

# **The Internet and the Internationalization of Brazilian Manufacturing Companies**

## **Abstract**

The Internet has become an important tool to strengthen the global market in two ways: it provides world-wide visibility to companies that have a website and, at the same time, it acts as a broad source of information on what the competitors and potential competitors are doing, independently of where they are physically located. Market globalization is taking place at a faster pace, in part, as a consequence of the connectivity provided by the convergence of IT and telecommunications, which helps building a world without (or with weaker) borders. Nowadays, many Brazilian companies have a website. However, are those companies using this rich tool and the connectivity it provides to increase their internationalization and to develop a global competitive advantage? This paper attempts to answer that question, by means of a survey applied to 121 manufacturing companies in the state of Sao Paulo, the most industrialized state in Brazil.

**Key-words:** Internet, internationalization, entrance stages

## **Introduction**

From the perspective of the strategic management school of thought, companies that wish to survive in the market need to develop global presence (MINTZBERG, 1994). However, possessing a vast national market of 188 million inhabitants (IBGE, 2007), which represent potential consumers for their products, Brazilian manufacturers are less motivated to face the

risks of internationalization than companies from smaller countries, such as Nordic countries and even some other Latin American ones.

On the other hand, electronic commerce is developing at a fast rate world-wide and in Brazil. A research that was carried out by E-bit (2007) shows that the Brazilian online retail's income was over US\$ 2 billion in 2006, which represents growth of 76% compared to the previous year and more than 700% compared to 2001, when E-bit and the E-commerce Chamber first carried out their research on electronic commerce in the country. Since the Internet has been considered a factor that reduces or, in some cases, eliminates psychological distances, in the customers' "mental geography" (CASTELLS, 1999; DRUCKER, 2000), the internationalization by means of the Internet seems to be a reasonable form of internationalization, to be adopted by Brazilian companies, as well as by any other in the world. Based on that reasoning, the following question was generated as the grounds for this paper: is the Internet increasing the power of internationalization of Brazilian manufacturers?

There are several other smaller issues concerning that question, which also need to be addressed. Using Dunning's (1980) OLI model, a *website* could be considered as a *virtual localization*. Strategic benefits of the use of such *virtual location* as the platform upon which to build the company's internationalization effort seem clear, as it allows companies that had never considered the possibility of developing an international presence to start playing in the global market. In addition to that, the use of the Internet as a *virtual localization* provides a learning environment about other markets and an incentive to the innovation of products and processes, because it exposes the company to different markets, with distinct expectations and levels of requirement, which demand flexibility and creativity to deal with. Could such stimuli to learning and innovation work as differentiation drivers from which Brazilian industrial companies could benefit?

The reflection that is proposed here involves thinking about this possible source of competitive advantage<sup>1</sup> in two ways: a) for the company's performance in the national market, when faced with the competition of foreign companies; b) internationally, as an opportunity to access and address the global market.

The literature referring to the impacts of the Internet, as a part of the company's internationalization strategy, is still embryonic. In fact, there is this general idea that the Internet will cause a revolution or, as stated by Drucker (2000, p. 1), a deep transformation "in the economy, the markets and the structures of entire industries; in products, services and their flow; in segmentation, in values and the behavior of consumers; in the job markets". Others talk about a revolution of the global marketing (WATSON *et al.*, 2000; LAZER and SHAW, 2000). Some studies exist, which analyze the Internet as means to support exportation, from the marketing point of view (BENNETT, 1997; HAMILL and GREGORY, 1997; MORGAN-THOMAS and BRIDGEWATER, 2004). Other studies, still, emphasize the network effect generated by that mechanism (CHEN *et al.*, 2003) and the importance to conciliate the Internet strategy with the corporate strategy (WATSON *et al.*, 2000). However, little has been discussed, up to now, about the Internet as the initial internationalization strategy for companies that are new to the international market.

In order to investigate the possibility of using the Internet as part of the internationalization strategy, some concepts are essential. The next section is intended to explain them, with special emphasis to the identification of traditional internationalization strategies and ways of converting the web into a step to enter international markets. After that, Dunning's OLI paradigm is visited, in order to discuss the possibility of using the web as a virtual location from which to launch internationalization initiatives. Then, the methodology used for field data collection is explained, followed by the presentation and analysis of the data that was

gathered. Considering this research project is still at an early stage, after preliminary results are presented, the conclusions section of this paper emphasizes future development fronts for the study of the web as an internationalization platform.

### **Traditional internationalization strategies**

The decision of developing an international presence can bring many opportunities for a company that previously only played in the local market. First of all, internationalization generates access to new markets and resources. In addition to that, it exposes the company to a new market reality, stimulating it to innovate, based on new ideas gathered from the different markets, but also due to the exposition to fiercer competition (MINTZBERG and QUINN, 1992; PORTER, 1990). In accordance to Johanson and Vahlne (1990), a network effect, or the formation of *clusters*, as defined by Porter (1998)<sup>2</sup>, explains the motivation, the approach used by a company to enter a foreign market, but also the need for internationalization.

However, the decision to expand markets beyond national borders is not without risk, which demands a internationalization strategy to be conceived in a careful manner, taking into account the organization's competences. The literature presents several possible internationalization approaches (ROOT, 1994; YOUNG *et al.*, 1989; BUCKLEY and GHURI, 1999). The best known model is the one developed by Root (1994), according to whom companies have three alternatives to access foreign markets: a) by means of exportation; b) by means of a contract; or c) investing directly in the foreign country (see Table 1).

Table 1 Ways of internationalizing

Exportation	Contract	Direct investment
✕ indirect	✕ licensing	✕ new plant
✕ direct agent/distributor	✕ franchising	✕ merger and acquisitions
✕ branch office – requires investment	✕ technical agreements	✕ joint ventures
	✕ service contracts	
	✕ management contracts	
	✕ turn-key contracts	
	✕ manufacture contracts	

Source: translated and adapted from Root (1994).

In fact, there is a natural evolution of a company's internationalization process. According to Cavusgil (1982; 1980), several stages can be identified in such process: a) pre-involvement; b) reactive involvement; c) limited experimental involvement; and d) engaged involvement. That is, first the company needs to understand the new market, in order to gain confidence, and believe that it is worth to invest in the internationalization project. Only then it will commit to it.

The same reasoning can be identified in Root's (1994) taxonomy: originally, the company starts export processes with little commitment, but, as the business evolves, it invests more resources in the exploration of the new market. After the company gains enough knowledge of local specificities, it develops a more solid network of contacts and, being convinced that business in the new territory is worthwhile, commitment becomes stronger. Then, the company starts transferring *know-how* and technical abilities to the new region. Finally, the

company finds itself ready to invest in the new market by means of acquisitions or other sort of direct investment.

### **The Internet as an important part of the initial internationalization strategy**

The Internet can be converted in an important part of the initial internationalization strategy for companies that do not want to face the risk associated with usual international operations.

The natural evolution of traditional internationalization strategies, according to Root (1994), is based on a control/risk mitigating reasoning that dictates the actions being adopted. The smaller the company's control over a foreign operation, the less risky its entrance strategy is, as fewer resources are committed to the project. Therefore, if a company chooses to use *exportation* as the entrance strategy, it reduces the risks, if compared to other strategies that involve more commitment (*contract* or *direct investment*). However, it also reduces its ability to control the business. Among others limitations, it will not be able to assure the quality of its products and the treatment given to local customers in the foreign market. This would be the case of an international operation based just on the Internet: the product is sold directly to the customer, but the distribution logistics is performed by third parties and there is no guarantee that the process will be trouble-free. It is also impossible to provide the same after-sales support that is offered to customers in the company's traditional markets, because no local infrastructure exists for that.

Following that reasoning, different companies that adopt the *exportation* internationalization entrance mode follow the same evolution steps: first they *experiment*, then they become *active* and, finally, they *commit* (CAVUSGIL, 1980). Each of those stages implies in a different level of risk and, therefore, different expected results: the smaller the commitment (less

investment), the lower the risk, but also the lower the level of control and, therefore, the expected participation in the final result (see Figure 1).

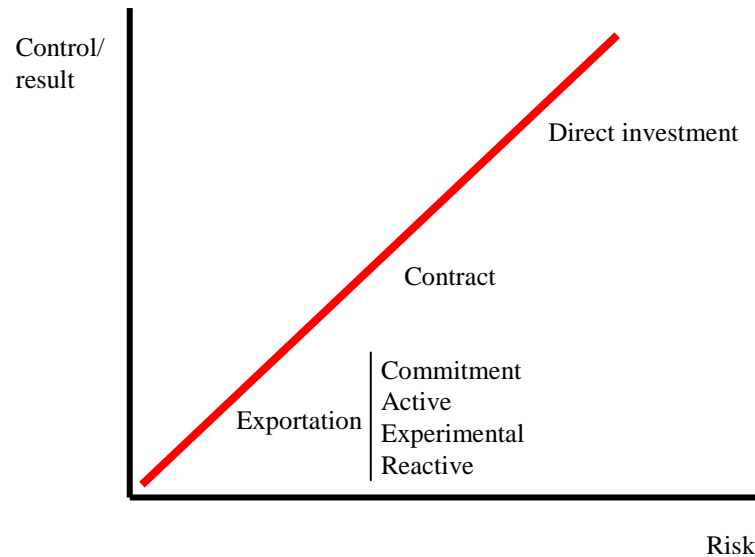


Figure 1 Control-result/risk curve

A reactive behavior can be seen as an opportunistic reaction to a specific opportunity in the market. The construction of the company's website, itself, may be a reactive action, as it has become cheap and easy to develop a presence in the Internet. After the webpage is published, international customers may demonstrate their interest in the company's products or services, when they visit it. That may trigger another reactive response, interacting with the potential international customer, which may result in the exportation of the product or service.

When reacting to an international inquiry, the company will be adopting an experimental behavior, in order to "see what is going to happen...", without, however, having developed a well defined and suitable strategy to address internationalization.

If, in spite of the lack of commitment to the international initiatives, results start to show up, the company will become more interest in its internationalization. That, in its turn, may result

in the development of a coherent strategy to be implemented, generating a positive and organized effort towards internationalization, with important potential results.

In order to ensure the effectiveness of the internationalization effort, commitment and pro-activity are required. That is, the company needs to start looking for business opportunities abroad. An organized strategic effort will guide the company to achieve better results for the internationalization of the enterprise from the effort being made. While searching for new businesses, the company may find the opportunity to use a different entrance mode, which involves more commitment, such as the *contractual* mode or *direct foreign investment*.

According to Ghemawat (2003), there are better alternatives than the physical expansion of the enterprise, in the case of small and mid-size local companies, which are threatened by the arrival of large multinational companies to their previously captive domains. This author considers that small and mid-size companies should struggle to reduce their production costs and the risk involved in their operations, at the same time they increase the volume of sales. He claims that, by doing so, local companies can neutralize the expansion of large foreign conglomerates over their traditional territories and even reverse the situation, counter-attacking and starting to supply external markets, based on the increased competitiveness that such effort can provide them with. By means of the Internet, those alternatives become feasible, as it allows for an expressive reduction of costs related to the company's internationalization strategy, reducing risks and increasing sales, due to the exposition to a larger number of markets.

### **Dunning's paradigm and the Internet**

The advantage of using the Internet as a tool to deploy the company's internationalization can be explained by Dunning's (1980) model. According to that model, referred to as the eclectic



theory, internationalization is related to three factors or advantages that a company may have in a foreign market:

- 1) *ownership* - advantage related to the existence of internal competences that differentiate the company from other players;
- 2) *location* - advantage related to the physical presence in a specific region;
- 3) *internalization* - advantage related to lower costs of producing internally, in the company, compared to the transaction costs of acquiring the product from third parties.

Using the Internet, the notion of location vanishes. The typical physical space required for an enterprise is replaced by a *virtual location*. Consequently, the company's ability to reach new markets increases exponentially, as many of the restrictions imposed by distance are eliminated. Performing from a virtual base, the company's major concern changes to *ownership*, as it has to worry about its own competences, which have to be enough to cope with fiercer and more competent competition<sup>3</sup>.

Still according to Dunning (1980), depending on the combination of those three advantages, the company would develop one of four modes of internationalization: 1) *resource based*; 2) *market based*; 3) *rationalized specialization*; or 4) *trade and distribution*. In the case of a *virtual location*, the company is originally involved with the fourth alternative: *trade and distribution*. In the long run, and as a result of the knowledge acquired from the virtual operation, it becomes possible for the company to improve its *rationalized specialization*.

### **Advantages related to the internationalization via virtual exportation**

One of the advantages related to the Internet, especially with respect to small companies, is the fact that the level of required investment is low, in order to gain access to international

markets (MORGAN-THOMAS and BRIDGEWATER, 2004). Boggs (2007) reminds us that the Internet has become a critical communication and promotion resource for many small companies, changing the way they reach their current customers and potential new customers. The study that was carried out by this author shows that the number of small companies that adopt some sort of electronic commerce will grow 7.5% a year, for the next 4 years. However, it is important to be aware that, for the Internet to provide the expected gains, companies need to invest in the development and maintenance of a professional website, which may be a limiting factor for small enterprises. Another issue that needs to be considered is the fact that the Internet, instead of reducing the importance of a brand, as it was expected when it was first introduced to the business environment<sup>4</sup>, is, in fact, responsible for the increase of the brand's importance, due to the feeling of lack of safety that spread among Internet users. People, apparently, prefer to relate to websites of well-known companies (even when their business offer is not necessarily better than others), instead of using the web to carry out business with strangers. Trust has become an important factor for a purchase decision on the web. To illustrate that, Kleist (2002) reminds us that 50% of the web's sales growth in the world resulted from just the 10 best known websites to the consumers, in 2001. In Brazil, there is also an enormous concentration of the electronic retail activity in the hands of a few companies. Although there are thousands of B2C on-line operations in the country, 85% of the market-share concentrates on twenty major websites (JARDIM, 2004). That stresses the importance of providing credibility through a company's website. Otherwise, the investment on it may be worthless.

The advantage of using the Internet in the internationalization process is clear as part of the initial effort, considering that a virtual installation is less costly than a physical location in the foreign market. However, the real advantage of using the Internet for that is risk reduction, in

the early stages of internationalization. Moreover, the use of the Internet as a *virtual location* for Brazilian companies intending to experience other markets must be considered as a significant learning factor, considering that:

- a) one of the major reasons to develop strategic partnerships to enter a new market is the lack of knowledge of that specific market (CONTRACTOR and LORANGE, 1988). But, by means of the Internet, the information flow about the new market is increased, the company acquires better knowledge of the local reality of an international market, even not being directly there;
- b) during the exchange of information, a virtual network can be formed, making the company better known to potential customers in the foreign target market;
- c) finally, the company will be able to test its product, in a virtual way, in the new market, without having to spend a lot of money on expensive physical market tests, which would require resources to be committed specifically for that.

In addition to the learning effect, another important consequence of the virtual exposition to a new market is innovation. According to Porter (1990) and his diamond theory, several characteristics of the international market may generate a positive effect on innovation for the company:

- a) international demand - the more sophisticated and demanding the international demand (consumers/customers), the greater the effort needed for the company to adapt to the new situation. The company will feel obliged to improve its products due to the exposition to more demanding consumers. Of course, that will end up impacting its local offers, as well. Maybe it will generate a competitive edge in the company's traditional markets and, eventually, also in the global market;

- b) related and supporting companies in the new market - the company can develop a network of suppliers and other more sophisticated partners than those it has in its original markets, allowing for the production of better products at a lower cost;
- c) rivalry within the aimed market – the competition faced in the new market will push the company to innovate and to improve its products. Thus, the company will innovate in order to reduce costs and to improve the quality of its product and services, creating new products and more competitive processes, which are better suited to the new environment, but which can also be adjusted to the original one, improving the company's offer.

A *virtual location* can also cause similar effects to physical location with respect to the generation of an economy of scale, economy of scope and learning (KOGUT, 1985). Costs related to transportation and taxes can be reduced. A scale effect may result if there are several orders from places that are close to one another, allowing for simultaneous processing, for example. Some company competences (*ownership*), when combined to the needs of the new market, can generate favorable results in the development of international presence. When a company initiates its internationalization, it starts to build knowledge on the external markets it gets involved with, whose lack previously represented an important obstacle to the development of its international operations (JOHANSON and VAHLNE, 1977). The formation of such knowledge base can be initiated, with a lower level of risk, if the company adopts a strategy of *virtual location*.

Finally, one of the advantages of using the Internet as part of the internationalization strategy that cannot be ignored is the possibility of performing direct sales, without middlemen. A fidelity relationship can develop with international customers, when they are directly supported. In that case, there is also no need for training local agents to represent the company

in the target market. Neither is it necessary to settle a local branch of the company in the target market, which would demand direct investment in the international destinations.

In the digital age, companies will dedicate less attention to their traditional distribution channels and will try to reach their end customers directly, in many situations (KANTER, 1998, p. 219). However, companies are posed with the challenge of emphasizing the new channels without “declaring war” to their long time partners, even when new technologies/partners prove to be technically more suitable to perform the intermediation. A classic case is that of Levi’s, which conceived a business model in which the customer visited a department store, took his/her measures, chose the fabric and size of the pair of jeans s/he wanted to buy and waited at home for the product to be delivered to his/her doorsteps. The department store transmitted the necessary order information from a computer terminal in its premises directly to Levi’s production line, allowing jeans to be produced in a “pulled” fashion, according to the demand (MCKENNA, 1995). The business model was not successful, not due to the lack of acceptance by the market, but due to the conflict of interests it generated with the retailers, who felt threatened by the new way of commercializing the product, which reduced the relevance of their role in the value chain. Reacting to the poor results of experiments like this, Lee, Lee and Larsen (2003) discuss the dilemma faced by many companies when they think about using the Internet as a way of approaching end customers directly: if they don’t sell their products straight through the Internet, customers will look for companies that do it. On the other hand, if they do so, they will be boycotted by their traditional customers, who will feel relegated to a second stand<sup>5</sup>.

Well, a particularly interesting aspect related to the use of the Internet for international direct sales, in the case of companies that start operating internationally by means of a website, is that there will be no channel conflict, as there were no previously established channels.

## **Methodological approach**

The research project that originated the data analyzed in this paper was developed with the objective to improve the understanding about how Brazilian manufacturing companies use the Internet to support their business practices and strategies.

This paper discusses the perception of manufacturing companies about the Internet's role on their internationalization.

Impressions were gathered from companies registered in a database provided by the Federation of Manufactures of the State of Sao Paulo (Fiesp<sup>6</sup>), about four simple issues concerning the impact of the Internet on the internationalization of the surveyed companies:

- Did the Internet increase the visibility of the company's products in foreign markets?
- Did the Internet contribute to increase the company's sales in foreign markets?
- Did the Internet increase the visibility of foreign competing products in the domestic market?
- Did the Internet contribute to increase the sales of foreign competitors in the domestic market?

Companies were invited to participate in the *survey* by means of an email message, containing a link to a web-page with the questionnaire, sent to ca. 650 companies that had participated in a previous survey, carried out three years ago. In the previous occasion, companies were asked about many other impacts of the Internet in their daily activities, but there were no questions about their internationalization.

121 valid answers were obtained from a non probabilistic sample, as it included all companies that accepted to participate in the survey, from those to which the invitation was sent.

Comparing the sample with the population, one realizes that the sample contains a higher percentage of large and mid-size companies than the population, as shown in Table 2, below. This does not represent a major problem, in this case, because the research has exploratory purposes and there is no intention to infer results about the population. However, this was an additional reason to discriminate the size of the participating companies in the analysis.

Table 2 Proportion of companies of different sizes in the sample and in the population

	sample	population
up to 99 employees	73 (60.3%)	75.8%
up to 499 employees	39 (32.2%)	20.4%
more than 500 employees	9 (7.4%)	3.8%

Note: Really small companies (with less than 20 employees) were not invited to participate in the survey. They were also excluded from the population, for the purpose of Table 2.

The answers for the questions had to be chosen from a predefined set of alternatives, presented in a Likert scale. In order to choose the answer, the participant only needed to click on one of the options that were made available by means of a drop-down menu, as shown in Figure 2.

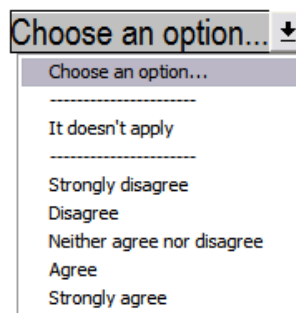


Figure 2 Drop-down menu adopted for the survey questions

## **Analysis of the results**

After several reasons having been presented in the previous sections for the Internet to represent an interesting way for the internationalization of Brazilian companies, we will now start evaluating the survey results.

### *Characterization of the sample*

Amongst the respondents, 4 were presidents of their companies, 38 were directors, 35 were managers, 15 defined themselves as coordinators or supervisors, 21 had a different function and 8 did not indicated their position in the company's hierarchy. 54 companies manufacture products for the consumers market, 48 produce parts, modules or components, 8 produce raw-materials, 5 are logistic operators and 6 declined to provide an answer about the company's main activity. 116 of the 121 researched companies claimed to have a website, 78 of them also have an intranet, for internal communication and integration, and 40 have an extranet, for the communication and integration with business partners.

### *Answers for the survey questions*

Figure 3, below, presents the collected data, related to the four specific questions on internationalization that were asked to the companies. But, prior to start analyzing the data, it is necessary to explain the reasoning behind the organization of the data on Figure 3. The y-axis discriminates the sizes of companies, which were separated in four categories: more than 500 employees, 100 to 500 employees, 50 to 100 employees and less than 50 employees. This segmentation was carried out because the authors already knew, from previous studies, that size is a relevant factor in determining companies' behavior with regard to the perception of the Internet's impact on their activities. That was also important due to the differences between the



composition of the convenience sample and the population of manufacturing companies in Sao Paulo, which was pointed out in the methodology section.

The figures contained inside each box that comprise the horizontal bars indicate the absolute number of companies of that size that provided a specific answer to the question, according to the legend under the chart.

As the number of companies of different sizes is not the same (there are many more small companies than large ones in the sample and also in the population of manufacturer in the state of Sao Paulo, as seen in Table 2), a percentile scale was used for the x-axis, in order to improve comparability of the figures obtained for companies of different sizes.

#### *Visibility and sales of foreign companies in the national market*

According to the data on Figure 3, large companies have a perception that the Internet has greater impact on them than smaller ones, with respect to internationalization. Amongst large companies (more than 500 employees), 77.8% (7 of the 9) consider that the visibility, and also the sales, of foreign companies increased in the national market as a result of the use of the Internet (for this analysis, the authors considered that those companies that answered “agree” or “strongly agree” have an affirmative opinion with regard to the issue). In the case of smaller companies, there is a perception that the visibility of foreign companies in the Brazilian market increased more than their actual entrance in this market (sales). That is not a contradictory result, because, prior to commercializing products in a new market, it is necessary for a company to make such market familiar with the products being offered and with their attributes. It is also necessary to remove bureaucratic barriers to international trade. The internationalization models that were discussed in previous sections of this paper anticipate the existence of such stages, in the process of introduction to a new external market. The delay

between exposition and acceptance by the market can give already settled companies some time to react and to try to neutralize the “invasion” of their domains by foreign competitors. On the other hand, the situation is of concern, because local companies are starting to feel threatened by products that are not yet being directly commercialized in the country. To reduce the threat imposed by those companies that are not even present in a local market, yet, but that already interfere with the competitiveness of the companies installed there, Drucker (2000) advises any company to become globally competitive, even if it only intends to serve a local or regional market. The concern about the attitude of Brazilian companies (specially the smallest ones) with respect to the changes imposed by the Internet, along with other globalization factors, increases if we consider that quite a few of them (9 of 43, that is, almost 21%) do not believe that there is any impact of the Internet on the visibility of foreign products in the local market or on their direct presence in this market. Would it be possible for those companies to be immune to globalization?

#### *Visibility and sales of the Brazilian companies abroad*

Amongst large companies, 77.8% (7 of the 9) also have the perception that the visibility of their organizations increased abroad, although only 55.6% (5 of the 9) consider that this converted into additional sales to foreign markets. The percentage of mid-size and small companies that believe that they became more visible to the international market is also larger than the percentage of those that perceived increase in concrete sales. As it was discussed before, such perception is natural, as one needs to be noticed first, so that sales can increase next. It is clear, however, that visibility does not, necessarily, convert in sales without additional effort towards that, which needs to be carried out by those interested in internationalizing themselves.

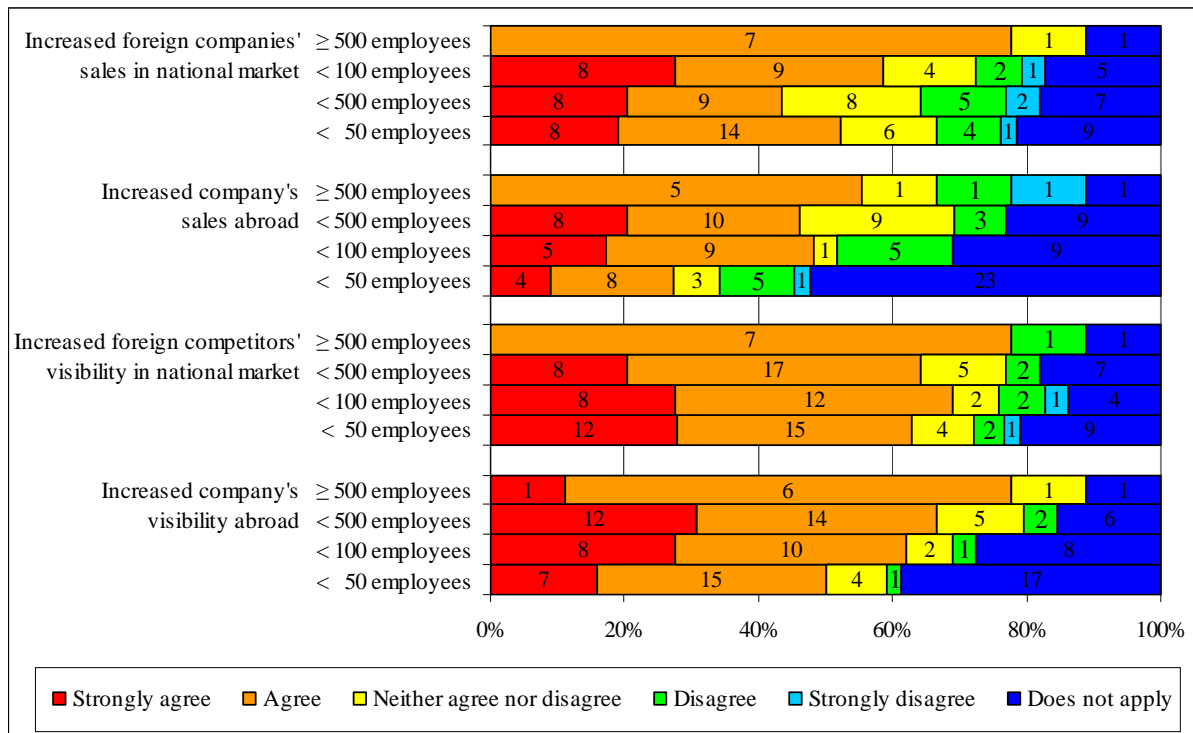


Figure 3 Perception of the Internet's impact on the internationalization of Brazilian manufacturing companies and the entrance of foreign competitors in the national market

*Comparison of the perception of the internationalization of national companies (expanding to markets abroad) and foreign companies (entering the national market)*

In general, the bars that represent increase in visibility do not differ much for foreign companies in the Brazilian national market and for the surveyed companies abroad. The biggest difference occurs in the perception of conversion of visibility into sales. Foreign companies seem to be in advantage, when compared to the companies that answered the questionnaire. Of course, the results may reflect the respondents' inclination to more easily depict benefits to others than to themselves, which is a common trend in any change process. As remarked, early in the 16<sup>th</sup> century, by Machiavelli (1972), "for he who innovates will have for his enemies all those

who are well off under the existing order of things, and only lukewarm supporters in those who might be better off under the new.”

When answers “strongly agree” and “agree” shown in Figure 3 are added up for companies of all different sizes the values presented in Table 3 are obtained.

Table 3 Absolute number and percentage of participants who agree to the statements on the increase of visibility and increase of sales

	Visibility increase...	Sales increase...
... of foreign companies in the local market	79 of 120 (65.8%) agree	63 of 119 (52.9%) agree
... of his/her own company abroad	73 of 121 (60.3%) agree	49 of 121 (40.5%) agree

Table 3 shows that the increase in visibility perceived for foreign companies in the local market and for the participants companies abroad is not very different, with a slightly more favorable performance of foreign companies. The perception of conversion of visibility into sales, however, is very unfavorable to national companies. As shown in Table 3, 52.9% of the participants “agree” or “strongly agree” with the statement that there was an increase in the sales of foreign companies in the country, due to the Internet. On the other hand, only 40.5% of the respondents recognize the impact of the Internet in increasing the volume of international sales by their own companies.

Mainly among small size companies, the participants of the survey believe that foreign products promoted on the web called more attention of the national market than did Brazilians products abroad. This perception is, at least, curious, since there is no additional difficulty for Brazilian companies to develop a presence on the web than that faced by companies of other countries. More surprising is the fact that 38.6% of all surveyed small companies believe that the visibility of the company abroad “does not apply”, while only 20.5% believe that the visibility of foreign competitors in the country “does not apply”. It is understood that, when

those participants state that there is no reason for someone abroad to be interested in the company's products they also mean that there is no reason for the company to try to improve its visibility in foreign markets, through the web. The percentage of companies that, apparently, do not worry about internationalization (either attempting to obtain visibility and sales in new markets, or blocking the advance of others over their traditional markets) is high and larger for small companies than for larger ones. The fact that 52.3% of surveyed small companies (23 of 44) do not consider the possibility of internationalization of their business using the Internet (they answered "does not apply") is impressive, mainly considering that doing so would represent an exceptional opportunity to develop new markets, to learn and to innovate, as discussed in previous sections of this paper. This makes one wonder about the possible causes for that, which would represent an excellent issue for future studies and an opportunity to be addressed by agencies interested in promoting the development of international trade in the country.

### **Final considerations**

The data collected in the field research provides evidence that Brazilian manufacturing industry executives believe that the Internet has significant impact in the internationalization of their businesses, based on its ability to provide company visibility and sales. Questions involved the participants' perceptions on the performance of foreign companies in the Brazilian market and Brazilian companies in other markets.

Participants perceive the increase in visibility and sales of foreign competitors in the national market, due to the effects of the Internet, to be larger than the increase in visibility and sales of Brazilian companies in foreign markets, although, it was said that this may result just from that human characteristic of "always seeing greener grass at the neighbor's land".

This is an important limitation of this or any other study that involves the participants' perceptions: it is not possible to know if perceptions really match reality, unless further investigation is carried out, using suitable techniques for that. As limitations are always related to new opportunities for improvement, the authors of this paper consider that the verification of the real impact of the Internet on the generation of income for the company, based on the exploration of new (international) markets, represents a natural continuation of this work.

However, if the internationalization of companies through the use of the Internet theoretically seems to be a natural way to be followed, it is not what the findings of this and other research undertaken in Brazil demonstrate. When comparing the results of this survey with the results of a research conducted by the Managing Committee for the Internet in Brazil (CGI, 2006), one notices that the perceptions revealed here match those obtained there. In that study, 58.8% of the companies in the sample claimed to use the Internet as a way to trade the company's products, but only 5% of them carried out sales for Internet customers abroad. 45% of the participants of CGI's research pointed out the unsuitability of their products for sale over the web as the major cause to prevent sales to foreign markets.

The data gathered in this research project, as well as other similar initiatives in Brazil, when contrasted to the literature on the internationalization of companies, shows that:

- the low level of investment required to provide access to international markets by means of the Internet (MORGAN-THOMAS and BRIDGEWATER, 2004) has not been enough to stimulate Brazilian companies to face this challenge;

- the *experimental* exporter, as referred to by Cavusgil (1980), does not seem enthusiastic about the possibility of the Internet as a means to reach new external markets, which could be a first step for future “active” and “committed” exporters.

Thus, the Internet is far from being used to its full potential as an internationalization driver for Brazilian companies. The possibility is there, and there is plenty of evidence in the literature about that. However, due to reasons that were not part of this paper’s scope (but which are an interesting topic for future studies), the internationalization of Brazilian companies hasn’t been supported by the use of the Internet, not even in the experimental level.

Other interesting questions for future studies are the following:

- to identify and to understand the factors that discourage the use of the Internet as a means for the internationalization of Brazilian companies;
- to carry out a detailed analysis of the websites of companies that consider themselves as internationalized (or which are becoming so), in order to check if they provide links in English, if they answer requests/demands, how fast they do that, etc.
- To extend the sample of this research project to manufacturing companies of other parts of Brazil (currently, only companies from the state of Sao Paulo were surveyed), in order to determine local and regional particularities. Perhaps, there are differences related to the regional entrepreneurial context.

Therefore, we expect to have contributed to the field in a way that future studies can use the results presented here as the grounds on which to build new theory, deepening some of the ideas from this initial study on the use of the Internet as part of the strategy for internationalization.

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## Notes

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<sup>1</sup> A company is considered to have competitive advantage when, faced with a situation in which there are two or more players competing for the same market, it is able of generating an edge towards the others, which leads to a consistently better performance – that reflects in a larger market share, distinguished technology, consumer loyalty or other kind of advantage (GRANT, 2005).

<sup>2</sup> Clusters are geographic concentrations of interconnected companies: suppliers, related businesses, and even competitors in a specific area, where they compete but also cooperate with one another.

<sup>3</sup> This situation is considered to be optimal, by Porter (1990), in the diamond analysis. According to that author, companies that face fierce competition become stronger than those that have captive markets. Therefore, the Internet, due to the fact that it reduces advantages related to location, will probably generate more competitive and innovating companies, because they will need to become competitive in a global scale and not just within certain geographic limits.

<sup>4</sup> Kalakota and Whinston (1996) considered that the Internet represented a major threat to brands, making brand strength weaker than ever before. Of course, time proved them wrong with respect to that, as trust became an important issue for electronic commerce.

<sup>5</sup> Magretta (1998) emphasizes the competitive edge Dell developed against IBM and Compaq for selling computers through the Internet. Its main competitors couldn't be as aggressive in their direct offers to consumers because they would be competing directly against their traditional sales channels, the computer stores. Dell didn't face that problem, because it had always sold directly to end customers, even before the Internet.

<sup>6</sup> FIESP is an association that congregates manufacturing companies in the state of Sao Paulo.