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Management control in internationalized Brazilian companies: An eight cases comparative study

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The objective of this study is to determine whether the internationalization of a company's operations has an impact on its management control systems. Using the case study methodology, the paper analyzes eight cases of Brazilian companies with international activities. The research was guided by the premise that, as the geographical scope of a company's operations enlarges, its administrative complexity also grows—demanding the adoption of new and more sophisticated controls systems. The literature on management control (see Anthony & Govindarajan, 1998; Dymment, 1987; Gomes and Amat, 2001; Merchant, 1998; among others) provides a relatively similar treatment to the subject of management control of internationalized companies.

Keywords: Management control, business strategy, internationalization.

El control administrativo en empresas brasileñas internacionalizadas: ocho casos comparativos

El objetivo de este estudio es determinar si la internacionalización de operaciones en las empresas causa algún impacto en el manejo de sistemas de control. Usando el método de estudio de casos, este documento analiza ocho empresas brasileñas que operan a nivel internacional. Se guió el estudio bajo la premisa que cuanto más grande sea el alcance geográfico de una empresa, mayor será la complejidad para administrarla, requiriendo adoptar nuevos y más sofisticados sistemas de control. La literatura sobre control administrativo (Anthony & Govindarajan, 1998; Dymment, 1987; Gomes & Amat, 2001; Merchant, 1998 entre otros) da una perspectiva relativamente similar sobre el tema de control administrativo de empresas internacionalizadas.

Palabras clave: control administrativo, estrategia de negocios, internacionalización.

O controle de gestão em empresas brasileiras internacionalizadas: oito casos comparativos

O objetivo deste estudo é determinar se a internacionalização das operações gera um impacto sobre os sistemas de controle gerencial. Usando o método de estudo de caso, este artigo analisa oito empresas brasileiras que operam internacionalmente. A pesquisa orientou-se pela premissa de que a medida que aumenta o escopo geográfico das operações de uma empresa, sua complexidade administrativa também cresce, exigindo a adoção de novos e mais sofisticados sistemas de controle. A literatura sobre controle gerencial (veja Anthony & Govindarajan, 1998; Dymment, 1987; Gomes & Amat, 2001; Merchant, 1998; entre outros) tratam o tema controle de gestão em empresas internacionalizadas de maneira similar.

Palavras-chave: controle gerencial, estratégia empresarial, internacionalização.

Introduction

The main objective of this research line is to study the internationalization process of Brazilian companies, analyzing the impact on its management control systems.

Uncertainty created by globalization and continuous technological innovation has caused a general environmental instability further complicating management control systems.

This research was guided by the premise that as the geographical scope of a company's operations enlarges, its administrative complexity also grows, demanding the adoption of new and more sophisticated control systems.

Theoretical Framework

The theoretical framework used in this study is the following:

According to Otley (1994), the main environmental changes were: the increase of uncertainty; the size of the organizations; concentration and alliance; and the decline of manufacture. As a consequence for the companies, the speed of changes has brought a growing difficulty to forecast the future.

For Anthony and Govindarajan (1998), the planning and controlling processes of a multinational undertaking are similar to the one of a domestic enterprise, however they must be specifically designed to attend the multinational context.

According to Merchant (1998), the control of a multinational organization is much more complex than the one of a domestic organization for basically five reasons: geographical extent; international transfer

price; high information asymmetry between the corporate management and the people of the businesses abroad; the distances, different languages and time zones and finally, the exchange problem.

For Dyment (1987), the administration of a globalized company should be significantly different from a domestic one, and even from a multinational one, and its management control system structure should be adequate to a global strategy.

Prahalad and Doz (1993), affirm that the growing power over several industrial branches of a small number of global competitors implicates in the need of the multinational organizations to develop a global strategy in complement to the varied local strategies to succeed.

Bartlett (1993), points out that an evolutionary approach of adapting the decision process to a global environmental achieves the same ends with less trauma than approaches based largely on changes in the formal organizational structure.

Finally, Gomes and Amat (2001), emphasize the importance of the culture and the social context in the design of management control systems.

Case Studies

The case studies are respectively: Chadler Industrial da Bahia S.A., a cocoa processor, ABC Engenharia S.A. (disguised name), a project management company, S.A. White Martins, an industrial gas producer, Souza Cruz S.A., a tobacco business, Petrobrás S.A., an oil gas and energy industry, Companhia Vale do Rio Doce, a mining company, Andrade Gutierrez (Cupertino *et al.*, 2000) and Localiza Rent a Car S.A. (Pereira *et al.*, 2000)

Chadler is a traditional family business involved in cocoa processing and export. Management originally lacking formal control mechanisms. Its controls are based on production and financial reports.

The move towards internationalization was strategic, aimed at cost reduction and increase of productivity and profit. The foreign unit still reflects the control system of the national operation, albeit on a simplified structure. Simplicity is, in fact, the system's main characteristic, due mainly to the size of the company and to the owners' direct involvement in daily operation.

ABC is the fictitious name of this contractor, that had been operating only in local markets. High decentralization and autonomy provided to project managers characterize a high degree of professionalism. Great importance is attributed to financial indicators related to the projects—such as revenue, costs and gross margin—and to the achievement of budget goals.

As we can see here, the expansion to foreign markets aimed at taking advantage of a business opportunity. Despite its natural difficulty in formalizing procedures and behaviors, ABC has been using adequate control instruments by the service company's approach.

White Martins operates in the production and distribution of industrial gases, and correlated activities. Company internationalization resulted from a headquarters (Praxair Inc.) strategic decision to grow by penetration in the South American market—initially acquiring control of a company in Argentina. Added to internationalization, emphasis on the need to identify growth opportunities, has provoked company restructuring, under new priorities of competitive market segments. Management control system is geared to facilitate strategic decision making.

Company's strategic management model is process based. This model is supported by multifunctional teams, whose goal is to stimulate information flow and bring more agility to the design of solutions focused on the business and customers' needs. Extensive use of indicators in forecasting and comparing business evolution, aimed at enhancing profitability, liquidity, return on investment, and customers' satisfaction. The control system has the typical structure of control by results (Gomes & Amat, 2001).

Souza Cruz is a multinational tobacco and cigarette company holding over 80% of the Brazilian cigarette market. Group does not use a formal structure of indicators. In spite of being a case of direct investment in an unit located abroad, its control is based in the same mechanisms used to control the national operations.

Company's planning is based on result goals established by the main shareholder and evaluated according to achievement. No formal structure of indicators linking the operational level to the strategic level of the company, although performance controls rely on market and financial indicators. Brazilian operation is divided in business units, which are appraised for their cost and are completely monitored in flows of revenues, results, and credit policy, among others—autonomy is limited to local strategic subjects such as investment and territorial expansion policies, and marketing strategy. The Cuban unit, in its turn, has higher autonomy compared to Souza Cruz, with control over its cash flow, local prices and revenue.

Petrobras was created in 1953 through the Law 2.004, that established the monopoly of the Federal Union about the integral activities of Brazilian industry of the petroleum. Today, its main activities are the creation of units for exploration, production

and provisioning infrastructure for the oil, gas and energy industry, acting in a free, open and highly competitive market.

The Petrobras System includes, besides of the holding activities, five independent subsidiaries with their own management, interlinked to that holding.

Through the strategic plan for the period of 2000-2010, Petrobras demonstrates larger attention to its international performance.

The new model of organizational structure evidences this tendency when presenting a decentralization for centers of responsibility with autonomy levels every time larger, besides the performance evaluation to provide to the employees participation in the results obtained by the company.

It presents characteristics of a global company, once it does not possess the reproduction of the national units in other countries.

The objective of the company is to acquire competitive advantage in terms of costs and incomes through operations centralized in global scale, and their critical activities concentrate at one or few countries.

Stand out that the changes in the management control are related to the end the monopoly at the end of the 90s.

This is because of the new scenery in which the company is inserted requests more sophisticated control systems, taking into account the increase of the internal competition, and on the other hand, with the international competition, fruit of its internationalization.

The Companhia Vale do Rio Doce (CVRD) is the world's largest producer and exporter of iron ore and

pellets and one of the leading global producers of manganese and alloys.

It was a state-owned company and was privatized on 1997.

The fact that 80% of CVRDs revenues are derived from exports and indexed by the Usdollar, creating a so-called natural hedge, shows the influence of internationalization on the monitoring of management practices.

In the Vale do Rio Doce case, in response to corporate transformations over the past years, CVRD's management processes and management follow-up systems have incorporated important aspects of a global company. Many transformations were smooth due to CVRD's experience in exports and in negotiations in foreign currency. CVRD privatization was essential for this movement as a fast management model concerned with creating value to the shareholder replaced the state-owned model, which was slower and overly formal. Privatization and internationalization certainly has been materialized into a change in global strategy and into the improvement on new business opportunities.

Andrade Gutierrez acts in the sectors of heavy construction and participation in public concessions and of telecommunications, being one of the three larger companies of construction of the country. The international activity of company consists of the execution of works in several countries, like Mexico, Argentina, Ecuador, Bolivia, Peru and Portugal.

The company believes in the importance of the employees' participation in the improvement of the administrative processes. So, it is used administration and administrative innovation programs; among these stands out *Work Out*. This technique tries to obtain

the employees' an active part in the evolution of the processes of management of the company, objectifying the people's larger participation in the administration, the invigoration of the current leaderships and promotion of the potential leaderships, the people's autonomy in its processes, the agility in the decisions and in the effectiveness of its implementation and the commitment with solutions with emphasis in the action. As a result of the use of those programs, the company obtained the improvement of the internal communications, the elimination of bureaucracies, besides accelerating cultural changes seeking the people participation in the management and the commitment with solutions and results. The continuity of this process is made through the implantation of the Plans of Action which define the actions, the periods and the responsible persons. Also as part of this process, the company uses the program «*Mapeamento 360*» which allows the implantation of the values and of the culture of the organization, besides supporting the self-development and the improvement of the executives' performance. In the long term, the objective is to obtain subsidies for the administration of careers, remuneration and planning of human resources. It is of standing out, also, the emphasis attributed by the company to its executives' improvement, through the participation in programs of MBA.

The system of information was developed by the own company, and its last restructuring was made two years ago and it consisted of the integration of the several systems that before operated separately: accounting, payroll, cash, projection of results, goals, fiscal area, among others. The planning process works with a horizon of up to five years (duration of the contracts); detailed projections are made for the period of one year being revised every four months. Each division is responsible for its strategic planning.

The control of results foresees EVA's use for check the profitability of the projects. The company adopts an incentive and rewards system based on the execution of the goals of a project and in the result obtained by the company.

Localiza operates in the rent of cars sector, being the company leader of the sector in Latin America and ranked among the ten larger of the world. It is, also, the largest Brazilian franchising company in the service sector. The international operation of the company consists of the franchise of the mark Localiza in Brazil and abroad, acting at eleven countries of Latin America, besides Brazil.

The company has as reference for its administration model the National Program of Quality, of which uses its tools (Strategic Planning, Leadership, Administration of Human Resources, Administration and Analysis of Information, Administration of Process, Satisfaction of the Customer and Result of the Business), properly adapted to its characteristic of service company.

The managerial control system has as prominence the strategic plan, which defines the objectives of the high management and it is constituted in the guidelines for the establishment of the indicators and performance goals to be reached by the sections, functions and areas.

The company adopts several types of control indicators, evaluating the acting of the sections, functions and areas. Some of those indicators are: sales (volume, average price and receivables), maintenance (cost), attendance to the customer (index of complaints), system of information (time of continuous operation) and system of telecommunications (use of the time of use of the satellite). Among the management

tools are the SOL—Sistema On Line that allows the constant change of information among the members of the net, through Internet or for satellite—and the «benchmarking» —through which the well succeeded experiences are disclosed and its practice, motivated.

The reward system is based on a «Contract of Administration» maintained with the employees, in which are established the goals and the rewards foreseen by the reach of the goals, as well as the participation in the results.

The relationships between the company and its partners are based on its Code of Ethics, which establishes the parameters of behavior that should be observed.

Analysis of the studied cases

The analysis of the management control systems of the companies under this study reveals that in the first case, in spite of being a direct investment in a unit located abroad, its control system is exercised according to the same mechanisms—or even simpler mechanisms than the—used to control the national operations. These mechanisms have quite simple characteristics, showing that the company did not adopt sophisticated models, as recommended by the literature on management control in a globalized environment under aggressive international competition (Dymont, 1987).

It can be explained by the partnership and administrative structure that foresees the owners' direct participation in the decisions of the company. Another factor that contributes to this situation is the consolidation moment of the unit, which becomes quite dependent on the resources—in this case, management—provided by the headquarters (Prahalad & Doz, 1993).

Another interesting point regards to the exposure of the negative items regarding to the «Brazilian cost», pointing out the great improvement of the economical-financial performance, presented by significant reduction of its operation costs and by the increase of its productivity.

The second case suggests that the company's choice for internationalization, although not affecting significantly the management control system, which is in some aspects in disagreement with the basic research premise that the internationalization would implicate in changes in the control systems (Dymont, 1987), presents many important points on the control system adopted by the company that keep it quite close to the recommendations of several authors of the area, in respect to service companies (see Anthony and Govindarajan for instance, 1998), mainly the appropriate consideration to the intellectual capital. One of the reasons that there was no impact of the internationalization on the control system is the fact that the moving cannot be characterized as being a strategic decision of the company; it was basically taking advantage of an opportunity in a due time. This is reinforced by the fact that the Argentinean branch operations are practically paralyzed. Another point is that in the case of the studied company, it has extended its domestic businesses due to new businesses accomplished in other countries. As an adviser company, which customers' portfolio is a significant factor to do new businesses, the international exposure seems to have aggregated value to the business, making possible the realization of new important national projects that before the internationalization were assisted by foreign adviser firms.

In the third case, the difficulty and complexity degree of the operations were emphasized, imposing to the areas responsible for the control of activities typical

of the commercial trade a great care. It was observed that this case exemplifies in a quite appropriate manner the main aspects mentioned in the management control literature as to the need of using broader control indicators to deal with the present growing complexity. It is worth mentioning that, from the studied cases, this is a case that is characterized as a great size organization (according to the Brazilian patterns), with units spread all over the country and the continent, consequently, being obliged to use a quite more complex management control system than the other cases. It is also interesting observing that the process of adaptation of the control systems seems to follow the pattern of reorganizations of the formal structure more than the gradual process of changing people, relationships and processes, as described by Bartlett (1993). According to the collected results, it is observed the importance of considering significant the situation and organization variables in complement to the usual financial measures, to attend to the interests of the several organizations' collaborators, in an efficient and effective way.

Finally, in the Souza Cruz case, in spite of being a case of direct investment in an unit located abroad, its control is based in the same mechanisms used to control the national operations. Although a wide set of control indicators used, there is no link between them and the strategic objectives, so the company stands far from the sophisticated models recommended by the literature on management control in globalized situations under a stirring international competition (Dyment, 1987). The fact of being an unit in its consolidation phase makes the foreign unit still dependent on resources—in this case, strategic management—provided by the headquarters (Prahalad & Doz, 1993). It is remarkable that the decision to

invest abroad was a strategic decision of the group's top administration—trying «to occupy empty spaces» in an important virtual market—and not exactly of the study of this company, what explains the great autonomy of the Cuban operation in relation to the Brazilian operation.

Summary

Through the study of eight cases of internationalized Brazilian companies this work aimed to confront theory with practice.

As it can be observed, the results obtained, although not a general rule, reinforce the conclusion of a previous research (Martinewski & Gomes, 2000, 2001) that there are circumstances in which the internationalization of a company's operations does not necessarily involve a wide sophistication and complexity of the management control system.

According to these results, it is possible to see the importance of considering the significance of the contextual and organizational variables, besides the usual financial metrics, so as to serve the interests of the different stakeholders in the organization in an efficient and effective way.

As a subject still very little explored in the area of management control, the conclusions of this study enhance the perspective of new researches in the accounting and management control areas—mainly those that taking into account differentiated methodology offer the possibility of data generalization—in order to explore the reasons which lead to verify that the behavior foreseen by Dyment (1987) did not occur in Brazilian companies with international businesses.

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