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Does Internationalization Pay off? A Study of the Perceived Benefits and Financial Performance of the International Operations of Brazilian Companies

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Does Internationalization Pay off? A Study of the Perceived Benefits and Financial Performance of the International Operations of Brazilian Companies

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¿Compensa la internacionalización? Un estudio sobre las ventajas percibidas y el rendimiento financiero de operaciones internacionales de empresas brasileñas

A internacionalização compensa? Um estudo dos benefícios percebidos e desempenho financeiro das operações internacionais das companhias brasileiras

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This paper examines the relationship between the financial performance of a company's international operations and the degree of its internationalization in a sample of 73 Brazilian companies. On one hand, the results revealed that companies with a higher performance of their international operations in relation to their domestic operations are less internationalized in revenues, assets, employees, geographic dispersion of markets and value chain activities than their more internationalized counterparts. On the other hand, the analyses showed that more internationalized companies have a greater perception of experiencing the following internationalization benefits: "ability to respond quickly and appropriately to international customers," "strengthening of the competitive position," "geographic diversification and less dependence on the domestic market," "effect of demonstration in the country of origin," and "greater stability in the financial and economic results".

En este documento se analiza la relación entre el rendimiento financiero de las operaciones de una empresa internacional y el grado de su internacionalización en una muestra de 73 empresas brasileñas. Por un lado, los resultados revelan que las empresas con mejor rendimiento en sus operaciones internacionales con respecto a sus operaciones interiores están menos internacionalizadas en cuanto a beneficios, activos, empleados, dispersión geográfica de los mercados y actividades de la cadena de valor que sus equivalentes más internacionalizadas. Por otro lado, los análisis han mostrado que las empresas más internacionalizadas tienen una mayor percepción de los beneficios que se suceden tras la internacionalización: "capacidad para responder rápida y adecuadamente a los clientes internacionales", "afianzar su posición competitiva", "diversificación geográfica y menor dependencia del mercado interior", "efecto de demostración en el país de origen" y "mayor estabilidad en los resultados económicos y financieros".

Esta comunicação examina a relação entre o desempenho financeiro das operações internacionais de uma companhia e o grau da sua internacionalização numa amostra de 73 companhias brasileiras. Por um lado, os resultados revelaram que as companhias com maior desempenho nas suas operações internacionais relativamente às suas operações domésticas são menos internacionalizadas nas receitas, activos, empregados, dispersão geográfica de mercados e actividades de cadeia de valor que as suas homólogas mais internacionalizadas. Por outro lado, as análises mostraram que as companhias mais internacionalizadas têm uma maior percepção de experimentarem os seguintes benefícios da internacionalização: «capacidade para responderem rápida e apropriadamente aos clientes internacionais», «fortalecimento da posição competitiva», «diversificação geográfica e menor dependência do mercado interno», «efeito de demonstração no país de origem» e «maior estabilidade nos resultados financeiros e económicos».

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1. Introduction

Transformations in the world economy have led to the gradual unification of world markets for goods, services, labor and capital (Berger, 2005; Ohmae, 1995). Among these changes are the convergence of income per capita in the industrialized nations, the convergence of lifestyles and preferences of customers, the emergence of increasingly cheap and sophisticated communication systems, the establishment of global brands and channels, the continuous pressure for economies of scale, the acceleration of technological innovations, the reduction of trade barriers, the creation of trading blocs, the continuing rise in the level of world trade and the emergence of new competitors that have global aspirations (Yip, 2003).

These changes have driven the globalization of a growing number of industries. According to Fleury and Fleury (2009), "globalization is a process in which barriers to the flow between countries are being reduced." In the process of globalization, companies participate by investing in the internationalization of their activities while seeking to obtain benefits. Dunning (1996) identifies four basic economic motivations for companies to internationalize: (1) the search for new markets (market seeking), (2) the search for new sources of resources (resource seeking), (3) the emphasis on efficiency of global markets (efficiency seeking), and (4) the search for strategic assets (strategic asset seeking). However, there are also risks and costs inherent in the internationalization of companies, such as increases in the costs of coordination and governance and risks relating to the disadvantages of being a foreign company and being new to markets, in addition to political and economic risks to which companies that internationalize are subject.

As with other investment projects, companies expect adequate returns on investments from their international operations by attaining a positive balance between returns and costs/risks. Companies usually take into account several factors when examining the costs/risks and returns of internationalization.

In academic terms, this analysis has focused on assessing the existence of a positive relationship between the variables of "degree of internationalization" and "performance" of companies. Contractor, Kundu and Hsu (2003) point out that the foundation for studies of international business derives from the premise that the increase in the degree of internationalization, or the degree of international diversification (Hitt, Hoskisson and Kim, 1997) or multinationality (Grant, 1987; Gomes and Ramaswamy, 1999) - is beneficial to the performance of companies.

However, the empirical validation of that premise has been controversial, not only because of difficulties related to the criteria used to measure the performance and the degree of internationalization, but also because of the different types of industries and nationalities in the samples of individual companies.

According to Li (2007), most of the studies about the DOI-performance relationship concern relatively large manufacturing companies from the US, United Kingdom, Japan and Germany. There is a restricted number of studies about Latin American companies with this objective. Cuervo-Cazurra (2010) affirms that while knowledge about the multinatio-

Key words
Internationalization, performance, Brazilian multinationals

Palabras clave
internacionalización, rendimiento, multinacionales brasileñas

Palavras-chave
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nalization process of the “multilatinas” has been developed (Cyrino, Barcellos and Tanure, 2010; Del Sol, 2010; Fleury, Fleury and Reis, 2010; Kosacoff and Ramos, 2010; Muritiba *et al.*, 2010; Ramsey *et al.*, 2010), the implications of this process on the companies’ results are still unknown.

In addition, there are few studies that evaluate the specific financial performance of international operations of the companies. Several studies assess the financial performance of international subsidiaries of companies, but without an analysis of the financial performance of international operations in an aggregate way. We were unable to identify any study of Brazilian companies that used this approach. This could be related to the difficulty of obtaining reliable data and a preference to analyzing the performance of the company as a whole.

Given this context, this study aims to verify the existence of a relationship between the financial performance of international operations of Brazilian companies and their degree of internationalization. The relationship between the degree of internationalization and Brazilian companies’ perception of the benefits of international expansion will also be analyzed.

This paper is organized as follows: the second part includes the theoretical foundation of the research, the third part explains the methodology, the fourth part includes the presentation and discussion of results and the fifth part gives some final thoughts about the study.

2. Theoretical Foundations

The theoretical foundations of this study involve an understanding of the benefits and costs of the internationalization process, as the balance of benefits over costs will determine the financial performance of companies in their internationalization projects.

The literature on the concept of degree of internationalization will also be addressed in order to ground the choice of indicators of the degree of internationalization of companies. We will also review the literature on the indicators used to measure the performance of companies and their international operations and empirical studies already conducted that address the relationship between degree of internationalization and performance of companies.

2.1. Benefits and costs of the internationalization process

The IB literature has identified several benefits and cost drivers related to the internationalization process. Some of the benefits most commonly associated with internationalization that were identified in the literature are: (1) The economies of scale and scope resulting from a larger and more diversified geographical presence, leading to the dilution of fixed costs, such as administrative and research and development (R & D), among operations in various countries (Contractor *et al.,* 2003; Kobrin, 1991; Tallman and Li, 1996). (2) Greater ability to respond to international customers, as a result of a greater physical proximity, which favors logistical efficiency, and a better understanding of foreign markets and local cultures, which promotes an understanding of the needs of foreign customers (Cyrino and Barcellos, 2006). (3) Higher learning or international experience effects (Cyrino and Barcellos, 2006a; Kobrin, 1991). (4) Access to cheaper or scarce resources in foreign countries, such as labor, technology, or specific competencies in a particular country (Cyrino and Barcellos, 2006; Doz, Santos and Williamson, 2001; Jung, 1991; Porter, 1990). (5) Greater capacity for global monitoring of competitors, markets and other opportunities for profit (Contractor *et al.*, 2003). (6) Improved ability for cross-subsidization and price discrimination and the potential for arbitrage with an increase in the geographic scope of the operation. (7) Benefits of reputation as a result of the demonstration effect that the company achieves in its home markets. This often occurs in emerging countries, where consumers are greatly influenced by imported products and foreign brands. In such cases, internationalized companies are most valued by their customers in their home countries (Cyrino and Barcellos, 2006).

In regards to the expense and risk of internationalization, the IB literature has identified the following costs: (1) An increase in the overall costs of coordination and governance, resulting from the growing complexity and diversity of international operations, which imposes a burden on existing resources - displacement of expatriate professionals, management attention - and the requirement for new specialized resources - in the form of structures and control processes (Cyrino and Barcellos, 2006, Galbraith and Kazanjian, 1986; Grant, 1987). (2) The cost of being a foreign company (liability of foreigness), which includes the lack of knowledge and the difficulty of dealing with market and cultural contexts that are very different from the country of origin (Zaheer, 1995). According to Ghemawat (2003), one of the most important obstacles to international expansion is the distance between the country of origin and the country of destination, measured not only in the physical and geographical dimensions, but also in terms of administrative, cultural and economic differences. Cyrino and Barcellos (2006) point out that this cost, often referred to as cost of international learning, is very important at the beginning of the international expansion of the company, and decreases in importance as the latter learns to operate in foreign markets. (3) The liability of newness, which includes the costs of purchasing and installing facilities, as well as the costs of establishing internal management systems and external business networks. (Lu and Beamish, 2004; Stinchcombe, 1965).

2.2. The degree of internationalization (DOI) of companies

Measuring the DOI of companies has become a widely discussed and controversial topic in the literature of international business (Ramaswamy *et al.*, 1996; Sullivan, 1994, 1996).

Operationally, the DOI has been measured in several ways, usually taking into account the behavioral theories of the internationalization of companies, which assume an internationalization process with a gradual increase in the commitment of companies to international markets, as they gain experience in operating abroad. There is not, however, a consensus measure for assessing the DOI.

The criteria and metrics adopted are based on indicators that can be classified into three types: (1) structural, (2) performance and (3) attitudinal (Dorrenbacher, 2000; Sullivan, 1994). The characteristics and metrics suggested for each of the three groups of indicators are described below:

Structural Indicators. Structural indicators seek to provide a picture of the international involvement of a company at a given time. Several of these indicators are related to external activities, such as the number of countries where the company operates, the number or proportion of subsidiaries abroad, the extent or proportion of involvement in non-equity ventures abroad (e.g., strategic alliances, franchising, etc.), the value or proportion of international assets, the amount or proportion of value-added abroad and the number or proportion of employees abroad (Dorrenbacher, 2000).

Another group of such structural indicators describes the internationalization of the governance structure of the company by such indicators as the number of stock markets in which a company is listed, the volume/proportion of shares held by foreigners, and the number or proportion of foreigners on the Board of Directors (Dorrenbacher, 2000).

Performance Indicators. Dorrenbacher (2000) describes the performance indicators as those that measure "how much the success or failure of a company's activity during a given period (usually one year) is related to its presence in foreign countries." According to the author, the two main performance indicators used are sales (to external markets) and operating profit (generated by external subsidiaries).

Attitudinal Indicators. The third group of indicators, according to Dorrenbacher (2000), seek to identify how the multinationals perceive foreign countries and treat their foreign subsidiaries. The purpose of these indicators is to measure the ways by which decisions are made in a multinational company, and, consequently, how executives think when doing business around the world. Despite a general understanding of the importance of these indicators in measuring the degree of internationalization of companies, there are doubts about the likelihood of being able to measure attitudinal aspects with the statistical confidence required. The IB literature has identified several attitudinal indicators that cover different variables and use different measurement scales.

Perlmutter (1969) developed a qualitative indicator that distinguishes four specific orientations of the board of directors of the headquarters in relation to foreign subsidiaries: ethnocentric (orientation to the country of origin), polycentric (orientation to the destination country), regiocentric (regionally-oriented) and geocentric (globally-oriented). According to Perlmutter and Heenan (1979), the degree of internationalization of a company evolves from the ethnocentric orientation to the polycentric, and then from regiocentric to geocentric. The two researchers proposed an aggregate indicator composed of multiple scales for analysis of the international orientation of companies.

An attitudinal indicator that has a greater capacity for statistical measurement was developed by Sullivan (1994). According to the latter, the international orientation of a company increases with the international experience of senior executives and can be measured by the cumulative number of years working abroad divided by the total number of years of work experience of the senior executives.

Indicators of Geographical Intensity and Extensiveness. The structural, performance and attitudinal indicators described above measure the intensity and geographical extensiveness of the internationalization of companies. The intensity indicators seek to assess the degree to which the activities are internationalized in comparison to the activities of the country of origin (or total activities). This is the case with the performance and attitudinal indicators and most of the structural indicators that measure the level of external projection of a certain international dimension, regardless of the number of countries in which the company operates.

According to Ietto-Gillies (2001), the geographical extent of a company's international activities, in addition to the intensity of its international activities, should be considered when analyzing the company's DOI. Certain structural indicators are usually used to measure the geographic scope of the internationalization process, such as the number of countries in which a company operates, the degree of spatial concentration of the company's activities, and the degree of dispersion of the company's activities throughout specific areas and regions (Ietto-Gillies, 2001).

For example, Schmidt (1981) uses the Herfindahl index (concentration index) to evaluate companies' geographical distribution of its operations on a scale that ranges from completely homogeneous distribution to completely heterogeneous distribution of external activities in different countries. A second way to assess the geographic dispersion of corporate internationalization is to consider the number of countries in which a company is present. Ietto-Gillies (1998) developed the so-called "network spread index," which is calculated as the number of foreign countries in which the company has subsidiaries divided by the number of all countries receiving foreign direct investment (FDI) minus one (the company's country of origin). However, based on the premise that important differences between countries affect the behavior of companies in internationalization, Kutschker (1994) proposed that weights be assigned to foreign countries according to their cultural and geographical distances from their countries of origin. Similarly, Sullivan (1994) introduced an indicator called "psychic dispersion." He divided the world into ten zones with different cognitive maps related to management principles. Sullivan's psychic dispersion is calculated as the number of zones in which the company is present divided by 10 (the number of possible zones).

2.3. Performance Measures

An important question in the field of international business is why some companies outperform others in international endeavors. Therefore, performance is a dependent variable of great interest to researchers in this field and should be given sufficient attention. The choice of an appropriate metric of performance in the context of international business, according to Hult *et al.* (2008), is particularly complex, due to differences in accounting standards between countries, the nature of the company's boundaries and the geographical scope of the operations.

Carneiro (2007) points out that "organizational performance is a complex and multifaceted phenomenon that is far more than a simplistic concept." According to Venkatraman and Ramanujam (1986), limitations of time, resources or availability of data, or the specificity of goals and disciplinary guidelines of research, cause each author to decide to emphasize either one or several perspectives under which the phenomenon of performance may be understood.

Hult *et al.* (2008) conducted an analysis of 96 articles on performance measurement in studies in the field of international business. Each item was categorized by type of data source (primary or secondary), type of measure (financial, operational and overall effectiveness) and level of analysis (company, business strategic unit and inter-organizational unit). Included in the category of financial performance were measurements such as the overall profitability (return on investment, return on sales, return on assets, return on equity, profit margin, earnings per share, stock price, sales growth, increase in external sales and Tobin's Q). The operational performance refers to non-financial dimensions that can contribute to improved financial performance, such as market share, efficiency, introduction of new products, innovation and quality of products/services, retention and employee satisfaction. The overall effectiveness measures, on the other hand, reflect a broader concept of performance and include reputation, survival, perceived overall performance, goal achievement and overall performance in relation to those of competitors.

The results of Hult *et al.* (2008) show that most of the analyzed articles focus on the level of analysis of the company and use financial measures of performance. Few studies measure performance in a way that captures the multifaceted nature of the construct.

Table 1 below indicates the measures used more often by level of analysis and type of measure. The measures of financial performance commonly used, regardless of the level of analysis, are based on sales.

Table 1. Frequently used performance measures

	Financial performance	Operational performance	Overall effectiveness performance
Firm	Sales based: 44%	Market share: 47%	Reputation: 30%
	Return on assets: 40%		
Strategy business unit	Sales based: 68%	Market share: 46%	Performance relative to competitors: 50%
	Return on investment: 47%		Perceived overall peformance: 33%
Inter-organization unit	Sales based: 62%	Productivity: 44%	Perceived overall peformance: 71%
	Profitability: 31%	Market share: 33%	
		Product/service quality: 33%	
Total	Sales based: 52%	Market share: 44%	
	Return on assets: 29%	Productivity: 20%	Perceived overall peformance: 47%
	Profitability: 26%		Performance relative to competitors: 20%

a "Sales based" includes sales volume, foreign sales/total sales, sales growth, and growth in foreign sales.

Source: Hult et al., 2008

As Table 1 suggests, there is no universally accepted measure to gauge the performance of companies in international contexts. Most of the empirical studies use performance indicators for the company as a whole (e.g., return on equity [ROE], return on investment [ROI], return on sales [ROS], market value) due to the difficulty of obtaining specific data on the performance of international operations and seek inclusion in the analysis of synergistic benefits of internationalization, such as learning, arbitration and contribution to the efficiency of the company as a whole.

Another study, by Glaum and Oesterle (2007), confirm that the operationalization of the performance variable has been problematic. The authors concur that many researchers have made use of accounting data (such as ROA, ROE and ROS) in empirical studies of the internationalization-performance relationship, although accounting numbers have serious drawbacks for the measurement of firm performance. The argument in favor of using this type of data is related to its easier availability. According to Whittington (1979), accounting data may be used to estimate the "true economic rate of return" of firms if the accounting return is correlated positively to the economic return and differences between the two rates are uncorrelated with the explanatory variable. Glaum (1996 apud Glaum and Oesterle, 2007), however, support the idea that one might expect the first condition to hold, especially if data for longer periods is used, but that it is not clear, a priori, whether the second condition is met, especially in an international context.

Another criticism of the use of accounting data to measure performance of firms was made by Li (2007), who suggests that cost-efficiency measures may be better yardsticks for firm performance, because they contain less 'noise', i.e., unexplainable variance, than conventional financial indicators. According to the author, financial indicators can be affected more substantially by accounting practice, financial leverage, tax regimes or investors' expectations.

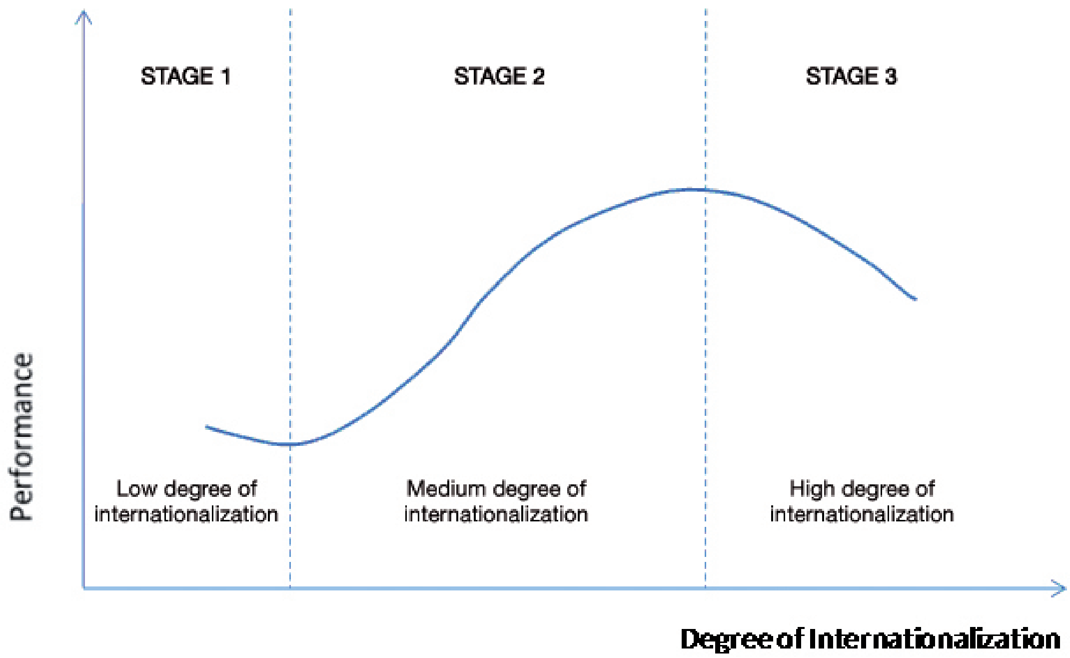
2.4. Empirical studies of the degree of internationalization and performance

Contractor et al. (2003) point out that, while some researchers have found a positive relationship between the degree of internationalization and corporate performance (e.g.: Errunza and Senbet, 1981; Grant, 1987; Grant *et al*., 1988; Kim and Lyn, 1987; Jung, 1991; Han *et al.*, 1998; Vernon, 1971), others have found a negative relationship (e.g., Brewer, 1981; Siddharthan and Lall, 1982; Michel and Shaked, 1986; Collins, 1990). A third group of empirical studies did not find any significant relationship between the two constructs (e.g., Buckley *et al.* (1977, 1984); Kumar, 1984; Morck and Yeung, 1991).

Others (Daniels and Bracker, 1989; Geringer *et al.*, 1989; Sullivan, 1994; Hitt *et al.*, 1994, Ramaswamy, 1995; Al-Obaidan and Scully, 1995), Gomes and Ramaswamy, 1999) found a curvilinear relationship in a "U" shape, which suggests an initial negative effect of internationalization on the performance before positive returns have been achieved from internationalization, or a curvilinear relationship in the shape of an inverted "U," which suggests an optimal level of degree of internationalization above which internationalization is detrimental to performance.

Considering these different results, Contractor et al. (2003) proposed that the performance/degree of internationalization function may have an "S" shape, which shows positive and negative linear relationships in a "U" or inverted "U" shape, depending on the level of internationalization (Figure 1).

Figure 1. Performance/degree of internationalization function in three stages



Source: Contractor et al. (2003)

While examining representative empirical studies of the internationalization-performance relationship, Li (2007) observed a sampling bias in firm size, industry composition and country of origin. According to the author, the majority of the studies have investigated relatively large firms across manufacturing industries from the US, the UK, Japan and Germany. With few exceptions (Lu and Beamish, 2001; Qian, 2002; Zahra *et al.*, 2000), there is little research on the internationalization-performance relationship of small and medium-sized enterprises (SMEs). Li (2007) also observed that there are few single-industry studies and argues that only by examining the I–P relationship within an industry would one be able to demonstrate more clearly the antecedents and consequences of internationalization. However, this is necessary in order to separate the impact of multinationality on performance from other possible spurious effect.

The number of studies of Brazilian companies that focused on the relationship between the degree of internationalization of large internationalized Brazilian companies and their performance is very small. Obtaining reliable data from Brazilian companies, even if they are listed, is very difficult. Moreover, the limited number of Brazilian companies that have international operations disfavors the statistical validation of the results.

Bezerra (2005) conducted a study that sought to verify the existence of a positive relationship between the degree of internationalization and performance of Brazilian companies. He did not use a composite index to assess the degree of internationalization. Examining data from a sample of 52 companies, Bezerra (2005) analyzed the positive relationship between five variables related to the degree of internationalization and four variables selected for the assessment of the performance of companies. Three of the 36 correlations analyzed were significant and positive.

Another study, by Fleury *et al*. (2007), related the degree of internationalization (measured as "export/total sales) and the performance (measured as" EBITDA/total sales) of Brazilian non-exporting, exporting and multinational companies. The results showed that there is a positive relationship between internationalization and performance up to a certain point, at which the company becomes a multinational company. According to the study, results increase from the level of 15% of exports up to 100%, and precisely when the companies start to engage in foreign direct investment (FDI), an inflexion point appears. The study reinforces the view that the transition process between export and FDI is a major challenge for Brazilian companies.

2.5. Research hypotheses

Based on this discussion, we present the following hypotheses:
Hypothesis 1: The most internationalized companies (in one or more dimensions of internationalization) perceive that they have obtained greater benefits as a result of internationalization.
Hypothesis 2: The most internationalized companies experience better performance of their international operations in relation to domestic operations.

Hypotheses 1 and 2 are consistent with the paradigm called Eclectic Paradigm of International Production (Dunning, 1993), which explains the movement of companies into foreign markets by foreign direct investment to obtain advantages (location, internalization, and ownership advantages). In this practice, the company decides if it should export, form partnerships abroad, invest in factories, develop training centers or take other action abroad in accordance with its desire to achieve greater economic profit. Based on this theory, it is expected that companies that are more internationalized achieve greater benefits from internationalization and deliver better financial performances.

3. Research Design

The issues addressed in this study are based on survey research that was conducted in 73 companies that were selected from the 1,000 largest Brazilian companies - controlled by native investors and corporations in Brazil - representing different sectors in the year 2006.

The population of 1,000 companies does not include Brazilian subsidiaries of multinational companies, since the possible internationalization of these companies tends to be associated with decisions taken at their headquarters in the country of origin. The sample of 73 companies contained both private and state-owned corporations.

The questionnaire sought to assess the degree of current internationalization of the companies and the benefits of internationalization that were perceived by corporate executives, as well as the performance of the international operations of the companies in relation to domestic operations. The percentages of gross revenues, employees, assets and EBITDA abroad were classified according to the following options: 0-2%, 2-5%, 5-10%, 10-20%, 20-30%, 30-40%, 40-50%, and more than 50%.

3.1. Variables and Measures

The operational definitions of variables in this study were based on literature on the subject and took into account the availability of data. Table 2 summarizes the measures used.

The financial performance of the international operations of companies was evaluated in comparison to the financial performance of their domestic operations with the following: "EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) of international operations divided by the company's total EBITDA" expressed as a percentage /of "revenues from international operations divided by the company's total revenues". Due to the fact that the data were collected at intervals, we used the mid-point of each interval to calculate the fraction above.

EBITDA is a measure of operating performance that considers operating revenues minus costs and operating expenses, except depreciation and amortization. It indicates the cash generating ability of the operations analyzed. Since EBITDA disregards the effect of interest, this measure enables one to compare companies that have different capital structures. As shown by Brigham, Gapenski and Ehrhardt (2001), two companies that have different debt levels and, therefore, different financial expenditures may have identical operational performances, but different net incomes. The company that has greater financial expenditures has a lower net income. Thus, net income does not always reflect the efficiency of a company's operations or the effectiveness of its management. Consequently, we preferred to use EBITDA in this study to measure financial performance.

The ratio of EBITDA/Revenues gives the company's operating margin. It reflects the company's capability to sustain a product-market position or to offer a low cost service or a premium price service. It represents the efficiency of operating expenditures in relation to sales, since the smaller the operating expenditures, the greater is the ratio.

The indicators of the degree of internationalization used include structural, attitudinal, of governance and of extension indicators of international activities, as listed in Table 2.

The companies' perception of the benefits obtained from internationalization was analyzed by the degree of agreement on a scale of 1-6, where 1 means I strongly disagree and 6 means I strongly agree. (See in Table 2 the list of benefits analyzed)

Table 2. Variables and measures

Variable	Measures
Indicators of the degree of internationalization	• Percentage of revenues abroad: revenues from international operations (including exports of the headquarters) / total revenues of the company. • Percentage of assets abroad: assets abroad/total assets of the company. • Percentage of employees abroad: employees abroad/total employees of the company. • Percentage of directors who have foreign experience: number of directors who have foreign experience (over 2 years of professional experience in foreign countries)/total number of directors in the company. • Percentage of shares with voting rights held by foreigners: number of shares held by foreigners/total number of shares of the company. • Number of activities in the value chain performed abroad (considering 6 types of activities): 1- exports, 2- sales and after-sales activities, 3- marketing, 4- complete or incomplete manufacture, 5- procurement (purchasing and investor relations), 6- research and development). • Geographic dispersion of markets: number of global regions where the company operates, considering the regions: 1- North America, 2- South and Central America (except Brazil), 3- European Union, 4 -Eastern Europe and Russia, 5- Middle East, 6- Asia, 7- Africa and Oceania. • Period of international experience in years. • Number of stock exchanges where the company´s shares are listed.
Benefits of Internationalization	(Variables analyzed through the degree of agreement in relation to the obtainment of benefits described below, on a scale of 1-6, where 1= Strongly Disagree and 6 = Strongly Agree). • Ability to respond quickly and appropriately to international customers. • Strengthening of the competitive position. • Geographic diversification and less dependence on the domestic market. • Effect of demonstration in the country of origin. • Gains from economies of scale. • Gains from economies of scope. • Access to resources at lower costs. • Arbitrage gains. • Greater stability in the economic and financial results. • Gains in terms of expertise and new technologies. • Accumulation of knowledge, development and/or acquisition of new business skills. • Leverage of business skills to new products and segments. • Market valuation and/or improvement of the economic and financial performance of the company. • Development of people with intercultural skills.

4. Results

Descriptive statistics were obtained that show the distribution, variability and central tendency of variables relevant to the study. (Table 3)

Table 3. Descriptive statistics

Variable	No	Mean	Median	Std. Deviation
Percentage of revenues abroad	69	0.23	0.15	0.22
Percentage of assets abroad	59	0.11	0.04	0.16
Percentage of employees abroad	63	0.1	0.04	0.14
Geographic dispersion of markets	70	3.9	4	1.91
Number of activities in the value chain performed abroad	70	3	3	1.79
Percentage of shares with voting rights held by foreigners	39	0.17	0	0.21
Percentage of directors who have foreign experience	63	0.23	0.17	0.25
Number of stock exchanges where the company's shares are listed	73	0.45	0	0.82
Period of international experience in years	69	21.96	25	14.45
Percentage of EBITDA abroad/percentage or revenues abroad	55	0.84	0.74	0.74

Source: The authors

For each benefit of internationalization, a value between 1 and 6 was assigned to reflect the perceptions of the company directors with 1meaning "I Strongly Disagree" and 6 meaning "I Strongly Agree." Figure 2 shows the means of the values obtained for each benefit and their standard deviations.

Figure 2. Perception of the benefits achieved with internationalization

Benefit	Mean	Standard Deviation
Strenghtening of competitive position	4.97	0.97
Ability to respond more quickly and appropiately to international customers	4.73	1.05
Accumulation of knowledge, development and/or acquisition of new business skills	4.68	1.25
Geographic diversification and less dependence on the domestic market	4.57	1.38
Market valuation and/or improvement of economic and financial performance of the company	4.52	1.13
Development of people with intercultural skills	4.52	1.39
Effect of demonstration in the country of origin	4.42	1.41
Leverage of business skills to new productos and segments	4.34	1.41
Gains in terms of expertise and new technologies	4.27	1.29
Gains from economy of scale	4.26	1.56
Greater stability in the economic and financial results	3.91	1.44
Access to resources at lower costs	3.63	1.61
Gains from economies of scope	3.11	1.69
Arbitrage gains	3.08	1.58

Note: Variables analyzed through the degree of agreement in relation to the obtainment of benefits, on a scale of 1-6, where 1= Strongly Disagree and 6 = Strongly Agree.

Source: The authors

The mean of the financial performance of international operations in relation to domestic (percentage of EBITDA abroad /percentage of gross revenues abroad) of the sample is 0.84 with a standard deviation of 0.74.

4.1. Cluster analysis

In order to identify characteristics that differentiate groups of companies in DOI, cluster analyses were performed. First, a hierarchical cluster analysis using Ward´s method indicated the possible existence of two or three clusters. Consequently, K-means cluster analyses were performed for two and three clusters. After evaluating the solutions, we opted for the one which differentiates two clusters, given its greater ease of interpretation.

The selection of DOI indicators used in this analysis was based on data availability, since a higher number of companies answered the questions that asked for these indicators. Those were standardized for the cluster analyses. Other indicators of the DOI, such as “percentage of directors with international experience,” “period of international experience,” “percentage of voting shares owned by foreigners” and “listings on stock exchanges” were analyzed separately.

The characteristics of the two groups identified through the K-means cluster analysis appear in Table 4.

Table 4. Indicators of the degree of internationalization (Means for each cluster)

Variable	Cluster	
	1	2
Percentage of revenues abroad	0.19	0.61
Percentage of assets abroad	0.07	0.44
Percentage of employees abroad	0.06	0.40
Geographical dispersion of markets	3.87	4.63
Number of activities in the value chain performed abroad	2.89	3.75
Number of companies	8	45

Source: The authors

The results allow us to classify the first cluster as the less internationalized one, and the second cluster as the more internationalized one for the dimensions of internationalization that are being considered.

4.2. Non-parametric comparison tests of means and medians

Non-parametric comparison tests of means and medians were conducted to assess whether the companies from different clusters (cluster 1 – less internationalized; cluster 2 – more internationalized) had different “performances of international operations in relation to domestic operations”. Non-parametric tests were also conducted to verify whether the more internationalized cluster had stronger perceptions of having obtained benefits from internationalization.

The results support hypothesis 1, showing that the cluster of more internationalized companies (in percentage of revenues abroad, percentage of assets abroad, percentage of employees abroad, geographical dispersion of markets, and value chain activities performed abroad) have a stronger perception of having received many of the benefits provided by internationalization.

The Kruskal Wallis comparison test of means indicated that the perception of the benefits of “strengthening of the competitive position” and “geographic diversification and less dependence on the domestic market” achieved through internationalization is more pronounced for the cluster that has a higher degree of internationalization (DOI). The median tests indicated a significance difference at a 95% confidence level between the medians of the first and the second clusters in perception of the following internationalization benefits: "ability to respond quickly and appropriately to international customers," "strengthening of the competitive position," "geographic diversification and less dependence on the domestic market," "effect of demonstration in the country of origin," and "greater stability in the financial and economic results". (Table 5)

Table 5. Perception of internationalization benefits by clusters

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Ability to respond more quickly and appropiately to international customers					0.0649	**0.0099**
Cluster 1 - Less internationalized	4.65	5	1.07	45		
Cluster 2 - More internationalized	5.43	6	0.98	8		
Strenghtening of the competitive position					**0.0077**	**0.0171**
Cluster 1 - Less internationalized	4.91	5	0.95	45		
Cluster 2 - More internationalized	5.86	6	0.38	8		
Geographical diversification and less dependence on the domestic market					**0.0122**	**0.0115**
Cluster 1 - Less internationalized	4.58	5	1.37	45		
Cluster 2 - More internationalized	5.86	6	0.38	8		
Effect of demonstration in the country of origin					0.0754	**0.0058**
Cluster 1 - Less internationalized	4.28	4	1.35	45		
Cluster 2 - More internationalized	5.14	6	1.57	8		
Greater stability in the economic and financial results					0.0991	**0.019**
Cluster 1 - Less internationalized	3.88	4	1.52	45		
Cluster 2 - More internationalized	4.86	5	0.9	8		

Source: The authors

Companies with a percentage of directors with international experience that is equal to or greater than 35% had a stronger perception of achieving the following benefits at a 95% confidence level: "strengthening of the competitive position," "arbitrage gains," "greater stability in economic and financial results," and "market value and/or improvement of the financial and economic performance of the company". (Table 6)

Table 6. Perception of internationalization benefits versus the percentage of directors who have foreign experience

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Strenghtening of the competitive position					**0.0484**	0.1608
Percentage of directors who have foreign experience equal to or higher than 35%	4.8	5	1.07	44		
Percentage of directors who have foreign experience lower than 35%	5.43	5.5	0.65	14		
Arbitrage gains					**0.0207**	**0.0283**
Percentage of directors who have foreign experience equal to or higher than 35%	2.81	3	1.65	43		
Percentage of directors who have foreign experience lower than 35%	3.92	4	1.19	13		
Greater stability in the economic and financial results					**0.0117**	**0.0121**
Percentage of directors who have foreign experience equal to or higher than 35%	3.51	4	1.46	45		
Percentage of directors who have foreign experience lower than 35%	4.62	5	0.96	13		
Market valuation and/or improvement of the economic and financial performance					**0.0184**	**0.0146**
Percentage of directors who have foreign experience equal to or higher than 35%	4.22	4	1.13	46		
Percentage of directors who have foreign experience lower than 35%	5	5	0.88	14		

Source: The authors

Regarding the governance dimension of internalization, the companies that were listed in at least two stock exchanges had a greater perception of having achieved the benefit of "ability to respond quickly and appropriately to international customers". (Table 7)

Table 7. Perception of internationalization benefits versus listing on stock exchanges

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Strenghtening of the competitive position					**0.0053**	**0.0049**
Listed in more than 1 stock exchange	5.71	6	0.49	60		
Listed in less than 2 stock exchanges	4.62	5	1.04	7		

Source: The authors

At a 90% confidence level, the international experience of the company, measured as the period of international operation (in years) proved to be relevant to the perception of the benefits of "geographic diversification and less dependence on the domestic market" and "effect of the demonstration in the country of origin." This perception is significantly higher for companies that have operated for at least 13 years abroad, according to the Kruskal Wallis text (Table 8).

Table 8. Perception of internationalization benefits versus period of international experience

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Geographical diversification and less dependence on the domestic market					**0.0555**	0.2746
It has been operating for at less 13 years abroad	4.86	5	1.17	43		
It has been operating for less than 13 years abroad	4.09	4	1.59	23		
Effect of demonstration in the country of origin					**0.07**	0.3627
It has been operating for at less 13 years abroad	4.68	5	1.35	42		
It has been operating for less than 13 years abroad	4	4	1.48	23		

Source: The authors

We also noticed significant positive correlations at a confidence level of 95% between the perception of the achievement of some benefits of internationalization and indicators of the degree of internationalization (Table 9).

By using an aggregated variable calculated as the mean of perception of all of the benefits obtained with internationalization (Cronbach's alpha of 0.83), we found significant positive correlations between this variable and the variable of geographic dispersion of markets (0.276) and percentage of directors with international experience (0.313). Thus, for the companies analyzed, the greater the geographic dispersion and the percentage of directors with international experience, the greater was the perception of benefits achieved through internationalization.

The results of this study allow us to reject hypothesis 2 at a confidence level of 95%. The median test indicated lower financial performance of the international operations in relation to domestic for the cluster of more internationalized companies. The average "% of foreign EBITDA/% of foreign revenues" of the firms in the first cluster (less internationalized firms) is 0.91, while this ratio is 0.55 for the second cluster (more internationalized firms) (Table 10).

Table 9 - Significant correlations between perceived benefits of internationalization and indicators of the degree of internationalization

Benefit of internationalization	Percentage of revenues abroad	Percentage of assets abroad	Percentage of employees abroad	Geographic dispersion of markets	Number of activities performed abroad	Period of international experience	Percentage of directors with international experience	Listing on stock exchanges
Ability to respond more quickly and appropiately to international customers	0.42			0.277	0.291	0.292		0.254
Strenghtening of the competitive position	0.283							
Geographic diversification and less dependence on the domestic market	0.497	0.403	0.322	0.35				
Gains from economy of scale				0.261				
Gains from economy of scope							0.272	
Greater stability in the economic and financial results	0.357				0.378			
Market valuation and/or improvement of economic and financial performance of the company	0.303			0.323		0.263		
Development of people with intercultural skills				0.251				
Overall awareness of the benefit (Mean of benefits)				0.276			0.313	

Source: The authors

Table 10. Degree of internationalization versus relative performance of international operations in relation to domestic

	Mean	Medium	St. deviation	No	Significance Kruskal Wallis Test	Significance Median Test
Percentage of EBITDA abroad/ percentage of revenues abroad					0.155	**0.014**
Cluster 1 - Less internationalized	0.91	0.87	0.82	45		
Cluster 2 - More internationalized	0.55	0.74	0.25	8		

Source: The authors

The results show a significant negative correlation (-0.303) at a confidence interval of 95% between the performance of international operations in relation to national operations and the geographic dispersion of international operation of the companies.

We also observed a significant negative correlation (-0.287) at a confidence interval of 95% between the overall perception of the benefit of market valuation and/or improvement of the economic and financial performance of the company and the performance of international operations in comparison to domestic operations.

5. Conclusions

In contrast to the less internationalized companies, companies that had a higher degree of internationalization had worse financial performances of their international operations in relation to domestic operations, even if their managers have the perception that they are achieving greater results, including new international management competencies. One possible explanation is that Brazilian companies could be overextending their resources, and incurring greater coordination, governance and learning costs than their less internationalized counterparts.

In fact, some of the results point in this direction. For instance, an analysis of the data of companies in the sample that obtained the lower results in their international operations in relation to domestic operations indicates that they operate on a larger number of continents and perform a higher number of international activities than do the companies that obtained better results in their international operations in relation to domestic operations.

One of the possible reasons for the better results of the less internationalized companies may be that they are still cherry-picking their international targets, with lower investments in, and commitments to, foreign markets, so that they can easily leave them if the results are not adequate.

This exploratory study should encourage other studies that assess not only the financial performance of international operations in relation to domestic, but also the financial performance of these operations in absolute terms and the overall financial performance of companies, observing their relationship with the degree of internationalization.

One of the limitations of this study is the absence of an analysis of the risks involved in the internationalization process and the costs related in the process, which is required to assess the balance between risk and return. Another restriction is the fact that only one executive per company has expressed his/her perception of the benefits by completing the questionnaire. The sample's lack of representativeness in relation to the population prevents us from drawing more robust statistical generalizations about the ensemble of internationalized Brazilian companies.

The use of EBITDA margin metrics as the only measure for assessing the performance of international operations is another limitation of the study.

As a whole, one of the contributions of this study is to raise and attempt to answer one provocative question regarding the I-P relation: is internationalization helping to improve the financial performance of Brazilian companies as a whole? The analysis of the relative performance of international operations of Brazilian companies in relation to their domestic operations suggests that the answer may be negative, although we recognize that this measure ignores the synergistic benefits of internationalization (such as market diversification and less dependence on domestic markets, learning and others) and, in particular, the arbitrage gains that companies obtain with internationalization. The perceptions of companies suggest that these synergistic benefits may be compensating poor financial performances of international operations, although further empirical studies are needed to prove this hypothesis.

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