

**Challenges New Zealand Companies Face when Entering the  
Brazilian Market**

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## **Attestation of Authorship**

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Marie Jelena Schoen

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## **Abstract**

New Zealand has a relatively small economy and therefore provides limited growth opportunities for local companies in the domestic market. New Zealand companies thus need to internationalise if they are to expand. Brazil is one of the four biggest emerging economies and in recent years has developed into an economically and politically stable business environment. It might therefore be a highly promising market for New Zealand companies who are seeking to expand. However, entering the Brazilian market implies barriers which are not easy to overcome.

An existing body of research has investigated the internationalisation of New Zealand companies in general. Furthermore, research has also been undertaken on New Zealand companies exporting to Latin America and entering Latin America within the framework of joint ventures. However, what seems to be lacking is a study on the barriers that New Zealand companies experience when entering Brazil and a study on factors that could enable a New Zealand company to successfully overcome these challenges.

Therefore, the aim of the present study was to identify these barriers and to define factors which might facilitate the successful entry into the Brazilian market. The dissertation is based on an in-depth case study of a New Zealand manufacturing company that is at present establishing if Brazil would hold potential for the company. Semi-structured interviews were conducted with four participants internal to the company and three participants external to the company who are engaged in business with Brazil. The findings of the research are the barriers that New Zealand companies face when entering the Brazilian market as well as factors that might facilitate the successful entry into the market. The findings might be useful for managers of small and medium-sized enterprises (SMEs) which are considering entering the Brazilian market as well as for policy makers and researchers who have an interest in the BRIC countries and especially Brazil.

# Introduction

## 1.1 New Zealand's economy and exporting

With a population of approximately 4.3 million and a Gross Domestic Product (GDP) of US\$ 128.1 billion New Zealand is one of the smallest economies in the world (Statistics New Zealand, 2008). The primary sector (agricultural, horticultural, forestry, mining and fishing industries), the manufacturing sector and the service sector play an elementary role in New Zealand's economy (Treasury, 2008).

The primary sector accounts for 7.2 percent of GDP<sup>1</sup> and contributes over 50 percent of New Zealand's total export earnings. The manufacturing sector output accounted for 14.2 percent of real GDP in 2007. Exports are a primary driver of growth in the manufacturing sector. The growth of non-commodity manufactured export volumes has been averaging nearly 5 percent yearly since 1991. One of the key factors that have contributed to this success is the international focus of New Zealand manufacturers (Treasury, 2008).

The service industry accounts for over two-thirds of the GDP and has been growing strongly since 2002. Export-related activities such as primary sector production and tourism contribute significantly to this growth (Treasury, 2008).

International trade is therefore important to New Zealand's economy. Primary sector based and commodity exports are the main contributors to the country's export success, while exports of services and manufactured products are growing in their importance. This combined with a dependence on imports of raw materials and capital equipment for industry makes New Zealand highly trade-oriented (Treasury, 2008). International trade is also important to New Zealand companies as they are highly dependent on international business in order to be able to benefit from economies of scale and scope (Akoorie and Scott-Kennel, 2005; Akoorie and Enderwick, 1992).

New Zealand became one of the most open and deregulated economies due to the liberalisation, which was carried out during the 1980s (Hamilton and Dana, 2003). During the early 1980s the New Zealand economy was experiencing high inflation, fiscal and trade deficits of 7 percent and an external debt equal to 69

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<sup>1</sup> Agriculture alone accounts for around 5 percent of GDP (Treasury, 2008).



percent of GDP (Gale, 1990). The New Zealand Government carried out liberalisation which led to New Zealand's opening to the world economy (Britton, 1991). This manifested itself through an increased spread of the commodity composition of exports from wool, meat, dairy products to other commodities (apples, kiwifruit, aluminium, forest products), manufactured products and internationally traded services like tourism for example (Enderwick and Akoorie, 1996). Besides the product diversification, New Zealand diversified its export markets as well. Before the United Kingdom (UK) joined the European Union (EU) it was the destination for over half of New Zealand's products. However, the dependence on the market in the UK was replaced by a spread of exports to the US, Europe, Australia and Asia (Enderwick and Akoorie, 1996) as the advances in transportation, communications and technology made international trade easier, with the geographical location less of a restraint. The 'tyranny of distance' has been replaced by the 'power of proximity', although this does not mean that the distance is not an issue any more at all (Blainey, 1983; See also Harcourt, 2007).

The United States is one of New Zealand's three most important export markets (New Zealand Embassy Washington, 2008). Although the US announced that it will join the negotiations of the Trans-Pacific Strategic Economic Partnership Agreements (also labelled as P4), a high quality trade agreement between New Zealand, Chile, Singapore and Brunei, which came into force in 2006 (New Zealand Herald, 2008), the export volume decreased from 2007 to 2008 by 2.3 percent. The export volume to the UK decreased by 5.8 percent over the same period (Statistics New Zealand, 2008).

## **1.2 Significance of the BRIC countries for New Zealand companies**

The emerging markets<sup>2</sup> especially the BRIC countries are markets of interest for New Zealand companies. The BRICs – the biggest emerging markets Brazil, Russia, India and China – could be larger than the G6 countries (the US, Japan, the UK, Germany, France and Italy) in less than 40 years. Wilson and

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<sup>2</sup> According to Enderwick (2007) the term emerging market was originally given to the former Union of Soviet Socialist Republics. More recently, the use of the term has been generalised to substitute for the term developing country in describing economies at low income levels that are going through a process of economic reform and that have steady rate of Growth Domestic Product (GDP) growth (Cavusgil, Ghauri, & Agarwal, 2002).

Purushothaman (2003) applied demographic trends to projections to a model of capital accumulation and productivity growth. Moreover, the BRIC countries have a growing middle-class (O'Neill, Lawson, and Purushothaman, 2004) which is providing huge new opportunities to food and other businesses as the growing middle-class demand commodity products (Enderwick, 2007). One of the ways this is demonstrated is through the rising demand for dairy products (Nutreco, 2006; See also Food and Agriculture Organisation of the United Nations, 2008).

The New Zealand Government is pursuing the opportunities that are available in the BRIC countries. New Zealand signed a trade agreement with China in 2008 (New Zealand Ministry of Foreign Affairs and Trade, 2008). The New Zealand Government also has the aspiration to increase trade relations with India as there is potential for growth in tourism and education besides its growing demand from India for commodity products and agricultural technology (See New Zealand Ministry of Foreign Affairs and Trade, 2008).

### **1.3 Why focus on Brazil?**

Brazil, one of the biggest emerging markets, is a country which is highly promising as it is becoming economically and politically more stable. Although Brazil is suffering during the current global financial crisis, "many other big economies will fare worse." (The Economist, 2008b, p. 52) Brazil has the largest population in Latin America and the Caribbean and is the fifth most populous country in the world (Foreign and Commonwealth Office, 2008). Furthermore, Brazil is the world's tenth-largest economy in terms of its GDP (Economist, 2008a). The credit-rating agency Standard and Poor's promoted Brazil to investment grade in 2008 (Embassy of Brazil, 2008).

### **1.4 New Zealand's Latin America Strategy**

In 2000 the New Zealand Government launched the "Latin America Strategy" which focuses on the improvement of diplomatic and trade relationships with the Latin Asia Pacific Economic Cooperation (APEC) members Chile, Mexico, and Peru and the Mercado Comun del Sur (MERCOSUR) members Argentina, Brazil and Uruguay in order to pursue the opportunities in Brazil and other emerging Latin

American countries. Since the platform's launch, trade between New Zealand and Latin America has increased by 28 percent and exports by 47 percent (New Zealand Ministry of Foreign Affairs and Trade, 2008a). Brazil has been a leading focus of the Latin America Strategy (New Zealand Embassy, 2008). New Zealand business interests in Brazil are primarily focused in the agricultural sector, information and communications technology, and services, but Brazil offers opportunities for other sectors as well (New Zealand Trade and Enterprise, 2007).

## **1.5 Purpose and organisation of the dissertation**

While New Zealand businesses must export to thrive, the internationalisation of business carries the danger of failure as companies face obstacles which are not easy to overcome. The purpose of this dissertation is therefore to examine the general barriers that they face when internationalising in general and to explore the particular barriers that New Zealand companies face when entering into the Brazilian market. An attempt will be made to identify the factors that facilitate successful entry into the Brazilian market. This dissertation might contribute to the international business research literature on the BRIC countries as a prospective growth market for companies.

The dissertation is organised as follows: Firstly, the literature will be outlined on barriers which SMEs in general and SMEs in New Zealand specifically face when internationalising. Secondly, there will be a discussion of a hybrid model which would be a valid framework for the examination of the internationalisation process of a company. The third section will briefly justify the methodology which was used as the basis for the research. In section four there will be a brief introduction into the company which is the subject of the research. The barriers that the company faces in its effort to internationalise will be analysed and the company's internationalisation process will be examined within the framework of the hybrid model as suggested in the literature review. Factors will be disclosed that might enable the company to successfully overcome the internationalisation barriers that it might face when entering the Brazilian market. In the last part of the dissertation the conclusions will be highlighted and finally the limitations of the dissertation as well as implications for further research will be identified.

## **2. Review of the literature**

Research has been conducted into the barriers to internationalisation encountered by New Zealand companies. The approach that has been taken is studying the challenges that small to medium-sized enterprises (SMEs) face when internationalising. The motivation for this focus is the high percentage of SMEs in New Zealand. According to the Ministry of Economic Development (2008), SMEs constitute up to 97.1 percent of all companies in New Zealand.

The literature review contains a general definition of the term 'small and medium-sized enterprise' (SME). Thereafter, the literature on the internal and external barriers which SMEs face when internationalising will be discussed before the specific barriers that New Zealand SMEs face will be outlined. Additionally, different models of the internationalisation of companies will be examined and the need for a hybrid model of the internationalisation will be highlighted. Lastly, the notions of the institution-based view of strategy will be identified as this view might be a useful complementary to the hybrid model of internationalisation.

### **2.1 Definition of SMEs**

According to Nieschlag<sup>3</sup> (as cited in Loecher, 2000) there are numerous definitions of what a small or medium company actually is. Cameron and Massey (1999) argued that for several reasons there is no universally accepted definition of what an SME is. In general the term SME refers to companies in all sectors (Clements, Günterberg, and Hauser, 1997) and therefore SMEs cannot be defined by industry sector such as manufacturing, retail or service. Secondly, it is not possible to define SMEs by their size, as measured by such criteria as employee numbers or turnover. Cameron and Massey (1999) stated that there would be no obvious break on the business continuum from enterprises to large public companies. In some sectors it might be more appropriate to define a SME by the number of employees whereas in other sectors it might be more appropriate to use turnover as the measure.

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<sup>3</sup> According to the analysis of Nieschlag (as cited in Loecher, 2000) there are more than 200 definitions for the term SME to be found in the literature.

One distinguishing characteristic, however, is that SMEs are usually managed by their owners whereas in big companies shareholding and management are usually separated (Cameron and Massey, 1999). Because SMEs are generally independently owned and operated, in the sense that they are not a subsidiary of a larger company, the owner/owners is/are able to make decisions without the control of a superior enterprise (Schaper and Volery, 2007; See also Bolten, 1971). This might contribute to an organisational structure that is less bureaucratic compared to the structure of larger companies (Ghobadian and Gallear, 1996). SMEs are therefore often more flexible than their larger counterparts when facing environmental changes (Levy and Powel, 1989). Hollensen (2004) also notes that employees of SMEs are more likely to have a closer relationship to the managers due to the flatter and less bureaucratic organisational structure. Lastly, managers or owners of SMEs are noted to be less risk averse than managers of larger companies (Hollensen, 2004).

In regard to New Zealand SMEs, the Ministry of Economic Development defines companies in New Zealand as SMEs with 19 or fewer employees (Ministry of Economic Development, 2008). However, according to Akoorie and Scott-Kennel (2005), almost all companies in New Zealand that operate in international markets can be classified as SMEs, relative to their equivalent from major markets such as the USA for example. In the United States the definition of SMEs is industry-specific and companies with up to 500 employees are classified as small businesses (OECD, 2005). According to European Union (EU) methodology, the upper limit is set at 250 employees, in some countries to 200. In addition, a company's annual turnover should not exceed 40 million Euros (OECD, 2002).

## **2.2 The barriers faced by SMEs when internationalising**

Previous studies have treated terms such as “barriers”, “obstacles” and “problems” as somewhat interchangeable (See for example Bell, 1997; Katsikeas and Morgan, 1994; Morgan and Katsikeas, 1998; Crick and Chaudhry, 2000; Scharf, Bell, Loane and Fletcher, 2004).

Most researchers have focused on studying the barriers – “constraints that hinder the firm's ability to initiate, to develop, or to sustain business operations in overseas markets” (Leonidou, 2004, p. 281) - of SMEs when exporting, as

exporting is generally the first step in the sequentially increasing commitment of companies to international markets (Jones, 2001). Exporting tends to be associated with less risk compared to foreign direct investment (FDI) or joint ventures (JV) as it does not absorb the resources that other overseas market entry modes demand (Katsikeas and Morgan, 1994).

Leonidou (2004) reviewed 32 empirical studies on obstacles small businesses face when exporting, conducted from 1960 until 2000 and analysed 39 barriers derived from this review. Barriers to exporting can be identified within companies which are currently not exporting, but are aiming to do so in the future and therefore have a perceptual view on barriers. Furthermore, barriers can be identified among companies which are already exporting. Lastly, there are barriers which are identified by companies which used to export and therefore have a perceptual as well as experiential viewpoint on barriers (Leonidou, 2004). Different studies have shown that the impact of these barriers varies widely among these three groups of companies (Keng and Jiuan, 1989; Kedia and Chhokar, 1986; Yaprak, 1985; Tesar and Tarleton, 1982). Additionally, barriers differ over the various stages of the companies' export-development process (Naidu and Rao, 1993; Barrett and Wilkonson, 1985; Vozikis and Mescon, 1985).

According to Leonidou (1995) export barriers can be distinguished between internal and external barriers. Internal barriers are barriers which are associated with the company's organisational resources and capabilities, whereas external barriers are barriers which are due to the host and home environment within which the firm operates. Internal barriers can be subclassified into functional, informal, and marketing related barriers. External barriers can be divided into procedural, governmental, task, and environmental barriers (Leonidou, 1995).

## **2.2.1 Internal barriers**

### **2.2.1.1 Functional barriers**

Functional barriers relate to problems regarding human resources, production and finance that would constrain exporting (Vozikis and Mescon, 1985). Functional barriers contain four barriers relating to limitations in managerial time, shortage of human resources, unavailable production capacity, and lack of capital (Leonidou, 2004).

#### 2.2.1.2 Informational barriers

Informational barriers are obstacles which SMEs face in regard to identifying foreign business opportunities and selecting overseas markets as well as building relationships with business partners in these markets due to information deficiencies (Morgan and Katsikeas, 1997; Katsikeas, 1994; Katsikeas and Morgan, 1994).

#### 2.2.1.2 Marketing barriers

Obstacles which deal with the firm's product, pricing, distribution, logistics, and promotional work in overseas markets are classified as marketing barriers (Moini, 1997; Kedia and Chhokar, 1986).

### **2.2.2 External barriers**

#### 2.2.2.1 Procedural barriers

Procedural barriers are obstacles with regard to operating aspects of transactions with foreign customers comprised of unfamiliarity with techniques and procedures, communication difficulties as well as the slow-going receipt of payments (Kedia and Chhokar, 1986; Moini, 1997).

#### 2.2.2.1 Governmental barriers

Governmental barriers are created by actions or inactions by the home government in relation to its exporters. Most academics treat home government barriers as part of the international environment within which the firm conducts business (Cateora and Graham, 2001; Czinkota and Ronkainen, 2001; Terpstra and Sarathy, 2000). However, according to Leonidou (1995) it is essential to distinguish between obstacles raised in the exporter's home country and those found in the host country.

#### 2.2.2.2 Task barriers

Task barriers focus on problems that might occur due to the differences of customers in foreign markets compared to the home market as well as the competition that a firm could face in overseas markets for example (Leonidou, 2004; Cateora and Graham, 2001; Doole and Lowe, 2001).

#### 2.2.2.3 Host country barriers

Finally, there are barriers which refer to the economic, political-legal and sociocultural environment of the overseas markets within which the company operates or wishes to operate (Kedia and Chhokar, 1986; Moini, 1997). These barriers are normally changing rapidly, especially in transition or emerging markets such as Brazil and are therefore hard to control. Examples of host country barriers are of the economic and regulatory nature such as poor/deteriorating economic conditions abroad, currency exchange risks, political instability, country rules and regulations, tariff and non-tariff barriers, unknown business practices, different sociocultural behaviour and language differences (Leonidou, 2004; Bauernschmidt, Sullivan, and Gillespie, 1985).

### 2.3 The barriers that New Zealand SMEs face when internationalising

The challenges New Zealand SMEs face when internationalising, that were identified by researchers, are resource constraints such as limited capital, limited knowledge of overseas market opportunities, limited access to networks and limited management expertise in international business (Akoorie and Enderwick, 1992). SMEs in New Zealand also face the distance to overseas markets as an additional challenge. The lack of and/or cost of assistance offered by the New Zealand Government to companies wishing to internationalise is another obstacle identified by researchers (Dean, Mengüç, and Myers, 2000; Shaw and Darroch, 2004; Jaeger, 2007).

Regarding the region which will be the subject of the dissertation, Wiig (2004) conducted a survey on New Zealand companies which have entered the Latin American market in the framework of a thesis. According to him there are thirty-nine barriers that inhibit the business operations of New Zealand companies in Latin America. Wiig (2004) divided the barriers into three different categories (top-tier, mid-tier, and low-tier) based on the frequency with which they were mentioned by his interviewees<sup>4</sup>, in order to make the presentation of the results of his study manageable. Top-tier barriers are economic challenges like economic volatility, exchange rates, low incomes in the Latin American market, payment

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<sup>4</sup> Wiig (2004) conducted interviews with seventeen New Zealand companies that were engaged in exporting or joint ventures with one or more Latin American country/ies.



issues, institutional problems such as corruption, political volatility, bureaucracy, laws and regulations, and security issues as well as operating costs such as tariffs and duties and transportation costs. Finally, New Zealand companies operating in Latin America recognise language as a barrier when doing business in this region (Wiig, 2004).

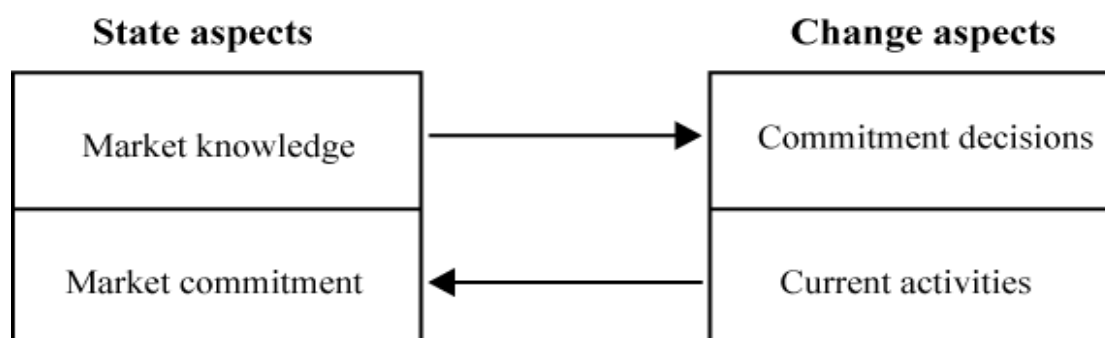
What seems to be lacking, however, is a study of the challenges that New Zealand companies face when entering the Brazilian market and the identification of the factors which are inherent in the internationalisation process of a company that might facilitate successful market entry into this market.

## **2.4 Internationalisation models**

### **2.4.1 The 'stage model' or 'Uppsala model'**

The 'stage model' or 'Uppsala model' was first proposed by Johanson and Weidersheim-Paul (1975) and further developed by Johanson and Vahlne (1977). Johanson and Weidersheim-Paul (1975) studied the internationalisation process of four manufacturing companies in Sweden. The outcome of their research was that these companies went through an 'establishment chain' from not exporting to exporting through agents and distributors, the establishment of sale subsidiaries to finally producing outside their home country. These steps were labelled as stages in the incremental internationalisation process of a company (Johanson and Weidersheim-Paul, 1975). In 1977, Johanson and Vahlne refined the model and developed an explanation of how companies go through an organisational learning process while they increasingly commit to international operations. Johanson and Vahlne (1977) formulated a dynamic model, in which the outcome of one cycle of events constitutes the input to the next, to explain the incremental character of the internationalisation process of a company. Basically, the researchers made a distinction between the state and change aspects of the internationalisation process. State aspects are for example the resource commitment to the foreign markets, knowledge about foreign markets and operations. The aspects that might change are decisions regarding the commitment of resources and performance of current business activities as shown in Figure 1 (Johanson and Vahlne, 1990).

**Figure 1. State and change aspects**



(Source: Johanson and Vahlne, 1990)

Lack of knowledge related to business environments in foreign markets and operations is a fundamental obstacle to the internationalisation of New Zealand companies (Jaeger, 2007; Petersen, Pedersen, and Lyles, 2008; Johanson and Vahlne, 1977). It is therefore essential for the growth process of firms that they acquire foreign market knowledge. As an enterprise acquires more knowledge, it becomes more secure about doing business in an international environment (Johanson and Vahlne, 1977). The researchers differentiate between objective knowledge, which is learned from codified knowledge, and tacit or experiential knowledge, which is acquired through operating in a market (Johanson and Vahlne, 1977; Penrose, 1959).

According to Johanson and Vahlne (1977) experiential knowledge is the most important form of knowledge. This has been supported by various other researchers (Cavusgil, 1980; Kogut and Zander, 1993; Makino and Delios, 1996; Eriksson, Johanson, Majkgård, and Sharma, 1997; Madhok, 1997; Majkgård and Sharma, 1998; Luo, 1999). Blomstermo and Choi (2003) noted that experiential knowledge would be the main driver of decisions companies' make in their internationalisation process.

Johanson and Vahlne (1977) argued that experiential knowledge would be bound to the market in which the knowledge is acquired and cannot be used in other markets. To specify the argument of Johanson and Vahlne (1977) that the knowledge would be tied to the market where it was acquired, Eriksson, Johanson, Majkgård and Sharma (1997) included three separate forms of knowledge. These

are business knowledge, internationalisation knowledge and institutionalisation knowledge. According to these researchers business knowledge is bound to a specific market. Internationalisation knowledge is general knowledge of a second loop character which is knowledge about how to form a business and institutional knowledge. Institutional knowledge is knowledge of institutions, language and cultural aspects and therefore likely to be quite location specific (Hohenthal, 2003).

Blomstermo and Choi (2003) explain that companies go through a knowledge development process while they adapt to the fast changing environment they are operating in through exploration. Exploration involves searching for new knowledge, skills and processes (Levinthal and March, 1993). Due to the rapid changes in the business environment, companies have to accept and modify new technologies in their products and services and thereby introduce new processes and routines to their organisation. Resulting from the process of adapting to new and unfamiliar environments, companies go through a learning process by doing business as they learn how to deal with different situations in their markets (Blomstermo and Choi, 2003).

#### **2.4.2 The systematic planning model and contingency perspective**

Researchers have emphasised that systematic internationalisation planning, based on comprehensive market research and scanning would have a decisive impact on the success in the internationalisation process of the company (Madsen, 1987; Root, 1987; Miller, 1993; Walters, 1993; Bijmolt and Zwart, 1994; Johanson and Yip, 1994; Shoham and Kropp, 1998; Zou and Stan, 1998; Yip et al., 2000; Ling-Yee and Ogunmokun, 2001). However, managers or employees of SMEs often do not have time to undertake a complete systematic planning process as they often face a fast changing environment and have to act in a timely manner as opportunities come up (Li, Li, and Dalgic, 2004). The performance of a company is also determined by the extent to which a strategy fits with the environment. While one strategy might not be suitable in a certain context, some others might be more beneficial (Walters and Samiee, 1990). The contingency perspective supposes that managers select strategies, which optimise the characteristics of a given environment in which the company is embedded (Ibeh, 2003) and therefore the internationalisation process of a company depends on the environment a company

is operating in (Roberts, 1999; Jones, 1999; Welch and Luostarinen, 1993). In addition to external factors, internal factors to the company have an impact on the company's internationalisation strategy as well (Okoroafo, 1990). According to Okoroafo (1990), companies respond to an opportunity which occurs regardless of whether the prospective market is psychic distant or not and thereby leapfrog stages of the internationalisation process. The concept of psychic distance has been defined as factors which prevent or disturb the flow of information between a company and its market. These factors include differences in language, culture, political systems, level of education and level of industrial development. It was assumed that companies would enter new market countries with successively greater psychic distance (Johanson and Vahlne, 1977).

### **2.4.3 The network model**

Coviello and Munro (1997) note that the network perspective has to be integrated into the internationalisation models, as networks facilitate and accelerate the internationalisation process of a small firm (Holmlund and Kock, 1998; Bell, 1995). Easton (1992) identified three types of definitions for networks. The first set of definitions focuses on the exchange dimensions in two or more connected relationships (Anderson, Håkansson, and Johanson, 1994). Another set of definitions focuses on the bond or social relationships that link loosely connected organisations (Aldrich, 1979; Lundgren, 1995). The third set of definitions (e.g. Håkansson, 1989; Van de Ven and Ferry, 1980) describes a network as a total pattern of relationships within a group of organisations. Ghauri and Prasad (1995) give a simplified version of the definition and claim that a network could be identified as a relationship created between two organisations.

According to Johanson and Mattsson (1988) business networks are the relationships that a company has with its customers, distributors, suppliers, competitors and the government. When a company internationalises these relationships increase and become stronger. The relationships that a company develops within their network enable it to gain access to new markets and missing resources (Johanson and Mattsson, 1988).

In addition to the fact that companies gain access to resources and new markets through their relationships, they learn through these relationships as well

(Forsgren, 2002). Andersson, Forsgren and Pedersen (2001) support the idea of the acquisition of tacit knowledge through the interaction with other organisations within their network. Blomstermo, Eriksson, Lindstrand, and Sharma (2004) explain in more detail the usefulness of experiential knowledge in regard to the definition of problems or alternatives of action, the assessment of these alternatives, and the final decision for which alternative to select. These alternatives might relate to the entry mode and the decision to choose between exporting, joint venture or wholly owned subsidiary (Blomstermo et al., 2004). Other researchers agree on the usefulness of the acquisition of experiential knowledge through networks during the internationalisation process, as it assists companies to overcome the problem of foreignness (Zaheer, 2002; Blankenburg Holm et al., 1996). Moreover, as noted by Blomstermo et al. (2004) companies that internationalise need to have knowledge about networks of business partners in their home and host countries what will lead to an improvement of the company's performance. Forsgren (2002) noted that the pace of the internationalisation process of a company might be accelerated through interacting with different organisations and thereby the acquisition of tacit knowledge. Besides, opportunities that might develop out of the environment a company is operating in could enable companies to leapfrog stages or enter markets which are physically distant<sup>5</sup> from the beginning of their internationalisation process (Jaeger, 2007).

#### **2.4.4 The resource-based view**

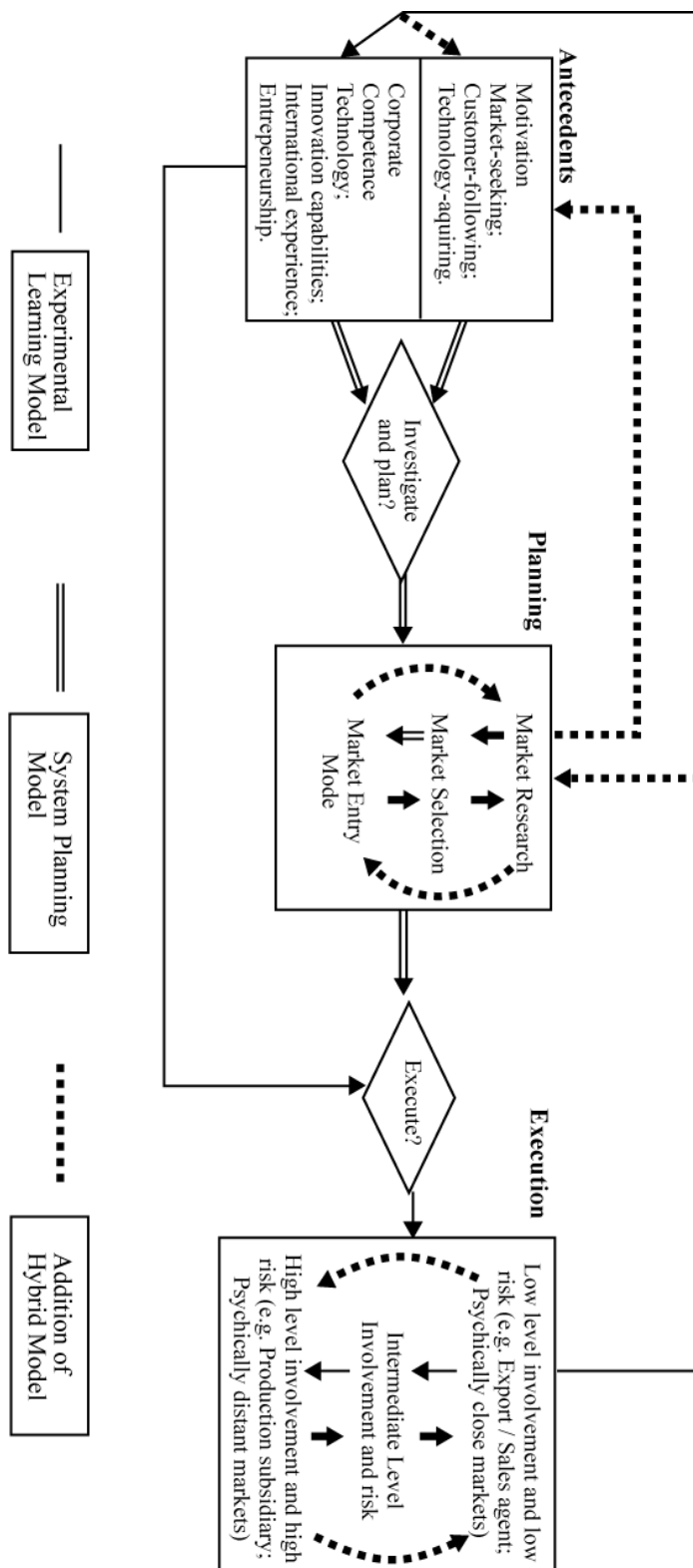
The resource-based view suggests that firm-specific resources and capabilities extensively determine a company's success or failure (Peng, 2006). Exponents of this view are Barney (1991), Prahalad and Hamel (1990) and Barlett and Ghoshal (1991). According to the resource-based view, an enterprise performs better than its competitors due to the competencies that the company developed and

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<sup>5</sup> The concept of physical distance has been defined as factors which are preventing or disturbing the flow of information between a company and their market. These factors include differences in language, culture, political systems, level of education or level of industrial development. It was assumed that companies would enter new market countries with successively greater physical distance (Johanson and Vahlne, 1977).

resources that it controls. This set of resources and capabilities can be regarded as packages of tangible (concrete; physical; codified or based on explicit knowledge) and intangible (tacit; unspoken but understood) assets that determine the success and failure of a company (Barney, 1991; Mathur, Jugdev, and Shing Fung, 2007). According to Dunphy, Turner, and Crawford (1997) corporate competencies are embedded in the companies' internal network and processes and are therefore difficult for other companies to replicate. SMEs in particular use network relationships to overcome the resource constraints that they face compared to their larger counterparts (Fafchamps, 2004; McMillan and Woodruff, 2002).

Figure 2. A hybrid model of SME internationalisation process



(Source: Li, Li and Dalgic, 2004)

A 'holistic' approach has been suggested, that is, one that encompasses a range of different considerations which are the resource-based view as well as networking and contingency factors in an attempt to examine the internationalisation process of SMEs and the decision-making of managers of SMEs (See for example Ibeh, 2003; Bell and Young, 2004; Crick and Spence, 2005; Spence and Crick, 2006).

Li, Li and Dalgic (2004) developed a hybrid internationalisation model which merges the experiential learning perspective from the 'stage model' with the systematic planning model and includes the contingency perspective. The researchers propose that a company's internationalisation process comprises the three major phases' antecedents, planning, and execution as Figure 2 indicates. They use single and double lines in their model to exhibit the dynamic loop of the experiential learning model and the rational sequence of the systematic planning model respectively. They demonstrate that each of the two models is an integral part of a larger and more inclusive framework by adding elements such as the feedback from execution to motivation and planning, as well as the alternative sequence within planning and execution phases. The researchers have also drawn upon the contingency perspective by highlighting the impact of environmental factors on the internationalisation process of a SME (Li et al., 2004).

According to Li et al. (2004) the experiential learning model goes around the planning phase and does not consider the motivations of companies to operate in international markets. Therefore the authors suggest the implementation of alternative sequences in the execution stage and indicate these by bold dash lines. Companies could, for example, leapfrog the low level involvement and low level risk and go straight to the intermediate level of involvement by going offshore with their production or deciding to be involved with higher risk as a partner of a joint venture in a foreign market (Li et al., 2004).

Figure 2 also reflects the systematic planning school's suggestion that firms go through a systematic sequential process of acquiring general knowledge and planning, which is presumably driven by the firm's motivation and initial competencies. According to Yip, Biscarri, and Monti (2000) an initial strong motivation to internationalisation is important, as it needs to activate the following process.



In regard to the strategic planning process Li et al. (2004) note that an SME might not start the planning process with market research followed by market selection and finally coming to a market entry selection. Rather, the process of planning and investigating might be less systematic and sequential due to the resource constraints of an SME and the short timeframe within which a decision has to be made. Besides, systematic planning only, does not lead to a valuable acquisition of market knowledge that is necessary for companies to avoid operational mistakes in a foreign market (Dalgic and Heijblom, 1996).

In summary, Li et al. (2004) present a hybrid model that integrates experiential learning and systematic planning and incorporates the contingency perspective. Li et al. (2004) argue that the model would be particularly valid for the examination of the internationalisation of SMEs as they face different challenges compared to multinational enterprises (MNEs) as discussed earlier. According to the researchers the model might be used by managers of SMEs as a normative framework in preparation for their planned internationalisation process strategy by examining their motivations and existing competencies, which should be the base for a successful international operation. Managers of SMEs need to recognise and focus on the key steps in the internationalisation process and deploy their limited resources to avoid mistakes in this critical stage of company development.

Li et al. (2004) also suggested that it is necessary to consider host country effects and their impact on the internationalisation of a company and to what extent these could be a barrier to internationalisation. Therefore, this will be a subject of discussion in this research project. The dissertation will focus on Brazil as a country of interest for a New Zealand SMEs and might thus contribute to the literature on SME internationalisation to BRIC countries.

#### **2.4.5 The institution-based view of strategy**

In regard to the consideration of host country effects and their impact on the internationalisation of a company, the institution-based view might be a useful theoretical framework. The institution-based view targets the interaction between enterprises and institutions and the strategic choices that are leading out of this interference. Strategic choices are therefore to some extent a mirroring of formal and informal constrictions of a framework given by institutions (Oliver, 1997; Scott,

1995). The framework that is created by institutions guides the company's choices by signalling what is acceptable and what is supportable and what might help to reduce uncertainty for companies (North, 1990). On the other side, the framework also poses restrictions for companies in the form of political rules, judicial decisions, and economic contracts or informal obstacles including socially sanctioned norms of behaviour, which could be due to cultural and ideological factors (Scott, 1995). According to Meyer (2001) these formal and informal institutions are especially important in regard to emerging markets like Brazil, as high rates of change in transition or emerging markets cause high levels of uncertainty. Institutions help in the effective management of such uncertainty (Meyer, 2001).

### **3. Methodology**

This dissertation is based on an in-depth case study of a New Zealand SME that engages in international business with the USA, the UK, Ireland, the Netherlands, Singapore, Australia and Mexico and is currently establishing whether Brazil could have some potential for the company.

There are a number of reasons for selecting a case study approach such as the one that Eisenhardt (1989, p. 534) states; "the case study is a research strategy which focuses on understanding the dynamics present within single settings." In addition, Yin (2003) notes case study research would be appropriate when the aim is to define research topics broadly, to cover complex conditions, or rely on various sources of evidence. Case studies can embrace single or multiple cases as well as several levels of analysis (Yin, 1984).

Stake (2000) has identified three different types of case study:

1. The intrinsic case study where a particular case is of interest to the researcher. No attempt is made to generalise beyond the single case by conducting an intrinsic case study.
2. The instrumental case study in which a case is examined in depth to provide insight into an issue or to revise a generalisation.
3. The collective case study where a number of cases are studied in order to investigate some general phenomenon.

The present case study will be an instrumental case study that hopes to provide insight into the barriers that New Zealand SMEs face and the success factors that are associated with profitable entry into the market of Brazil<sup>6</sup>.

Eisenhardt (1989) notes that when aiming to generate theory in a positivist tradition it would be difficult to do so without conducting fewer than four case studies as she emphasises the use of replication logic and therefore the need for multiple cases. Due to the time constraints in conducting the research, only a single case study will be presented and analysed.

A common criticism of a single case study concerns its generalisation. Nevertheless, there are ways that generalised results can be produced by the conduct of a single case study. These depend on the purposes of the case study and the way the data is analysed. One possible way to put findings forward as being potentially applicable to other cases would be by conceptualising. To conceptualise means that the researcher develops concepts to explain an aspect that has been a focus of the study. An in-depth case study is absolutely necessary to be able to develop a concept (Punch, 2005). Case study research can also involve quantitative data (Yin, 1984). Through the combination of methods in the study – triangulation – the validity of the results will be strengthened (Romano, 1989). According to Jick (1989), the combination of data types can be synergistic. Quantitative evidence can indicate relationships which might not be obvious or outstanding to the researcher. It can also keep researchers from being carried away by vivid, but misguided impressions in qualitative data. Furthermore, it can back up findings when it verifies these findings from evidence. Qualitative data helps to understand relationships that might not be revealed in quantitative data or it might directly suggest theory or propositions which can be supported by quantitative data (Jick, 1979). The researcher will include financial reports of the case study company. Although mostly qualitative data is gathered by conducting a case study, interviews will be used as the main data collection method for the present research and hereby individual interviews will be conducted with employees of the company as well as with external people.

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<sup>6</sup> Interestingly, case studies are sometimes used as a tool in managerial decision making (Cavana, Delahaye, and Sekaran, 2001). Accordingly, in previous conversations with the marketing manager of the company which is a focus of this dissertation, it has been commented that the research findings might help the company to form future strategies about whether it would be worthwhile for the company to approach the Brazilian market.

According to Fontana and Frey (1994) interviews can be structured, semi-structured, or unstructured. Semi-structured interviews will be carried out during the research in an attempt to ensure a flexible interview process and to give space for a subsequent process of data analysis. Therefore the basis of the interviews will be a list of issues that will be discussed such as the internationalisation process of the company, the systematic planning of the internationalisation steps, the contingency perspective regarding the internationalisation process of the firm, lessons that were learned from the experiences made in various market countries, the application of these lessons to other markets and Brazil as a market of interest for the company. It is assumed that by asking general questions regarding these different issues the interviews will disclose a lot of useful qualitative information (Bryman and Bell, 2007).

Interviews were conducted with seven participants. Four of them are internal to the company and highly involved in the internationalisation process of the company while the other three participants are external to the company. Two of the three interviewees are working as managers in New Zealand based companies that are doing business in Brazil. The third interviewee is originally from New Zealand, but now located in Brazil and doing business there.

The interviews, lasting for an hour or two hours, were conducted in person at the company site or in the case of one interviewee from Brazil, over the phone. Interview reports were written within 12 hours after the interviews took place.

The case study might be limited by the fact that the participants who are internal to the company might not be willing to reveal information. The researcher is confident, however, that a confidentiality agreement will assure the respondents that information given will not be disclosed to others and that trust will be gained and therefore the data gathered will be of high quality.

## **4. Discussion**

### **4.1 Introduction to the case company**

The case company is the largest manufacturer of ready-to-assemble furniture in Australasia. It was founded in 1965 and remains family owned and managed.

Today the company has an average annual turnover of NZ\$ 50 million and employs 200 full-time staff in New Zealand. The plant has a capacity to manufacture over 500,000 pieces of furniture yearly. Production can be broken down into: office furniture (30 percent of total), kitchen furniture (2 percent), living room furniture (55 percent) and Original Equipment Manufacturers (OEM)<sup>7</sup> products (13 percent). Office furniture, computer workstations and home entertainment centres are the company's most successful product ranges. Home entertainment centres are sold as OEM products.

The company has been selected as the research object as it is a medium-sized enterprise according to international standards. In addition, CFL exports around 75 percent of their output to the United States, the United Kingdom, Ireland, the Netherlands, Singapore and Mexico. Approximately ten percent of the revenue in the last financial year was due to exports outside of Australasia, but the company wishes to grow the export sales outside of Australasia to at least fifteen percent within the next financial year. In addition, the company is currently investigating opportunities in the Brazilian market and such a case study may provide interesting insights into the internationalisation process to Brazil. It is not clear, at this stage, whether or not the company will decide to enter the Brazilian market.

## **4.2 Barriers to internationalisation faced by the case company**

In this part of the dissertation the barriers to internationalisation faced by the case company, as disclosed through the study, will be discussed. The analysis of the barriers will be based on the framework of internationalisation as proposed by Leonidou (2004). First the external barriers which are faced by the company will be disclosed before the internal barriers will be examined.

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<sup>7</sup> Original Equipment Manufacturer products are products or part of products which are produced by one company but branded and sold by another company.

#### **4.2.1 External barriers**

##### **4.2.1.1 Governmental barriers**

According to the interviewees internal to the case company, governmental barriers are the barriers that have been most significant to the case company in their internationalisation process. These barriers being a major constraint in the internationalisation process of New Zealand SMEs has been disclosed by Dean, Mengüç, and Myers (2000); Shaw and Darroch (2004) as well as Jaeger (2007). As noted by Leonidou (2004) governmental barriers relate to actions or inactions by the home government in relation to the companies that wish to export or are exporting. One of the two matters that the researchers emphasised regarding governmental obstacles is the limited interest shown by the government in assisting and providing incentives to exporters. Wiig (2004) confirms in his study that the lack of support from the government limits companies in New Zealand expanding into Latin America. However, this study identified it as a low-tier barrier as only four of the seventeen respondents which were a subject of his study mentioned these barriers.

The interviews conducted with people both internal and external to the company revealed that governmental inactions have a significant impact on the progress of a SME in New Zealand to internationalise. According to the case company, the attitude of the government in New Zealand changed as a result of a reforming government that took office in 1984. The prior government was very supportive and offered various export support programs. As a result, the case company received funds and incentives which facilitated their international expansion efforts. Furthermore, the case company stated that the duties and tariffs for imported wooden products would be too low. According to the company, the requirements in respect to longevity and conformity standards of imported products are also too low. The claim, therefore, is that the domestic industry is not protected from growing international competition. On the other side, the compliance costs that the government imposes would be too high. New Zealand interest rates would also be too high in comparison to other overseas markets. According to an internal company interviewee actions need to be taken to stabilise the New Zealand Dollar.

According to Mavrogiannis, Bourlakis, Dawson and Ness (2008), the role of the government is critical in facilitating export performance by establishing effective

export policies. Government policies can assist exporters to overcome trade barriers by providing information about overseas markets and host country partners, and by educating managers to successfully plan and implement export marketing strategies. Greenaway and Kneller (2007) stated that most governments support companies' export efforts and provide assistance. However, empirical evidence is mixed and there is little data on what aspects of policy are important for export volumes.

#### 4.2.1.2 Host country barriers

Host country barriers are barriers which are due to the economic, political-legal and sociocultural environment of the overseas market that the company wishes to operate in (Leonidou, 2004). Wiig (2004) identified host country barriers such as economic and political volatility and political-legal issues such as corruption, bureaucracy, laws and regulations, tariffs and duties as well as language differences as top-tier barriers that inhibit the expansion efforts of New Zealand companies into Latin America.

As stated by the case company, host country barriers are believed to have a major impact on the company's effort to enter the Brazilian market. According to the World Bank Country Report (2009) the case company referred to when discussing the perceived barriers in Brazil, Brazil is ranked 125<sup>th</sup> out of 181 economies in the world in regard to the ease of doing business. Bureaucracy and corruption are major problems in the country (World Bank Country Report, 2009; Hornbeck, 2008). The World Bank (1997, p. 8) has defined corruption as "the abuse of public office for private gain." Corruption might consist of the payments to politicians and government officials to gain admission to public resources or services, to secure government contracts, or to overcome regulatory obstacles or administrative delays, or to circumvent regulations and legal responsibilities (Enderwick, 2007).

Furthermore, Brazil is an extremely protected market country and tariffs and duties on imported products are very high according to an interviewee external to the case company (See also Hornbeck, 2008). Although the Brazilian government is interested in improving its relationship with New Zealand, it is unlikely that there will be any negotiations that would relax the trade barriers. The improvement of the

relationship between the two countries is mainly focused on education, tourism and cultural aspects.

According to the external source, taxes are another concern that has to be considered when doing business in Brazil as there are between 65 and 70 different taxes. Therefore, Brazilian accountants advise that it is vital to do accurate tax planning and to find ways to achieve tax breaks.

Nevertheless, the opinion about the strength of the impact of these barriers on the efforts of a New Zealand SME to enter Brazil differed. Three interviews were conducted with people external to the company who have considerable experience of doing business in Brazil. Two of the interviewees suggested that the barriers faced by New Zealand companies need to be considered and a strategy needs to be developed, however, when talking to the 'right' people and doing the 'right' things, all obstacles would be overcome. According to the third interviewee external to the case company, the circumstances in Brazil are hindering most companies from New Zealand to enter and to be successful in the market. He suggested that most New Zealand companies would not be capable of managing these barriers as it takes too many resources that New Zealand companies lack. Even a lot of Australian companies in comparison would not be able to deal with the given circumstances in the Brazilian market. ('Doing business in Brazil today is like doing business in New Zealand in the 1980s.')

#### **4.2.2 Internal barriers**

##### **4.2.2.1 Functional barriers**

According to Leonidou (2004) functional barriers contain four barriers relating to limitations in managerial time, shortage of human resources, unavailable production capacity, and lack of capital. The researcher did not include the perception of managers of a specific overseas market in the analysis of barriers. However, it might be appropriate to label the perception of managers as a functional barrier to internationalisation. Baird, Lyles and Orris (1994) noted strategic decisions would sometimes be made according to a manager's personalised objectives or personal experiences rather than objective evidence. An example of this barrier is the market entry of the case company to Mexico. Mexico



has not been rated by the company as a promising market as it was perceived as being difficult and risky to deal with. One of the employees of the company, however, had a different opinion about Mexico regarding the potential that it would hold for the company. He had visited the country a few times for personal purposes and therefore had a better understanding of the culture as well as an idea of prospective customers and the Mexican furniture market. However, the employee did not try to promote the idea of approaching Mexico as he was aware of the managers' opinion about the country as being a difficult market due to the different culture, language and the economic situation. A few years later there was a change of management and they were interested to examine opportunities in Mexico.

Lastly, the case company stated that lack of capital as well as shortage of human resources would be a barrier. These barriers have been identified by other researchers as well as discussed earlier (Akoorie and Enderwick, 1992).

#### **4.3 Examination of the company's internationalisation process within the framework of the hybrid model**

In this part of the dissertation the company's internationalisation process will be examined within the framework of the hybrid model proposed by Li et al. (2004). Factors that might enable the company to successfully overcome the barriers that it perceives when entering the Brazilian market will be identified and discussed.

According to Li et al. (2004) a company's internationalisation process consists of three major phases: antecedents, the strategic planning phase and execution.

##### **4.3.1 Antecedents - Motivation and corporate competencies**

According to Li et al. (2004) in regards to the antecedents, it is vital for a company to have a strong motivation which activates the following internationalisation process. In addition, there is a need for competencies which the company should have developed over time (Li et al., 2004).

The motivation of the case company that is driving the internationalisation process is to 'be the best'. The aim has been and still is to be the best in regards to

the machinery and processes to be able to provide world-class products. The company's benchmarks are competitors from all over the world and therefore, the company had strong motivation from inception to expose itself globally. Being the best is expensive and as the company has always suffered a lack of resources the aim was to realise economies of scale and therefore to grow continuously and to become the most competitive organisation. However, the problem with this aim is its vagueness as it is not easy to measure if it was achieved.

The company's motivation to become 'the best' manifests itself in its short-term goals. The most important goal which the company is aiming to reach within the next twelve months is the increase of exports outside of Australasia from ten percent to fifteen percent and thereby to fully utilize the production capacity.

Scully and Fawcett (1994) noted that SMEs in particular have to develop competitive advantages in the manufacturing and production end of the value chain to be able to compete globally in order to lower their operating costs, raise productivity and quality, and to be able to respond to the requests of customers worldwide (Raymond and Croteau, 2006). Therefore, the case company emphasised the development of competencies in their production processes and technology. The company's aim is to continuously improve their performance in manufacturing. Examples of their achievements are operational excellence in lead-time reduction, which means that all forms of time from its productive processes get reduced. They also achieved operational excellence in the differentiation of the product bundle and product design and quality improvement. The case company is using quality control certifications and is an International Organization for Standardization<sup>8</sup> (ISO) manufacturer (Company's webpage; See also Mavrogiannis, Bourlakis, Dawson and Ness, 2008). In recent years, as competition from low-cost products from the Asian market increased, the emphasis has been on design strategy. The strategy is based on the fact that due to the production costs in New Zealand, the company cannot compete in international markets based on lowest costs, but rather on differentiation and 'best cost'. Furthermore, the company identified a new opportunity to improve their competitiveness by implementing sustainable manufacturing practices and thereby to cut costs, reduce waste and the use of materials as well as developing a brand reputation as being

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<sup>8</sup> ISO (International Quality Standard Organization) is the world's largest developer and publisher of international standards (ISO, 2009).

sustainable (Seidel, Shahbazpour, and Oudshoorn, 2006). Consequently, the company is working continuously towards the aim of their products and processes having a limited impact on the environment. Their efforts have been recognised and awarded (Company's webpage).

Interestingly the strengths and competencies of the case company are mainly operational. However, according to Doole and Lowe (2001) companies wishing to compete in the international markets need to focus on an international marketing strategy that is based on a thorough understanding of the environment and the consumers in that market. Correspondingly, the company developed a branding strategy with the help of an external consultant, which included the understanding of the needs and wants of customers and how to serve these. However, this project is limited to the market in New Zealand as well due to the limited financial resources, which are currently available (internal interviewee). Therefore, it is obvious that for this company and its international business success it is difficult to pursue the investigation of overseas markets/competitors and customers. Doole and Lowe (2001) noted that successful SMEs compensate for the lack of resources by exhibiting particular competence in their ability to build and utilize their network as an effective way of identifying new market opportunities and reducing the risk of entering unknown markets.

#### **4.3.2 Planning phase – Market research, market selection and market entry mode**

Li et al. (2004) emphasised the importance of a SME to go through a strategic planning process in order to internationalise successfully. According to Karagozoglu and Lindell (1998), however, small or medium-sized companies often have insufficiently developed administration procedures and methods and are unlikely to carry out a strategic planning process based on market research and the systematic approach to international markets (Papadopoulos, 1987). Instead SMEs are more likely to rely on unplanned, non-rational decisions (Liang and Stump, 1996; Liang and Parkhe, 1997).

Contrary to the notions of these researchers the case company utilises a highly sophisticated strategic planning process before decisions are made regarding the selection of a market and entry mode. First, the company undertakes

intensive market research and analysis to get a detailed view of a market and the market's potential for the company as well as to ensure that there is a fit between the chosen market and the product. According to the interviewees the company is extremely successful selling OEM products as these products have a 'world-appeal' and suit consumers in various countries all over the world. Research is done on all aspects of legal requirements through consultation with lawyers. Trade fairs and shows are another important part of the company's market research.

With regard to the selection of a market the company tends to gravitate towards countries which were part of the British Commonwealth because New Zealand's justice, law and business system are based on British systems. The company also chose English-speaking countries. This was due to the perception that doing business in non-English speaking countries with a different cultural background would be more difficult regarding the Mexico example due to the larger physical distance between New Zealand and Mexico. The successful entry into the Mexican market triggered the company's motivation to consider other markets in Latin America such as Brazil, although the countries which have a positive rating in the World Bank Report are more favourable to the company.

The case company is emphasising two different strategies in regards to the entry mode. The strategy is either to find an agent who is operating in the host market or to operate through a distributor. Agents get commission on sales and do not stock products in the overseas market. Working with an agent is the less risky alternative to enter an overseas market, although problems did occur in the past. In the 1970s for example the case company appointed an agent in Australia, but the agent was declared bankrupt before the first container of products arrived. Therefore, the manager of the case company had to hurry to Australia to reclaim the ownership of the products. Distributors agree on purchasing the product on an FOB or CIF basis (as in the case of Mexico). The decision on what strategy to use is based on a risk-and-reward examination.

The alternative of setting up a manufacturing plant in an overseas market does not get considered as it takes too many resources, that the company is not able to afford. There used to be a manufacturing plant in Australia, after the company acquired another business in the 1980s, but the factory had to be closed down due to financial circumstances.

The network the company has been developing over time has been important in enabling them to enter different markets. An example is the company's entry into Mexico as one of the employees had a personal contact that enabled him to develop a relationship which was useful in meeting prospective business partners. In addition, the company is using the retailers and companies that they work with on an OEM product basis to enter new markets as well. This highlights the impact of environmental factors on the internationalisation process of companies (Li et al., 2004) and it also highlights the importance of the network approach for SMEs (Svetličič, Jakelič, and Burger 2007; Zain and Ng, 2006).

#### **4.3.3 Execution**

The environmental factors and their impact on a company's internationalisation process interlinks with the last phase of the strategic planning process: execution. As the example of Mexico demonstrates, as well as the international development into countries by piggybacking and following retailers, the contingencies influence the internationalisation process of a company. However, in the instance of the case company this did not mean that the company leapfrogged a stage. Instead there was a gradual increase of involvement from low level and low risk to high level and high risk.

Being part of a network did help the company to learn and take advantage of other peoples' experiences and relationships. Interviewees emphasised the importance of a network and relationships in the day-to-day business as being one of the most significant when dealing with overseas business partners. Working with people from various countries is part of the acquisition of multicultural competence which managers from SMEs often lack (Karagozoglu and Lindell, 1998). Therefore, the company is continuously reflecting on the existing relationships and pursuing the development of new relationships (interviewee internal to the company).

## 5. Conclusions

The aim of this in-depth case study was to examine the barriers that New Zealand companies face when entering the Brazilian market and to identify the factors that facilitate successful entry into this market.

As revealed in this dissertation as well as stated in the research literature the barriers of SMEs in New Zealand wishing to enter the Brazilian market that appear to be key are governmental barriers such as the lack of governmental support through export promotion programs and incentives. Therefore, the claim is that the government should take actions to support export efforts of New Zealand companies. Moreover, compliance costs and interest rates would be hurdles in regard to doing business as well as the instability of the New Zealand Dollar exchange rates. Therefore, there is again a demand for change in public policy to support exporting companies in New Zealand to overcome these obstacles.

The second category of barriers to internationalisation which appear to be significant for the companies in New Zealand are host country barriers when considering entering the Brazilian market. The major problems when doing business in Brazil are bureaucracy, corruption and high duties and tariffs. Opinions about the possibility of overcoming these barriers are diverse. Where some argue that through a well-established network and the right partners in Brazil to do business with, these host country barriers will not restrain doing business there. Another opinion is that it is hard to control these barriers regardless if a company might be embedded in an effective network or have built relationships with business partners in Brazil. Furthermore, it would take up many resources that a small or medium-sized company in New Zealand could not effort to apply for entering the Brazilian market.

Other barriers that have an impact on the internationalisation process of company in New Zealand are functional barriers related to perceptions of managers about the Brazilian market. Furthermore, lack of capital and human resources are putting a restraint on the internationalisation effort of a company.

In examination of the internationalisation process of the case company within the hybrid internationalisation model, various factors were disclosed which are vital in regard to be able to succeed when going international. First, a company

has to have strong motivations which trigger its efforts to growth and enter overseas markets. Other factors, which are external to the company, such as the network and the relationships companies might be embedded in also have a significant impact on the success in their internationalisation process.

The examination has shown also that corporate competencies are imperative in a company's effort to grow internationally. In addition, the discussion revealed that there needs to be balances between operational competencies and marketing competencies. Operational competencies are significant. However, without marketing competencies and the understanding of the international markets and the consumers in these markets, the success is less likely to be durable. Although it might not always be the case, as stated in the literature, that small or medium-sized companies do not go through a strategic planning process which involves market research and the examination of different markets to come to a selection of the market as well as to a selection of the entry mode, a company's attention to an international marketing strategy might not be sufficiently focused to be able to achieve strong growth in these markets. If a company would be highly committed to the international market the marketing strategy clearly articulated, there would be a chance for a New Zealand company to leverage their success in overseas markets.

## **6. Limitations of the dissertation and implications for future research**

As discussed earlier, the most significant limitation of research based on a single case study is the generalizability of the findings. Therefore, more research needs to be carried out on the internationalisation barriers of SMEs in New Zealand to a broader scale. This means that the companies which are selected need to be from different sectors to be able to identify the obstacles which might be related to specific industries such as the manufacturing industry, for example.

Furthermore, more studies have to be conducted on the home country barriers. Therefore, it would be useful to carry out research on the barriers that SMEs from other small economies comparable to New Zealand such as Finland, for example, are confronted with to be able to compare barriers from companies

which are located in a similar environment and hereby identify the barriers which are caused by government actions or inactions or other factors specific to New Zealand. The exact nature of internationalisation barriers need to be identified to be able to make recommendations for public policy and SME managers.

The lack of governmental support when doing business in international markets is a significant barrier for SMEs in New Zealand. Therefore, it seems evident that the government needs to intervene more in the internationalisation effort. On the other hand, the demand for governmental support might raise the question of the productivity of each company. Current export theory focuses on the proposal that only the most productive company will succeed in overseas markets. Does this imply that companies which face barriers such as lack of financial resources, for example, need to enhance their productivity before aiming to operate in international markets?

Lastly, it might be worthwhile studying what mode would be the most profitable for a New Zealand SME when entering the Brazilian market by comparing different entry modes into the market.



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## **Appendix A.**

### **Topics that have been discussed during the semi-structured interviews with the participants internal to the company**

- Role of the participant in the firm
- Internationalisation process of the company
- Impact of information and transportation revolution on the internationalisation process of the firm / international development of the firm
- Systematic planning of the internationalisation steps
- Assistance of any governmental or non-governmental organisations involved in the market research process
- Contingency regarding the internationalisation process
- Brazil as a market of interest for the company
- Motives for operating in this market
- Corporate competencies of the company
- Challenges that the company faced when operating in these markets
- Solutions to successfully overcome these obstacles
- Lessons that were learned from the experiences made in these markets
- Application of these lessons to other markets
- Knowledge management systems of the company – formal and informal
- Informal or formal knowledge distribution system

## **Appendix B.**

### **Topics that have been discussed during the semi-structured interviews with the participants external to the company**

- Brazil as a market of interest for New Zealand companies
- Barriers that companies from New Zealand might face when entering the Brazilian market
- Which are the most significant barriers in regard to operating in Brazil
- What factors could facilitate to overcome these barriers by a New Zealand company
- What would be the best market entry mode be for Brazil
- How does the New Zealand government assist companies to enter the Brazilian market