘Big three’

**Back to previous state and position**

**The Government’s tactic**
- Interference and influence through board nomination and participation in strategic decisions
- Undermining company’s plans
- Retaliation
- Public exposure of conflicting views
- Undermining the CEO’s legitimacy
- Influencing CEO nomination
- Locking an issue in a drawer for future use

**Figure 5: Market and Non-Market Coevolution Dynamics**

**DISCUSSION AND CONCLUSION**

When does non-market strategy in multinational enterprises (MNEs) become a salient factor in the internationalization process of a multinational? Our study of Vale found that a combination of internal factors (ownership, structure and leadership); market-factors (macro-economic, industry changes); and non-market factors (home market pressures) best explains its internationalization trajectory. In this sense, our study supports the literature on non-market strategy drivers (e.g. Hillman et al., 2004; Lux et al., in press), in particular how changes in one or more factors (e.g. home market political change) motivated the firm to engage in new non-market approaches.

**At the firm level**, most research on antecedents of non-market strategy has used large sample studies where firm size, experience and ownership were independent variables (see Lux et al, 2011). Our longitudinal approach suggests that changes in ownership, in firm size and firm experience proved
to be key drivers for non-market behavior. For instance, it was the privatization that initiated a more proactive internationalization strategy for Vale. Also, we found that the relationship between the type of strategies, and outcomes was interrelated. For instance, the increase of Vale’s export earnings yielded the resources to engage in rapid internationalization; and its subsequent performance and size functioned as bargaining power in its relationship with the Brazilian government. We found, however, that one of the most significant internal factors that shaped the non-market strategy was the vision of the CEO. A strong leader can shape the company’s path of internationalization by deciding to go with, or counter coercive pressures from the government and those from shareholders. The study shows that the orientation of the former and current CEOs towards the global versus home country government respectively was crucial in explaining Vale’s internationalization path.

In terms of non-market pressures driving firm responses to internationalization, we find that the literature has focused predominantly on MNEs investments in host countries, particularly how MNEs respond to weak institutional environments (Cuerva-Cazurra & Genc, 2008). We found that the most prominent non-market drivers that impacted Vale’s internationalization were those emanating from the home country environment. The internationalization strategy of Vale was strongly influenced by home market political pressures, in particular, when a change of government led to a new and clear political orientation. These factors overturned the prior internationalization strategy and led to a renewed focus on the home market. The non-market strategy literature has only recently paid attention to the importance of home market environment for emerging market internationalization (García-Canal and Guillén, 2008). Our results suggest that this would be a fruitful future research direction.

In terms of market pressures driving non-market strategies we did see that the nature of the industry, global economic factors, and competitor moves influenced non-market strategies indirectly. In mid 2000s the high prices reshaped the industry perception of political risk leading the major mining companies towards exploration activities in countries characterized by weak institutions. Moreover, China’s reliance on imports of key commodities shaped its diplomatic strategy and resources became a political issue. The Chinese government partnered with resource-rich countries such as Brazil, and also actively promoted Chinese investments in mining, for instance in Africa. This in turn induced other firms to also opt for non-market strategies. Here, too, we see that industry size and competitor moves change significantly over time, and it is these changes that explain some of the non-market strategies implemented by Vale.

In addition, the drivers for non-market strategy and market strategy mutually influenced one another so that market- and non-market factors and firm responses co-evolved. These findings suggest important refinements in our understanding of non-market strategy, as they direct our attention towards the complex dynamics of non-market strategies. We find that the internationalization trajectory of Vale is influenced by this confluence of internal and external drivers, often triggered by one factor (e.g. home market political change) and supported by other factors (e.g. economic downturn). The effects of changes at one level (for instance subsidiary level failure in Africa) indirectly affected another (Brazil’s government using this to undermine the company’s legitimacy). It was the triggering effect and subsequent interactions that caused punctuations in Vale’s integrated strategy in both 2001 and in 2011. This supports the notion that internationalization processes are not linear, but, like other evolutionary processes studied in organizational theory, the trajectory resembles a punctuated equilibrium, with punctuations driven by co-evolving factors that generated company responses (Nelson 1994; Van de Ven and Grazman, 1999; Murmann, 2013). Without understanding how these drivers interacted at multiple levels of analysis (macro, meso, micro) and
how they invited company responses to the market and non-market environment, Vale’s internationalization trajectory cannot be completely understood.

REFERENCES


