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DETERMINANTS OF INTERNATIONAL ENTRY MODE CHOICE: A CASE STUDY OF A BRAZILIAN MULTINATIONAL

**DETERMINANTES DA ESCOLHA DO MODO DE ENTRADA INTERNACIONAL:
UM ESTUDO DE CASO DE UMA MULTINACIONAL BRASILEIRA**

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ABSTRACT

The process of decision making on the mode of entry is a complex issue in international business because of the many factors involved, and also the impact that such a decision could imply to a firm's performance in the external market. Despite the existence of several studies on the mode of entry, much of it is focused on the analysis of developed countries or specific cases of emerging Asian economies. So little is known about entry modes adopted by Brazilian multinational companies in foreign markets. Thus, the present study aims to investigate the determinants of the choice of entry mode in the case of a Brazilian multinational. The contribution of this study is to analyze the case of a Brazilian multinational using an eclectic approach based on Peng's (2009) "Strategy Tripod", which includes three sets of factors: the company's resources, institutions and industry. Based on a case study with a qualitative approach, the results showed that all dimensions of the Tripod Strategy were relevant, with special emphasis on the role of networks as a determining factor in the choice of mode of entry into foreign markets.

Key words: International Entry Mode, Emerging Market Multinationals, Internationalization.

RESUMO

O processo de tomada de decisão sobre o modo de entrada é um assunto complexo em negócios internacionais por causa dos diversos fatores envolvidos, e também pelo impacto que tal decisão poderia implicar para o desempenho de uma empresa nos mercados externos. Apesar da existência de diversos estudos sobre o modo de entrada, grande parte deles está focada na análise dos países desenvolvidos ou de casos específicos de economias emergentes da Ásia de tal modo que ainda pouco se sabe sobre os modos de entrada adotados por empresas multinacionais brasileiras nos mercados externos. Assim, o presente estudo tem o propósito de investigar os fatores determinantes da escolha do modo de entrada no caso de uma empresa multinacional brasileira. A contribuição do estudo reside em analisar o caso de uma empresa multinacional brasileira, usando uma abordagem eclética baseada na "Tripod Strategy" de Peng (2009) que integra três conjuntos de fatores: recursos da empresa, indústria e instituições. Com base num estudo de caso, com abordagem qualitativa, os resultados mostraram que todas as dimensões do Tripod Strategy foram relevantes, com especial ênfase para o papel das redes como fator determinante na escolha do modo de entrada em mercados externos.

Palavras-chave: modo de entrada internacional, empresas multinacionais emergentes, internacionalização.

INTRODUCTION

Studies about international entry modes through foreign direct investment (FDI) have proved to be relevant: first, because of the relatively irreversible feature of FDI as a strategy of internationalization; second, because of the multiple variables that influence the decision choice of the Multinationals to serve foreign markets (Buckley, 2006). Empirical studies have shown that strategies of entry modes directly impact on other strategic decisions and strongly influence the organization performance (Chen and Hu, 2002; Brouthers and Hennart, 2007). According to Brouthers and Hennart (2007), the entry mode strategies of multinationals into foreign markets can be analyzed considering two perspectives: ownership and establishment mode. Modes of entry that involve ownership are divided between wholly owned subsidiaries (WOS) and joint ventures (JV), while the entry modes by establishment mode can be divided between acquisition and greenfield.

The internationalization process of Brazilian firms has been studied by several scholars. Fleury and Fleury (2011) have focused on the general environment that shaped the internationalization path of Brazilian Multinationals and on identifying their skills. Stall and Cuervo-Cazurra (2011) studied the impact of the institutional environment of the origin country on the internationalization of Brazilian multinationals. Amal *et al.* (2010) sought to assess the impact of economic and institutional factors of the home country on Brazilian foreign direct investment. Nevertheless, few scholars have focused their research on the entry modes of Brazilian multinationals. Adum (2011) has analyzed the impact of the transaction cost theory and institutional theory in the decision making process of entry mode of Brazilian multinational companies in foreign countries. Dias (2012) has addressed the effects of economic, cultural and institutional distance on the Brazilian Multinational Subsidiaries performance. Chueke and Borini (2012) also studied the association between institutional distance and the strategies for international entry mode choice of Brazilian Multinationals, more specifically to test their effects on acquisition or greenfield entry modes.

Thus, using Peng's (2009) eclectic approach this paper seeks to contribute to the literature of international business in two ways: first, identifying the international entry mode choice by WEG, a Brazilian Multinational; second, we will test the effects of company resources, industry, and institutional environment factors in the host country, following Peng's (2009) "Strategy Tripod" Model.

Originally, the Tripod Strategy Model was developed as a general approach to show how the three leading perspectives in strategic management impact on organization performance (Peng *et al.*, 2008; Peng *et al.*, 2009; Peng, 2009). However, due to our research question, we will extend such approach to address how resources, industry and institutional environment influence the international entry mode choice by a multinational company from an emerging economy. Other studies have

also applied such approach, like Cui *et al.* (2011), to analyze the case of Chinese multinationals, others have focused on the institutional pillar of Peng's approach (Chan and Makino, 2007).

Thus, in this paper, we will address the following research question: What are the effects of resources, industry and institutional environment of the host country in the international entry mode choice of a Brazilian multinational company?

Studying a Multinational Company (MNC) from a developing country represents a challenge to the mainstream literature of FDI: first, because a large part of the theoretical perspectives has considered the case of MNCs from developed countries (Dunning, 2000); second, in the literature of International Business, several scholars have pointed out that MNCs from developing countries do not hold the same competitive advantages and capabilities and that their internationalization path is shaped and highly influenced by the negative effects of the institutional home country environment and its level of development (Ramamurti and Singh, 2009).

Through a single case study, in order to get in depth information, we utilized a qualitative approach. The data collection instrument used was an interview. We will address the decision choice of entry modes into foreign markets and their determinants by the company WEG, a multinational which is the 13th most internationalized company in Brazil (FDC, 2012). In the next section, we will review the literature about entry modes into foreign markets and their determinants. The third section describes the method procedures. In the fourth section, we will present the case study, and then, in the fifth section we will discuss the results of the study. In the last section, we will present the main conclusions of the study.

THEORETICAL BASIS

This section presents the multinationals modes of entry through Foreign Direct Investment (FDI) and the factors determining the international entry mode choice according the "Strategy Tripod" (Peng, 2009).

ENTRY MODES THROUGH FOREIGN DIRECT INVESTMENT (FDI)

The international market entry mode is "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country" (Root, 1994, p. 5). This process can combine different risks that must be evaluated in advance when making the decision.

According to Root (1994), from a management perspective, entry modes can be classified in three main modes: export entry modes, contractual entry modes and investment entry modes. In this study, we will focus specifically on the investment entry modes used by a Brazilian multinational enterprise, which involve ownership of manufacturing plants or other production units in the target country. Foreign production affiliates may be classified into two groups according to the

criteria of ownership and establishment: the first group is represented by sole ventures with full ownership and control by the parent company, or by a joint venture with ownership and control shared between the parent company and local company. The second group is represented by the form of establishment, which means that an international company may start sole venture from scratch (greenfield) or by acquiring a local company (acquisition).

Thus, according to Brouthers and Hennart (2007), decisions regarding the modes of entry through foreign direct investment (FDI) can be addressed in two ways, ownership and establishment mode. The form of ownership, that can be divided in wholly owned subsidiary (WOS) and joint venture (JV), expresses the degree of control that MNCs intend to carry in their subsidiaries. The form of establishment, which considers acquisition and greenfield investment, shows how the company seeks to establish and to implement its investment in the host country. Both have important consequences for the performance and competitiveness of multinational firms in markets where they will operate. Furthermore, the advantages of using the two forms of ownership control and form of establishment for setting types of entry modes (Brouthers and Brouthers, 2000) hereby serve the purpose of testing a model that uses institutional, cultural and transaction costs to predict the choice of entry mode of organizations abroad. In previous studies, such as Hennart and Park (1993), the theory of transaction cost was used to explain how an organization chooses between greenfield investments or acquisition. In more recent studies, such as Brouthers and Dikova (2010), variables including environment, industry, market and business experience were evaluated, showing that the choice of entry mode directly influences the performance of the subsidiary in the host market.

DETERMINANTS OF INTERNATIONAL ENTRY MODE CHOICE

There are several approaches to analyze the determinants of international entry modes choice by multinational enterprises from an emerging country. Cui *et al.* (2011) developed a framework that extends the current understanding of how Chinese firms choose FDI entry mode by Strategy Tripod Model (Peng *et al.*, 2008; Peng, 2009).

The Strategy Tripod model summarizes factors in three major dimensions or perspectives to explain the strategy of an organization: (i) the resources and capabilities of the organization, (ii) the industry's competition environment in which the company is inserted, (iii) the variables related to the institutional environment. According to Peng (2009), these three factors that influence strategy are directly linked to the performance of the firm, but as the focus of this paper is to analyze the determinants of entry modes choice, we will not discuss how the strategy affects the firm's performance.

International entry mode choice is a strategic decision (Chen and Hu, 2002; Brouthers and Hennart, 2007). Cui *et al.* (2011) argued that a balanced "strategy tripod" model can capture the forces behind emerging-markets firms outward investment and therefore better explain firms FDI entry mode decisions. In order to deeply assess the elements outlined in the Tripod model, we sought to integrate theoretical perspectives that bring elements with direct influence in entry modes for each factor highlighted by Peng (2009).

Originally, the Tripod Strategy Model was developed to show how the three leading perspectives in strategic management impact on organization performance (Peng *et al.*, 2008; Peng *et al.*, 2009; Peng, 2009). However, due to our research question, we will approach the model using two delimitations.

First, the model was developed mostly to address the effects of industry, resources and institutional factors on the firm's strategy. We will, in the present paper, focus only on one part of the internationalization strategy, which is international entry mode choice by FDI strategy.

Second, the Peng *et al.* (2009) approach introduced the institutional-based view of strategy as a dynamic interaction between institutions and organizations and considers strategic choices as an outcome of such interaction. Since our objective is to address the international entry mode choice, we will focus on the effects of the host country factors. In the International Business Literature (Kostova, 1997; Kostova and Zaheer, 1999), the concept of Institutional Distance has been largely discussed in order to understand how firms cope with the differences between home and host country institutional differences and to which extent they do overcome the liability of foreignness.

Therefore, we will analyze institutional environment considering the host country perspective, and not the original approach. The meaning behind such adjustments in Peng's framework is to discuss to which extent host country factors influence the decision of entry mode choice by a Multinational Company. On the other hand, focusing on the host country will allow a better understanding of how a Multinational that does not hold the same ownership advantages as those from developed countries (Cuervo-Cazurra, 2007, 2008) will cope with host country constraints in the international business.

Figure 1 illustrates the model suggested to discuss the case of a Brazilian MNC and how resources, industry and institutional environment factors of the host country affect the decision choice of the entry mode.

RESOURCES:

According to Johanson and Wiedersheim-Paul (1975), the main barriers to the internationalization of a company are the lack of knowledge and resources. The lack of market knowledge may increase the investment risk perception, so companies often begin their internationalization process in neighboring countries, where culture and the market are known and where resources do not need to be spent in large volumes. Following the principles

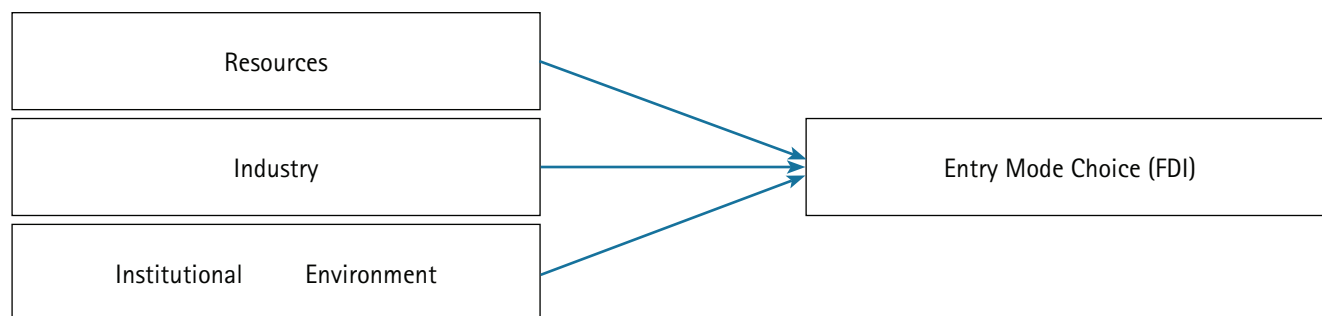


Figure 1. *Strategic Tripod Model*.

Source: Adapted from Peng (2009).

of this work, the more resources are committed to a market, the greater is the company's commitment in that country.

The Resource-Based View argues that companies which have specific capabilities and resources will be able to be distinct from other organizations, but to fulfill this role, resources must be valuable, rare, inimitable, and non-substitutable (Barney, 1991). The resources can be tangible or intangible. Among the tangible resources are the financial resources, physical, technological and organizational infrastructure. The intangible assets are as follows: human resources, innovation and reputation (Peng, 2009).

Contributing to the view that resources are important factors in choosing the international entry mode of an organization, Johanson and Vahlne (2009) revisited the Uppsala Model (Johanson and Vahlne, 1977) and added the role of networking within the international business environment. The authors assume that the business networking vision covers not only the company's resources, but also the partner's needs, capabilities, strategies and even other relationships established that could end up as an enterprise resource.

At the company level, Kogut and Singh (1988) identified different resources that may contribute to the competitiveness of the company. According to the scholars, the diversification of the markets where the company acts enables it to compete with efficient management practices and productions. Generally, the more the company is committed to the diversification of markets, the greater are the chances of making acquisitions in other countries. The experience in foreign markets is highlighted as another important factor within the resources at the enterprise level, as well as the size of the investment that the company intends to spend.

Thus, it seems that tangible resources – financial, physical, technological, organizational – and intangible assets – human, organizational culture, innovation and reputation, as well as networks of relationships (networking) – are presented as important determinant factors of the entry mode choice adopted by multinationals in foreign countries and are even more relevant for multinationals from emerging countries which intend to set up subsidiaries in other countries.

INDUSTRY

The strategic line that guides the determinants of the industry discussed by Peng (2009) was presented by Porter (1980) and is composed of factors such as competitiveness among firms, barriers to new entrants, suppliers' bargaining power, buyers' bargaining power and substitute products or services. However, the industry structure is modified according to the standards of the country. Thus, one of the factors highlighted by Porter (1980) is the technological process of the company, which depends directly on the external environment, consumers, competitors and competitive suppliers. The higher the dynamism of the competitive environment in which the company operates, the greater the possibility of a subsidiary to develop a sustainable strategy of action in that market, and this requires a constant search for innovation and competitive advantages (Birkinshaw *et al.*, 1998).

Kogut and Singh (1988) point out the importance of the spending on R & D and also on advertisement and media as variables that compose the factor industry in determining modes of entry into foreign markets. This way, according to the type of industry, companies decide to enter foreign markets for several purposes, like the search for technological resources or acquisition of a known brand name in the host market.

Therefore, to capture the effects of the industry factor that determines the entry mode of multinationals, we will consider Porter's five forces that drive competition in the industry (1980) described in his diamond framework, which are: rivalry among competitors, threat of potential entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products.

INSTITUTIONAL ENVIRONMENT

According to North (1990, p. 3), "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction". From the standpoint of Scott (2008, p. 48), "institutions are comprised of regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life".

The importance of understanding the role of the institutions is because they can involve a variety of arguments and then attempt to identify the key analytic elements that give rise to the most important differences observed and debates encountered (Scott, 2008). Furthermore, institutions can perform the role of reducing uncertainty and providing a general framework to guide human interaction (North, 1990).

Beginning in the 1950s scholars began to connect institutional arguments to the behavior and structure of organizations. However, only in the 1970s, a new approach, labeled neoinstitutional theory, started to take into account the role of institutional uncertainty and its impacts on the structure of the organization (Scott, 2008). Nevertheless, DiMaggio and Powell (1983) identified the organizations isomorphism as an important consequence of competitive and institutional process, and distinguished three important mechanisms – coercive, mimetic and normative, so through these mechanisms the organizations go toward social acceptance in a market.

The literature distinguishes between formal and informal institutions (North, 1990). Formal institutions include laws, regulations and rules, which are commonly supported by the coercive power of the governments. Informal institutions include norms, culture and ethics. Informal institutions are supported by the internalized, taken-for-granted values and beliefs that guide individual and firm behavior (North, 1990).

The social acceptability and credibility of the organizations in a social environment is employed by sociologists as legitimacy. Scott (2008) distinguished the tree pillars of institutions – regulative, normative and cultural-cognitive. The concept of the regulative pillar covers rules, laws and sanctions. The indicators of the normative pillar are certifications and accreditation, while the cultural-cognitive pillar refers to common beliefs, shared logics of action and isomorphism. Kostova (1997) used the tree pillars of institutions to develop a measure of the institutional distance between two countries.

The establishment of multinational companies in a variety of countries implies that they have to face and cope with different institutional environments. This process has a particular consequence regarding the way in which MNCs go through the legitimation process in those contexts. It is important to point out that the legitimation in foreign markets is mainly settled in the acceptance of the organization in the context where it acts, and that the degree and level of such acceptance may influence significantly its success and survival in those contexts (Kostova and Zaheer, 1999). Considering the impact of institutions on organization strategies for the choice of entry mode in foreign markets, the first feature that can be highlight is the performance of the national government (Doz, 1986). According to Bartlett and Ghosal (1992), the features of the site where one decides to deploy a multinational subsidiary is very important because depending on the location, different strategies must be adopted. For the government, the location decision of a company is an important issue, since such

decision may have important consequences for the regional development (Doz, 1986).

An important variable in the institutional context for the Uppsala approach is the psychic distance. According to Johanson and Vahlne (1977), the process of internationalization of firms is gradual because of the uncertainties and imperfections of information regarding the new market that increase with distance. This difficulty in understanding environmental factors has been called psychic distance. The authors assume that the greater the difference between the home country and foreign market, the greater the level of uncertainty.

In order to identify the elements of the institutional environment, the literature points out the following formal and informal indicators: first, the factors related to the restrictions of the host country, such as rules, trade barriers, physical, financial and technological incentives; second, the factors related to the level of informal institutions as norms and culture of the host country and the effects on the entry mode choice.

EMPIRICAL STUDIES ON MODES OF ENTRY OF MULTINATIONALS FROM EMERGING COUNTRIES

Several are the studies about modes of entry by MNCs through FDI. Most of them are concentrated on the analysis of multinationals from developed countries (Brouthers and Brouthers, 2000; Cho and Padmanbhan, 1995; Brouthers and Dikova, 2010) or emerging Asian countries (Rajan and Pangarkar, 2000; Chiao *et al.*, 2010; Cui *et al.*, 2011).

An important contribution about multinationals from emerging countries was conducted by Ramamurti and Singh (2009), which explain how multinationals from emerging economies have used their competitive advantages in their internationalization process. These come mainly in the context of the origin country, whether by natural resources, market size, low cost of labor force or high levels of market growth.

In Brazil, some few scholars have addressed internationalization and its motivations by multinationals. Fleury and Fleury (2011) consider that the internationalization of Brazilian companies can be explained by factors related to the difficulties and uncertainties they face in their own home market environment and its evolution. Rocha *et al.* (2007) pointed out the reasons that drive internationalization of Brazilian firms such as the desire for growth, support for export activities, monitoring of the client, access to resources and strategic assets, branding, access to protected markets of leaders and new business opportunities.

Studies in Brazil about the mode of entry show that Brazilian multinationals have a higher preference for WOS instead of joint ventures and that the main reason for this is to protect the firm's specific advantages (Rocha *et al.*, 2007); while to Barretto and Rocha (2001) such behavior is directly linked to the Brazilian culture, where power and control are not easily shared with foreign organizations. In choosing the types of investments through the establishment form, green-

field or acquisition, the differences are found depending on the type of subsidiary or on the reason for the company's sector performance. Thus, companies in mature industries, like steel, cement, beer and textiles have opted to purchase smaller units in other countries, and companies such as the ones in the metal-mechanic sector tend to invest in wholly owned subsidiaries (Rocha *et al.*, 2007). According to Adum (2011), the directors of Brazilian multinationals are more likely to choose the entry mode adopted by other Brazilian multinationals predominantly in the same market than to choose the way that this multinational has already adopted in the same country.

However, in the Brazilian and in the international business literature, there is still a lack of studies about the determinants of entry mode choice by Brazilian MNCs and particularly about how the resources, industry and the institutional environment factors of the host country influence the mode of entry choice in foreign markets. In the next sections, we will describe briefly the method and then we will present the case and discuss the results according to the objective of the present paper.

RESEARCH METHOD

The purpose of the present study is to provide an analysis of the factors that influence the international entry mode choice of a Brazilian multinational company. In order to reach this objective, we adapted the Strategy Tripod developed by Peng (2009) to demonstrate the effects of three dimensions in determining the strategy of entry mode into foreign markets, which are: resources, institutions and industry. Within the entry modes strategies, we will focus on the entries modes

through FDI, which can be generally classified according two categories: establishment and ownership. In the first case, the distinction is between acquisition and greenfield, and in the second case, joint venture (JV) and wholly owned subsidiary (WOS). Thus, the suggested model attempts to verify the effect of the dimensions: resource, industry and institutions environment on entry mode, according to Figure 2.

To achieve these purposes, we utilized a case study of a Brazilian multinational company, named WEG that performed FDI in several countries. According to Yin (2003), a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly defined. Data collected for the construction of this work were retrieved from the document "Internationalization Process", supplied by the company in November, 2011, and from the website of the organization. In order to discuss the determinant factors of mode of entry, we run two interviews with two executives of the company. Both of them are directly involved in the planning and execution of the internationalization strategies of the company. Based on a semi-structured questionnaire, we discussed mostly the effects of the categories identified in the literature, and more specifically the variables related to the tripod model.

The first interview was with Mr. Sérgio Luiz Silva Schwartz, Executive Vice President since 2007, who was in charge of the International Division during three years. The interview took place on November 29, 2011 in the town of Jaraguá do Sul at 1:30 pm, at the company's headquarters building. The interview took 97 minutes. The second inter-

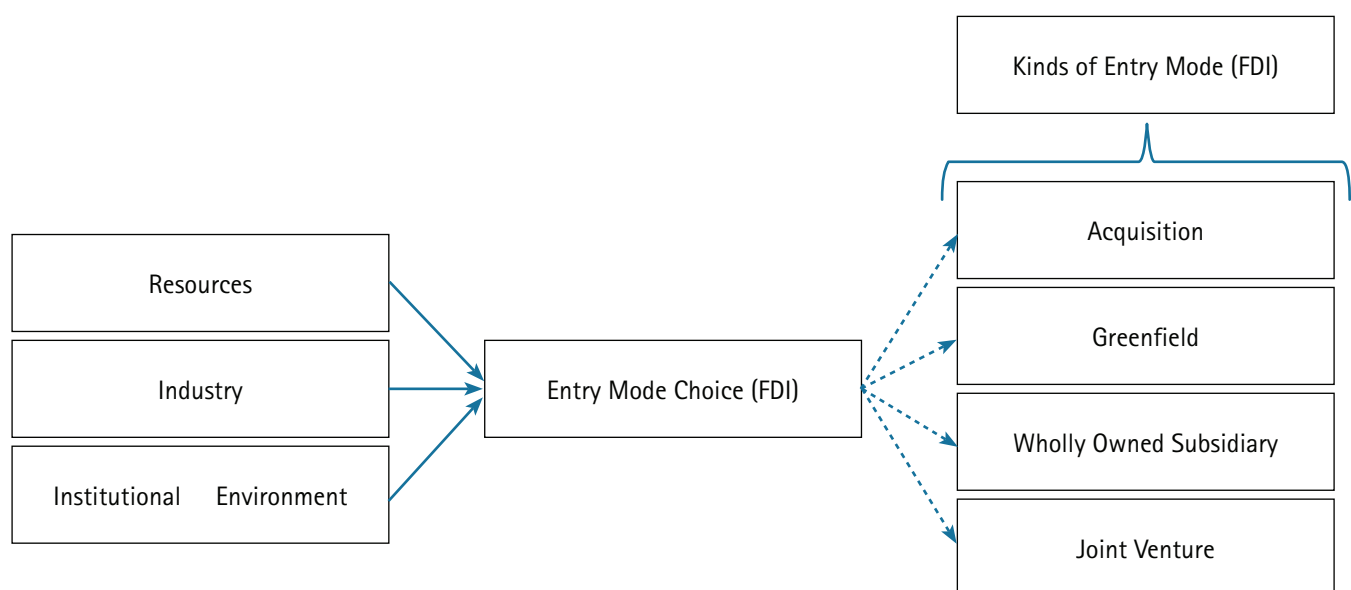


Figure 2. Determinants of entry mode choice.

Note: (--->) = different modes of entry by MNCs entering into new markets through FDI.
Source: Adapted from Peng (2009) and Brouthers and Hennart (2007).

view was conducted with Mr. Celso Vili Siebert, currently the Senior Consultant of the company, in charge of examining foreign direct investment. The interview took place on April 11, 2012 in the town of Jaraguá do Sul, in the consultant's office, in the Sales Department of WEG motors. The interview took 95 minutes. The narratives were recorded, transcribed and summarized here. The orientation of the questions did follow a particular model described below. Table 1 presents the categories of analysis.

The construction of the categories of analysis was based on our own research questions that guided this study, which are: what were the entry modes choices of WEG in foreign markets? And what are the effects of company resources, industry, and institutional environment in the host country for the choice of entry mode (acquisition or greenfield/wholly owned subsidiary or joint venture)? As a research limitation, the present study has focused on studying the effects of the tripod factors considering the host country perspective, and not the interaction between home and host country. This may be suggested as future research studies.

THE INTERNATIONALIZATION PROCESS OF WEG

DESCRIPTION OF THE COMPANY AND STRATEGIC VISION

The multinational WEG is one of the largest manufacturers of electrical equipment in the world. It operates in the areas of electrical motors – control and protection, variable speed control, industrial process automation, power generation and distribution, and industrial paints and varnishes. According to the website of WEG, in 2011 the company recorded a total of 24.580 employees and total annual revenues of R\$ 6,13 billion. According to the Senior Consultant of the company, their main goal now is to grow in order to reach a turnover of R\$ 20 billion until the year 2020. To achieve this goal, the company decided to make acquisitions and direct investments that have synergy with the company under a global expansion strategy.

In its manufacturing facilities in Brazil, WEG controls all stages of production, from casting, stamping to enameling and packaging. The company is located in the State of Santa Catarina, where the company was founded in September 1961.

Since the year 2000, through the acquisition of manufacturing plants abroad, WEG became definitively a Brazilian Multinational company. Currently the company sells to more than 110 countries, has distributors and commercial agents in 85 countries and more than 1100 technical assistants covering five continents. Recently, the company has acquired new subsidiaries in Austria and the United States. Since its foundation, and until 1969, the company operated exclusively in the domestic market. During this phase, WEG has faced difficulties in the domestic market. First, the company's brand is little known. Second, due to its business location and logistic costs, the companies faced several problems to gain distributors and to acquire raw material and components. To overcome such logistical barriers, WEG decided to expand its investment in the backward and forward of the value chain, creating its own sales subsidiaries.

STAGES OF INTERNATIONALIZATION

The process of internationalization of WEG, according to its Vice-President, began through the internationalization of its human resources in order to develop a long run strategy to enter foreign markets. The internationalization process can be divided into four main phases. Until the 1970s, export was the main form of insertion into foreign markets, corresponding to early internationalization. The second phase was characterized by the international expansion through the geographical market diversification, entering different new markets. In the third phase, the company expanded its commitments in the foreign markets through the establishment of sales subsidiaries and its own distributors, starting a process of internationalization through Foreign Direct Investment. The fourth stage, which began in the 2000s, encompassed the acquisition of productive plants. While the first two phases (I and II) focused on WEG's entrance into strategic markets through export and the construction of internal resources to support the internationalization of the company, the third and fourth phases represented two important stages to guide the company to act strategically as a global player in the sector of electric motors. WEG has always been aware that to serve new markets, many resources should be spent as well as a long-term vision should guide its actions. Factors related to competition in the

Table 1. *Categories of analysis.*

Strategy tripod dimensions	Categories of analysis
Resources	Financial, physical, technological, organizational, human, organization culture, innovation, reputation, networking.
Industry	Rivalry among competitors, threat of potential entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products.
Institutions	Investment constraints, rules, trade barriers, technological, financial and physical incentives, norms, culture.

electro-mechanical industry in which the company operates require significant investments so that internationalization has a relatively irreversible character, which means that once the decision to enter foreign markets is taken, the commitment to the market would be established, and remaining in the market would become compulsory no matter conjuncture issues.

The second phase of WEG's internationalization process happened in the 1980s with the conquest of new markets by extending the network of dealers and distributors, dealer network, creating a foreign trade department, product certifications, participation in international fairs and encouraging the learning of English. The entire structure of international organization was predominantly controlled by foreign commercial agents, which characterized a period of no-investment in the international expansion of the firm. The third phase started in the late 1990s, when the company decided to extend its commitments in the foreign market through different mechanisms and structural organizations, like the establishment of its own commercial subsidiary, the creation of its own trade company (WEG exports), and the expatriation of the employees to the most important export markets. During this phase, several sales subsidiaries were created. The first subsidiary was opened in the United States, then other subsidiaries were established in Belgium (1992), Argentina (1994), Germany and Australia (1995), England (1997), Spain, France, Sweden (1998), and Mexico (1999).

The fourth phase of its internationalization process started in 2000 with the establishment of factories (production subsidiaries) abroad (Argentina, Mexico, Portugal, China, India, Austria and the United States of America) in order to obtain coverage worldwide. The company now has global customers. Despite the main objective being the conquest of markets for each country, there were different motivations that guided these deployments. Figure 3 shows the year of implementation of the factories in their respective countries.

In Argentina, the acquisition of the factory was motivated by the need to consolidate its position by creating protective barriers against new market entrants in Latin America. The institutional landscape of Argentina at the time was an economic crisis that led many companies to abandon the market. WEG saw the crisis as an opportunity and opened its new manufacturing subsidiary to protect its leadership in Latin America.

Deployment in Portugal sought the inclusion in the European community with the opportunity to join the network of companies in that sector in Europe as a local manufacturer and not as an importer. This strategy allowed the company to have access to financial resources and capacity for expansion of the company, offered by the local government.

The deployment of a plant in Mexico had the main purpose of serving the American market. The American institutional environment had a great influence in this company strategy. Because of the sales growth in the U.S. as well as the implementation of NAFTA (North American Free Trade Area), WEG decided to choose an entry mode by FDI. The integration of the company in Mexico through a subsidiary production allowed the company to avoid the impacts of trade barriers imposed on products from outside the NAFTA, featuring a typical approach Tariff-Jumping and allowing the expansion of its market share in Mexico, Canada and the United States.

In China, the main motivation for the entry was established by the market pressure itself as the world's largest market. Highly competitive industry and the numbers of this market attracted the attention of many companies. However, the institutional setting did not make it possible to establish the same strategies applied in other markets, where the internationalization process happened gradually without the application of significant resources. According to the Executive Vice President of the organization, the company's manager intended to start business in China as they had started in other markets. So the first step was to identify some agent or

	Italy (SS)		Chile (SS)							
	Venezuela (SS)		Colombia (SS)		Mexico (PS)		United Arab Emirates (SS)		Mexico (PS)	
2000		2002		2004		2006		2008		2011
	2001		2003		2005		2007		2009	
Argentina (PS)		Portugal (PS)		China (PS)		Mexico (PS)		Russia (SS)		India (PS)
Mexico (PS)		Netherlands (SS)		India (SS)						USA (PS)
										Austria (PS)

Figure 3. Implementation of factories and branches abroad.

Notes: (SS) = sales subsidiary, (PS) = production subsidiary.

Source: Documents provided by the company.

a distributor and get some knowledge about the market but the rule in China didn't allow that strategy. The trade barriers imposed by the Chinese government, according to the Executive Vice President of the organization, were not generalized to all products. The barriers were applied only to foreign products when the market was intended to absorb the technology, such as electric motors. Therefore, to enter the Chinese market in this specific manufacturing industry, the only alternative to foreign multinationals was through FDI.

In this scenario, it was decided to hire an American consulting firm with expertise in the deployment of foreign investment projects in China. Through an analysis of the market, they identified competitors in this industry and saw a great availability of companies that might be acquired. The issue of the company's control at the time had been changed by the government rules, and nowadays, a foreign company could take full control of a subsidiary in China. The experiences of other Brazilian companies that have settled in China were very important for the decision making about WEG's entry mode in that country.

In the way to get through the installation of the factory in India some steps were taken. First, they sought to identify what the best location would be, by hiring an outside consultant who performed an evaluation of acquisition opportunities. After his analysis, they found out that there was no advantage in buying a local company, and got the option for a greenfield project, which was developed within a project investment. Soon the project was implemented and released.

During the implementation process, the influence of the local government in the business was very limited. No government support was available, all instructions were responsibilities of the commercial agent, who became a partner in this process of internationalization and assumed the position of Commercial Director of the business. The selected destination for the installation of the company was a major area of foreign investment that had been quickly developed, however, they could not identify any specific advantage attributed to this location, besides the fact that it was geographically close to the sales subsidiary of the company.

The acquisition of factories in Austria and the United States was motivated by market opportunities. As WEG intended to increase substantially its turnover by 2020 they decided to accelerate the process of internationalization by acquiring new companies. The factory acquired in Austria produces a product that the company did not manufacture before, which contributes to add value and to expand its portfolio of products. The acquisition in the United States was a casual opportunity and was motivated by the pursuit of new technologies, brand recognition and a properly installed base. According to the Senior Consultant responsible for the acquisition, the company acquired had a strong local presence, with a strong brand equity recognized by potential customers; on the other hand, WEG had a strong investment capability and global presence. Then

they decided to keep the brand name, and add it to the WEG Group. The institutional environment appeared very favorable for the efficient performance of the company in the United States. Its location is an industrial cluster with a lot of skilled labor and related agents such as universities.

WEG intends to settle in many other countries. According to the Senior Consultant, the fastest way is through acquisitions. There is a chief financial officer responsible for that issue, all directors of the subsidiaries are aware of the opportunities in their countries. He further states that the company plans to install production facilities in Eastern Europe, Russia, Africa and to make new acquisitions in the United States.

RESULTS DISCUSSION

In the following section, we discuss the importance of each of the dimensions suggested by Peng's (2009) Strategy Tripod model: resources, industry and institutional environment. WEG's data path of internationalization pointed to a predominant use of the mode of entry into foreign markets through acquisitions and wholly owned subsidiaries, while maintaining a high control over the developments of FDI abroad, as Table 2 shows.

Acquisition has always been considered by the company as the first alternative for its establishment in a country. The higher frequency of this type of establishment was justified by the company as the fastest way to get a return on investment and also more practical to get some knowledge of the market. Greenfield investment is only considered when there are no alternatives for the acquisition of local companies in the host country of FDI, as it was the case in India, where they established themselves as greenfield. Regarding the control of the subsidiary, WEG always tends to choose total control, according to the consultant responsible for evaluating the FDI. The company does not have the organizational culture of joint ventures, believing that through wholly owned subsidiaries the company has greater flexibility in decision making. The joint venture held in Mexico was presented as an opportunity, made possible by the commitment between the owners of the Mexican company and WEG.

RESOURCES

The features and benefits of ownership of the company constituted a framework with essential elements for global expansion. The number of foreign subsidiaries and countries where the company operates highlights the company's international experience, which used different modes of entry in countries where FDI was performed in production units. The experience brought on all FDI was able to provide a learning organization that created global market knowledge, which can be applied to future actions of the company. Among the main features, the human, technological and financial ones stand out. The diversity of human resources working in the company overcomes possible barriers during the process of internation-

Table 2. WEG entry mode choice through FDI in production unit.

Country	Entry Mode Choice	
	Establishment	Control
Argentina	Acquisition	Wholly owned subsidiary
Mexico	Acquisition	Joint Venture
Portugal	Acquisition	Wholly owned subsidiary
China	Acquisition	Wholly owned subsidiary
India	Greenfield	Wholly owned subsidiary
Austria	Acquisition	Wholly owned subsidiary
United States	Acquisition	Wholly owned subsidiary

Source: survey data.

alization. The financial resources are very important to give flexibility to the internationalization process, enabling efficient transfer of technology and knowledge in firms established.

A very important feature highlighted in the research is the factor of social networks or networking. Several examples point to the role of networks in the internationalization of the company. This applies to the acquisition of the plant in Portugal and the acquisition of the factory in Mexico. In both cases, the choice of entry mode was directly influenced by the company's networking. Although entry into the markets of China and India represents an advanced stage of internationalization, it points to the search of network providers or agents for the installation of the company in those markets. It can be concluded that the experiences accumulated by the company through its network have contributed to reduce the effects of psychic and cultural distances between home and the host countries of its investments. In addition, such network positioning and the access to market knowledge were determinant to sustain an accelerated process of international expansion through FDI.

From the analysis of company resources that influence the choice of entry mode through FDI, the case study presented some evidence that the availability of resources offers better conditions to develop different ways of getting into foreign markets. However, acquisition and WOS represent the predominant entry mode through FDI to maintain control over the management of the enterprise. On the other hand, the results showed as well that the greater the company's inclusion in international networks, the greater its ability to reduce the effects of psychic distance, and thus the higher the likelihood to choose the entry mode that best suits the conditions of company resources.

INDUSTRY

Considering the industry's factors according to Porter (1980) competitive forces we identify the influence of forces during WEG's choice of entry mode in foreign markets. The in-

tensity of competition in markets such as Argentina and Mexico was determinant in the choice of the entry mode, because it created barriers to new entrants. Pressure from competitors was a key factor to stimulate the installation via FDI in China and India. In addition, WEG was able to generate benefits by minimizing the costs of providing products and having access to more competitive suppliers. In India, in particular, in addition to other factors, we highlight the role of the commercial agent in the greenfield investment. The choice of modes of entry to allow the company greater flexibility to act was properly applied, thus the company usually chooses WOS and acquisition in order to start its operations with established customers. WEG usually chooses acquisitions that have more representation in the market as in the case of the Argentinean company or of a valuable brand such as the company acquired in the United States, which has more than 100 years of experience.

The case study showed that factors related to the level of competition in the industry may influence the entry mode choice. Industries with a high level of competition seek further acquisition and seek full control through a wholly owned subsidiary.

INSTITUTIONAL ENVIRONMENT

The research considered the role of the institutional environment and found strong evidence of its influence in the choice of entry mode. In China, WEG found several government barriers; the main one was regarding the level of ownership of a foreign multinational company operating in the Chinese market. Shortly before the acquisition of WEG in China, the Chinese government decided to authorize projects using full foreign capital in the country. On the other hand, it maintained control of the company stock investor, through a local group which also played the advisory role during the acquisition process. The institutional context in Portugal was very beneficial when WEG chose the acquisition mode, which provided financial incentives and technology. The location within the

European economic block favored high-performance global access to technologies, which made possible the improvement of product quality, making the company more competitive. According to the environment influences the choice of entry mode can be positive or negative. A positive influence was in the United States, where the acquisition of a brand with local recognition brought advantages like improving the company's image to the customers, and it gained a significant market share (reputation and legitimacy).

The institutional environment in India was the great motivation for a greenfield investment. Their high growth rates showed the country as a very attractive destination for foreign investments. The partnership with a local representative allowed to get into a network of relationships that was able to reduce the perceived cultural distance. The cultural distance in China was considered the most difficult barrier to be overcome during WEG's entry in foreign markets. The nuances of language, immaturity and informal market became real challenges. These barriers were mitigated and overcome by choosing an entry mode which allowed WEG to benefit from the knowledge and resources of their own existing network.

And, finally, it seems that the greater the institutional difference between the country of origin and the host country of FDI, the more likely the company will choose the entry mode through acquisition, thereby facilitating a greater access to networks of suppliers and customers. The insertion of the company in networking reduces the uncertainty related to the institutional environment and encourages a choice of a wholly owned subsidiary entry mode.

FINAL CONSIDERATIONS

The literature on International Business (IB) showed that foreign firms face different barriers that exist because of cultural, institutional and economic differences between the country of origin and host countries of their investments (Zaheer, 1995; Nachum, 2003). The barriers are often called "Liability of foreignness" (LOF). According to Madhok (2012), LOF occurs for several reasons: (i) foreign companies have disadvantages related to the low level of knowledge about host markets of their investments; (ii) secondly, companies must adapt their ownership advantages to different cultural and institutional environments, which should generate different costs and barriers that domestic firms do not have; and finally (iii) foreign companies need to establish legitimacy and be accepted into the host country.

On the other hand, the following features regarding the internationalization patterns between developed and emerging economies have been pointed out in the literature. Firstly, EMNCs are based in countries with low average income per capita and weak institutional infrastructure. On other hand, they present limited ownership advantages, such as technology, brand, and experiences compared to MNCs from developed countries. And, last but not least, they are late comers (Rama-

murti and Singh, 2009), following apparently different paths in terms of countries of destination of their investments. They invest in other emerging countries and in developed countries (Sirkin *et al.*, 2008), acquiring other companies as part of their internationalization strategy (Gubbi *et al.*, 2010). All those differences represent important and relevant challenges to the mainstream theories of FDI.

This study aimed to analyze the factors determining the international entry mode choice of a Brazilian multinational that to many extents is aligned with the main characteristics of MNCs from developing countries. The study was able to contribute in two ways for the international business field. The first contribution was to identify the modes of entry in foreign markets used by a Brazilian multinational named WEG, where the result showed that the most used entry mode into foreign markets is the acquisition form through a wholly owned subsidiary. On the one hand, this may suggest that the company - WEG - has a more control-oriented policy for the establishment of subsidiaries. On the other hand, it suggests that the company is expanding its activities abroad through acquisitions to speed its internationalization process.

The form of establishment through acquisition in this case is in line with the objective of the company, which is seeking for an accelerated process of growth in the global market in order to reach a total annual global revenue of R\$ 20 billion by the year 2020. The policy of the company to get into foreign markets using a higher level of control through WOS can be explained by two factors: the first one is related to the organizational culture itself, and the second one is related to the availability of the financial resources of the company, and to get access to specific resources that may enlarge its capabilities and competitive advantages, like the stakeholders network in the host country.

On the other hand, due to the international expansion of the company in all five continents around the world, and due to the establishment of different production subsidiaries, WEG has acquired much experience and knowledge of how to manage its international expansion and how to select the most effective mode of entry in different markets. That is why the company is planning to expand its activities through production subsidiaries in other regions in the world, like South Africa, Russia and other Eastern European countries.

The second contribution refers directly to the main objective of the study, which was to analyze the factors determining the choice of Brazilian multinationals entry mode in foreign markets. Based on Peng's (2009) "Strategy Tripod" to address the case of a multinational from an emerging market, we suggest, based on the literature review, some evidence that establishes links between resources, industry and institutional environments and how they influence the strategy of entry modes.

The evidence related to the resource dimension suggests that the availability of resources and generators of higher value added products and services provided better conditions to develop

different ways of entering foreign markets. Acquisition and wholly owned subsidiaries represent the predominant mode of FDI to maintain control over the management of the enterprise. On the other hand, the findings suggest that the larger the company's inclusion in international networks, the greater the company's ability to reduce the effects of psychic distance, and thus choose the entry mode that best suits the company resources.

The access to external resources and knowledge is crucial when firms with limited capabilities and experience choose to follow a global strategy of growth. Such resources, tangible and intangible, may be provided by a more efficient positioning in the network in the host countries (Johanson and Vahlne, 2009). In this case, it seems that the strategy to choose the international entry mode will represent a strategic tool to the achievement of this network positioning. Acquisition as a mode of entry will largely contribute to that matter, and, specifically, to the creation and/or enlargement of specific ownership advantages to overcome the liability of foreignness or the liability of outsidership (Johanson and Vahlne, 2009).

To capture the effect of the industry, it was showed in the case study that the intensity of the competition influences the choice of entry mode, and that industries presenting such features are more likely to select acquisition and control through a wholly owned subsidiary as an entry mode choice.

Considering the institutional environment, we concluded that the greater the institutional difference between the country of origin and the host country of FDI, the greater the tendency of the company to choose an entry mode through acquisition, thereby facilitating access to networks of suppliers and customers. In countries with a large culture distance from the home country of investment, like China and India, the role of the agent was important, highlighting the importance of networking to pass through institutional barriers. The finding is in line as well with the study of Peng *et al.* (2009, p. 67) which attests that managers and firms rationally pursue their interests and make strategic choices within the formal and informal constraints in a given institutional framework. However, where formal institutions fail, informal constraints will play a larger role in reducing uncertainty, providing guidance, and conferring legitimacy to managers and firms, according to Peng *et al.* (2009, p. 68). Therefore, the mode of entry selection will reflect on the one hand the resource limitations related to international experience, and, on the other hand, the institutional constraints of the host country that determine the entry mode choice and stimulate modes of entry (like acquisition and joint ventures) that allow the firm better access to market knowledge and to a network that may provide the resources to overcome such constraints.

As a limitation of this study, we may mention the limitation related to being only one case study, which reduces the scope of the evidence, suggesting the need for more in depth studies with other multinationals to confirm the evidence above presented. However, due to the lack of data about

Brazilian Multinationals to run quantitative analysis, we can still promote more in depth and exploratory case studies to compare companies from different industries, different sizes and different regions. A second limitation is related to the focus on the host country perspective by addressing the international entry mode choice. We recommend that future research look at the interaction between home and host country and how it may shape the strategy of Multinational Companies from emerging economies.

These studies will certainly provide information for managers of multinational corporations at the time of decision-making about the entry mode strategy into a foreign market, thus increasing the chances of satisfactory performance in the markets in which investments are made. The contribution of these studies in the academic world leads to a diversity of studies about the choice of entry mode of multinationals from emerging countries.

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