

THE PROCESS OF METALÚRGICA DELTA INTERNATIONALIZATION: ANALYSIS BASED ON THE STRATEGY TRIPOD

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ABSTRACT

This article, theoretical and empirical, aims to analyze the process adopted by a company in the metallurgical and graphic industry regarding its internationalization strategy. Thus, a case study was conducted by a qualitative approach, based on Peng's strategic tripod (2009). The main objective of this study is to investigate how was the process of internationalization of the company object of this study, based on market vision vs. RBV vs. institution (Peng's tripod) and identify the factors that impacted in the results obtained. The analysis shows that, a priori, the decisions taken by the company were not guided in all aspects necessary for the adoption of an internationalization process and that there were no operational, financial and economic gains in the adopted strategy.

Keywords: internationalization, entrepreneurship, failure strategies

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1 INTRODUCTION

For decades, companies in emerging countries like Brazil were seen mainly as exporters. According to Xavier and Turolla (2006), the process of internationalization of Brazilian firms, through foreign direct investment, continues to be quite rudimentary and, therefore, has been insufficiently studied.

Internationalization is considered one of the strategies that firms can adopt to obtain competitive advantages and withstand their competitors within the national and international market. However, there is no way to talk about corporate strategy without this being preceded by adequate planning to evaluate all the scenarios, options and risks of each choice, as well as the capacity to implement the planned actions (VASCONCELLOS, 2008). These are the keys because the strategy adopted by businesses is capable of turning the company into one that is better or more profitable in some particular aspect. According to Hoskisson et al. (2009, p.5), even more prevalent than companies that fail entirely are those that are no longer competitive because of ineptitude in making the necessary changes for continued success.

In this research, we study the process of internationalization of a metal graphic company. This choice based on two reasons: (i) it occurred recently, in the year 2004, and (ii) because, in less than two years, it closed the operation. The present study aims at answering: in which context was the internationalization of *Metalúrgica Delta*? What factors led the company to not succeed in this strategy? This research aims at contributing to the understanding, through a real and practical study, of the possible motivations that lead to the failure of an internationalization strategy. Therefore, it seeks to advance in the theoretical, methodological and/or practical reflections already available in this field of study.

The specific objectives of the research are: (i) to investigate how the process of internationalization of the *Metalúrgica Delta* company went, supported in the market- vs. resource- vs. institution-based view; and (ii) which factors impact on the failure of the endeavor. This theme shows its relevance since it addresses the experience of a company that, in an internationalization process, had a setback due to the failure of the strategy adopted. Additionally, one can add to the importance of the theme, given the few practical studies on the real motivations of the failure of internationalization strategies.

After the introduction, we divided this paper into four sections. The first addresses the main theoretical aspects which explain the motives that lead companies to internationalize. The second one illustrates the methodology used in work as well as the method of data collection and analysis. The third section presents the case study itself and, in the last section, we discuss the final considerations and the main lessons obtained in the case studied.

2 INTERNATIONALIZATION OF COMPANIES

2.1 Internationalization as a Competitive Strategy

In the field of internationalization, research has shown that different factors and theories are important in the early and late stages of international business development (JOHANSSON; VAHLNE, 2009). Different models and theories have been developed to increase understanding of the international expansion of organizations. It includes transaction cost (HENNART, 1988; WILLIAMSON; 2005); internalization theory (BUCKLEY. CASSON; 2009); Uppsala model (JOHANSSON; VAHLNE; 2009); eclectic paradigm (DUNNIG; LUNDAN, 2008), and born global (SHARMA; BLOMSTERNO, 2003).

Peng (2009) presented the “Strategic Tripod” model that summarizes in three large dimensions or perspectives of how to explain the strategy of an organization: (i) the resources and capabilities of the organization; (ii) competition environment of the industry where the company is inserted; (iii) the variables related to the institutional environment. According to the author, these three factors directly influence the strategy in which they impact on the performance of the company.

2.1.1 Resource-based View and Company Capabilities

According to Johanson and Wiedersheim (1975), the principal barriers for the internationalization of a firm are lack of knowledge and resources. The resource-based view of the firm (RBV) argues that companies which have specific capabilities and resources may be distinct from other organizations. However, to fulfill this role, they must be invaluable, rare, inimitable and these characteristics would be the causes of differences in the profitability of organizations (BARNEY, 1991; BARNEY; HESTERLY, 2011).

Barney (1991) defines resources as being assets, capabilities, organizational processes, firm attributes, information, knowledge, controlled by the company and that allows it to understand and put into action the strategies capable of increasing its effectiveness and efficiency. With this definition, one can list a series of mechanisms, of the most varied natures, such as an elite managerial talent, organizational culture, distinctive or idiosyncratic competencies in general that are difficult to replicate (SOUSA FILHO; BARBIERI, 2015). In turn, Peng (2009) argues that resources can be tangible or intangible. Among the tangible resources are financial resources, technological infrastructure, and physical organization. Intangible assets are human resources, innovation, and reputation, among others.

Prange and Vendier (2011) affirm that, by expanding their activities internationally, firms accumulate capabilities such as learning, cultural adaptation and receptivity to change. Slack, Chambers and Johnston (2009) emphasize that no company can only choose which part of the market it will operate without taking into account the constraints imposed by its operations as well as its competencies.

Lastly, Helfat et al. (2007a) argue that the benefits of companies to achieve dynamic capabilities depends, not only on resources and management capacity but also on the context in which the capabilities are operated. Therefore, this makes it necessary to understand the environment where the companies are inserted. Next, we discuss the second pillar of the strategic tripod.

2.1.2 Market-based View

The strategic line that guides the determinants of industry (Peng, 2009) based on Porter (1980) approach. It composes of factors such as competitiveness among companies, barriers for new entrants, suppliers and buyers with bargaining power and products/services substitutes. From Porter (1986), the strengths and criticisms of the company, through the knowledge of competitive pressures, are observed. These, in turn, point to the areas in which strategic changes can result in a maximum return and highlight areas where industry trends are of the utmost importance, both an opportunity as well as threats.

Emphasizing the performance of suppliers, Porter (1999) affirms their capacity to exert threats to the performance of firms in an industry by raising prices or reducing the quality of goods and services. Thus, powerful suppliers can take advantage of the profitability of a sector which cannot compensate for cost increases in prices themselves.

From the perspective of customers, Porter (1999) emphasizes that they also have bargaining power because they can force lower prices, demand better quality or exact more service provisions by pitting competitors (suppliers) against each other to the detriment of the profits of the sector. The bargaining power of consumers tends to be greater when there is a concentration of the consumer industry or when the importance of the consumer industry is high. The influence of consumers can be high when they consume in large quantities or when they threaten to promote backward integration. (PORTER, 1999).

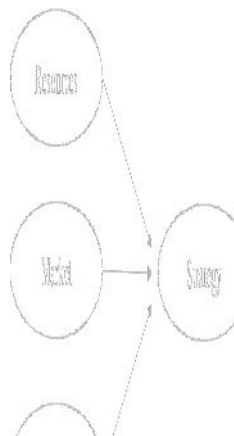
Regarding the forms of protection for new entrants, for Porter (1986), new entrants in a sector bring new capabilities, the desire to gain market shares and, in general, substantial resources. On the other hand, there are two expectations of the entrants regarding the barriers: the consolidated entry barriers that already exist and the threat of reaction from already established competitors (PORTER, 1986).

As for the threat of product or service substitutes, by imposing a ceiling on prices, service substitutes limit the potential of a sector unless it can improve the quality of the product (Porter, 1999). Or somehow (through marketing) establish a distinction, thereby suffering the consequences in profits, and possibly, in growth.

In this context, implementing a strategy is to make choices, define how your company will stand out, where these choices represent the ways elected by the company to achieve competitive advantage (PORTER, 1990). However, the industry structure modifies according to country standards. The higher the dynamism of the competitive environment, the higher the possibility for a subsidiary to develop a sustainable strategy of action in this market (BIRKINSHAW; FRY, 1998).

In this way, to understand the effects of the industry factor which determines the behavior of the multinationals, let us consider Porter's Five Forces (1980) which drive competition in the industry described in his diamond framework, as shown in Figure 1.

Figure 1 – The Porter Diamond



Source: Porter (1990)

2.1.3 Institution-based View

In recent years, institution is a new variable that influences international strategies and corporate performance (PENG; WANG; JIANG, 2008; PENG, 2009). According to North (1990), institutions are humanly devised constraints which structure human interaction.

Against this backdrop, we see the attempts of establishing a theory about the insti-

tutional effect (FABRY; ZEGHNI, 2010). Kiss and Danis (2008) argue that the social networks of entrepreneurs play an essential role in the internationalization of companies.

However, despite the relevance acquired by the institutions, only in the studies of Peng (2009) are these considered in combination with the specific resources and the structure of the industry, with the objective of analyzing the international strategy of the companies. In this framework, the industry structure is essential to indicate the competitive environment in which the company competes. While the qualified resources, which the company possesses, are necessary to respond to the context inserted, offering the company the possibility of establishing competitive advantages (GALBREATH; GALVIN, 2008).

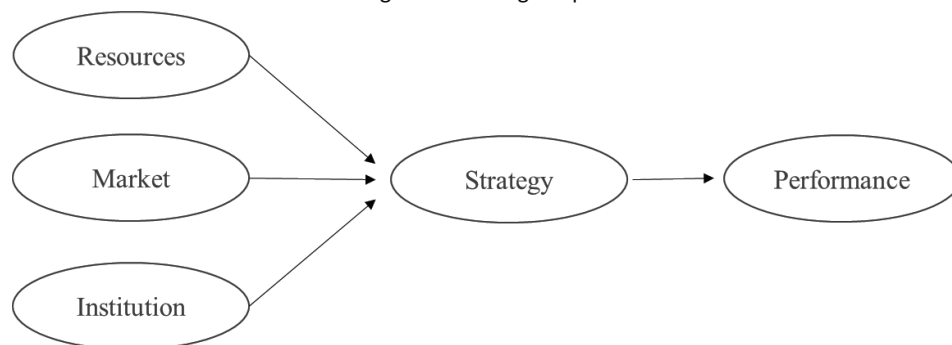
One of the contributions of the institution-based view is the emphasis on the importance of institutions, cultures, and ethics as the basis for propelling or restricting strategic choices (PENG; WANG; JIANG, 2008; PENG, 2009). Peng (2009) considers that the institutional framework is constituted by formal institutions, which include laws, regulations, and rules, with the pillar of support of these institutions being coercive.

On the other hand, informal institutions include the standards, cultures, and ethics, with the two pillars of support for these institutions being normative and cognitive. The normative pillar refers to values, beliefs, and standards that influence corporate behavior. The cognitive pillar is internalized and agreed upon values and beliefs (PENG; WANG; JIANG, 2008; PENG, 2009). In an attempt to reduce economic uncertainty and corresponding transaction costs, institutional models dictate the rules of the game so that deviations are easily mitigated (MONTICELLI; VASCONCELLOS; GARRIDO, 2017).

This view suggests two propositions: strategic choices made within institutional constraints; and if formal institutions fail, informal institutions play the role of reducing uncertainty (PENG; WANG; JIANG, 2008; PENG, 2009).

Thus, based on Peng's "strategic tripod model" (2009), we can incorporate the three perspectives (resources, market, and institution), which the author considers fundamental in determining the strategy pursued by companies, as shown in Figure 2.

Figure 2 - Strategic tripod



Source: Peng (2009)

2.2 Flaws in the internationalization process

Regardless of the motivations, deciding to internationalize is to take a risk since the process is associated with uncertainties, complexity and requires the disposition of different types of resources (CHEN; HSU; CHANG; 2013). Associated risks and resource constraints may discourage risk-averse managers from realizing internationalization. However, in the academic literature

there is still no consensus on this matter. Some scholars argue that the positive and negative effects of the internationalization process can counterbalance each other (NUMMELA; SAARENKETO; LOANE; 2016). Other researchers affirm that the strategies adopted are highly dependent on context (SLEUWAEGEN; ONKELINX; 2014) and that the differences identified by scholars could be due to the developed environment.

The fact is that some internationalization processes do not succeed and present several failures throughout their attempt at implementation. The concept of failure is fundamental for the field of entrepreneurship (NUMMELA; SAARENKETO; LOANE; 2016). In the context of the present research, it refers to a series of unexpected events during the internationalization process that leads to an undesired result but, at the same time, it can be considered a natural part of the risk lifecycle (COAD, 2013).

For Cardon, Stevens, and Porter (2011), the factors that trigger the failure can be seen as antecedents to the failure and emphasizes that the existing literature indicates internal and external factors as reasons for the lack of success in an internationalization undertaking. Some authors highlight the role of managers in the implementation of business strategies. According to Nummela, Saarenketo, and Loane (2016), managerial incompetence may be linked to the inability of managers to handle additional responsibilities encountered when entering international markets. Along these same lines, Ooghe and De Prijcker (2008) identified incremental failure processes resulting from managerial incompetence, which lead to a decrease in profits, liquidity difficulties and, eventually, bankruptcy. On the other hand, according to Carter and Wilton (2006), entrepreneurs can be victims of circumstances arising from external factors, sometimes beyond their control, such as situations of business strategy failures when public and governmental institutions do not create macroeconomic conditions conducive to the development and international growth of companies.

Although other researchers have described some trajectories of internationalization failure, none extend beyond the process to the consequences of failure. It is because they do not take into account the close relationship between failure itself and the own internationalization process of the company (NUMMELA; SAARENKETO; LOANE; 2016). To complement this reasoning, Cardon, Stevens and Potter (2011) mention that the results originating from failures in internationalization can vary from productive to destructive. Nummela, Saarenketo, and Loane (2016) add that there are occasions when failure may not only be considered necessary but also desirable. Notably, in processes where internationalization resulted in a continually weak enterprise about its performance due to management incompetence, miscalculation, excessively optimistic expectations regarding the macroeconomic environment of the locality or the market change. These authors conclude by mentioning that the consequences of failure in internationalization processes can place on a continuum of outcomes ranging from diminished participation in international activities, for restructuring and divestment, to the complete closure of the business.

Also, with the aim of trying to contribute to the understanding of the failures resulting from internationalization processes, Wang (2010) conducted a case study based on an experience of eBay when it decided to enter the Chinese market. Some factors may be responsible for the failure of a firm when choosing to implement the internationalization strategy. According to Wang (2010), the first factor refers that a successful business in one market does not mean that it will automatically succeed in another market using the same principles and strategies. In addition, some factors can bring about the failure in internationalization processes. It could be the knowledge of the market of operation, knowledge of the competition, knowledge of the local laws, and absence of the internationalization drive in the culture of the company.

About the understanding of the market of operation, Lu, Tao, Chan (2008) argue that the lack of in-depth knowledge of the business environment and demand dynamics leads the company to spend a considerable amount of resources including money, time and advertising in the wrong context. According to Wang (2010), in complement, highlights that in the case of eBay, the company did not notice that in China most small businesses did not use the Internet, but rather television, to advertise their products. Therefore, by not adapting its products and services to meet the needs of the local Chinese market, it became one of the problems encountered when internationalizing (Wang, 2010).

The second factor of failure mentioned by Wang (2010) related to the lack of knowledge of its competitors on the part of the company that intends to internationalize. Rein (2007), in line with Wang (2010), mentions that the lack of understanding of the strategies of competitors may weaken the own strategy of the company on how to react to the endeavors of the market players and facilitate the loss of consumers who move on to meet their consumer expectations.

The third factor of failure, according to Wang (2010), is the lack of knowledge of local legislation. In line with the one mentioned by Wang (2010), for Carvalho (2013), an essential determinant in the analysis of foreign investment is the political and economic institutions. The importance of this determinant is confirmed by its extensive use in empirical literature explaining the inflow of IDE into a country. Continuing with the example of the eBay case, Ireland, Hoskisson, and Hitt (2009a) understand that the non-inclusion of judicial services in their sales system of ensuring the credibility of operations has made Chinese consumers uncomfortable with a commercial activity. According to Rein (2007), it undermined the trust between buyers and sellers.

Lastly, Wang (2010) considers the absence of the internationalization drive in the culture of a company. The lack of a global or international awareness influences the lack of planning and contributes to the permanence of the lack of knowledge of the necessary internal processes. The author further adds that the main obstacles include the exchange rate, port and airport costs, customs bureaucracy, international freight costs, tax costs and differentiation of the reimbursement of export credits, among others.

Summarizing what the authors have reported, in other words, the failure of a company to internationalize is mainly due to the limited understanding of the local market, the lack of adaptation and customization of its services to the local market, and the adoption of a management strategy that is not compatible with the new market.

3 METHODOLOGY

This study has the objective of trying to contribute in filling in the remaining gaps in the analysis of the context in which companies are inserted when they decide to internationalize as well as the motivations of the failure of some endeavors. However, this is an extensive topic and, therefore, needs to be delimited regarding the scope, methods, and techniques to be used in this work.

This research has an eminently qualitative approach. The cited method commonly employed in descriptive and exploratory studies (VIEIRA; ZOUAIN, 2006). This procedure justifies the advantages of understanding the complexity of the studied phenomenon and the whole process, deepening elements that contribute to its constitution.

As for the typology, this research was carried out through a case study. According to Merriam (1998), the knowledge produced by the case study differentiates since it is more concrete and less abstract, more contextualized and more interpretive. It characterizes as being par-

ticularistic because it deals with a particular situation or phenomenon, descriptive, since it makes a rich description of the phenomenon, and heuristic because it tries to find the reasons of the problem and its solutions.

We collected the data collection through semi-structured interviews conducted individually, recorded in mechanical means with the permission of the interviewee. It is justified by the better understanding and compilation of the data collected, both through documents and observations.

We conducted the interviews with three key participants in the internationalization process and took place in October and November 2013. Respondents were one of the owners of the company, the current CEO, and a former CFO, for they knew the history of the organization, the milestones, the strategies and the people who were essential to the process. Also interviewed was the former controller who participated in this process together with the founders. In the present work, the interviews are about six hours and twelve minutes of recording, which we transcribed entirety.

Data collection through documentary research utilized secondary data from the organization itself, such as reports, newsletters, books and institutional research. We proceed our analysis using content analysis, following the proposal of Bardin (2012), which is seeking throughout the work to perform the interpretation of these contents, relating to the theoretical perspective adopted and other information collected in the documents. The technique is justified by its primary intention, which is to infer knowledge relative to the subjects studied, using indicators not necessarily quantitative.

4 RESULTS

This section covers the results of this research. First, we characterize the company in item 4.1. Item 4.2 covers the analysis of the internationalization process under the prism of Peng's Tripod. Item 4.3 discusses the failures of the internationalization process of *Metalúrgica Delta* and, lastly, item 4.4 presents the results found in light of the literature on the subject.

4.1 Company Characterization

The target company of this study is a family business founded in the state of Ceará in the 1950s. The main products manufactured by the company are cans used for the packaging of foods and chemical products as well as metal bottle caps for the beverage segment, these being its flagship product. The area of operation of the company is the North and Northeast region and, for confidentiality purposes, throughout this section the company under analysis shall be called *Metalúrgica Delta*.

In 2001, the founder of *Metalúrgica Delta* passed away, and the firm's leadership position delegated to his eldest son, who remains CEO.

The *Metalúrgica Delta* industrial plant locates in an area of more than 50 thousand m². The monthly productive capacity of metal bottle caps of the company is, on average, one billion units. The production process of metal bottle caps is composed of a few steps, the most important of which is called lithography or stamping. In this step, it makes the printing of labels or "polychromy of the crafts/labels" of each of the contracting marks. Computers perform the quality control, through video sensors capable of monitoring both its external and internal face.

In the segment in which it operates, the company has only three national competitors, located in the Midwest, Pernambuco and São Paulo, the latter being its most significant rival. The primary domestic customers are large beverage companies. The most representative foreign clients are SAB Miller Brewery, Danone Argentina, Quilmes, and Coca-Cola of Uruguay, Paraguay, and Argentina.

The principal raw material used by Metalúrgica Delta in its production process is tin and its main supplier is *Companhia Siderúrgica Nacional (CSN)*, followed by other Chinese and Korean suppliers still not very representative in the business of the company in the analysis period of this survey.

4.2 Analysis of the Internationalization of *Metalúrgica Delta* based on the Strategic Tripod

Until 2003, the strategy adopted by the company was to serve international markets using export. However, according to its former CFO, for the company to survive in the market, it had two options: seek new markets or develop new products/technologies. With this, the company decided that it would open a foreign branch to accelerate its internationalization process. The reference of when and where to begin the office is further detailed in sub-section 4.2.2.

As mentioned in the methodology section, the foundation of the internationalization analysis is Peng's strategic tripod. The analysis begins with the market-based view, followed by the institution-based view and internal resources-based view of the firm.

4.2.1 Market-based View

The market-based view, based on Porter's five forces (1986), guided the decision of the company to open a branch abroad. It is because *Metalúrgica Delta* itself empirically evaluated the risk factors of its business. Next, each of the forces we analyzed in the context of the internationalization of the company.

Under the prism of the suppliers, CSN is strategic because it has high relevance in the business since it holds the national monopoly of its primary raw material. With the privatization of CSN in 1993, according to the former CFO of *Metalúrgica Delta*, a significant part of the restructuring of the company was based on financial performance targets and, with this, the cost of acquiring the raw material increased vertiginously, reducing to critical levels the profitability of the company.

In the context analysis of the clients, the merger of Antarctica with Brahma and the creation of Ambev occurred in 1998. Before the merger, the companies owned respectively 18% and 49% of the Brazilian beer market. After the merger, the newly created company owns 68% of the same market (PREZZOTTO; LAVALL, 2010). In other words, a market already concentrated became even more so. As a result, the bargaining power of Ambev was even more significant and, as a consequence, *Metalúrgica Delta* was crushed between the pressure of CSN increasing the cost of raw material and the influence of Ambev reducing the price of the metal bottle cap.

In addition to this fact, in 2003, the company was no longer the supplier of bottle caps to all Coca-Cola franchises, and this represented approximately 20% of all its monthly production. Respondents commented on the critical situation of the company in 2003. The loss of customers made the manufacturing plant of *Metalúrgica Delta* approximately 50% idle that year.

In 2001, in the perspective of new entrants, Ambev, in a trend to verticalize its business, created a company in the Manaus Free Trade Zone with the objective of producing and supplying all the needs for metal bottle caps previously purchased from third parties.

With the creation of the new company, *Metalúrgica Delta* not only lost its largest individual customer but also had a high level of idleness in its industrial plant, thus entering into an ongoing process of losses due to high fixed and financial costs. According to the current CEO, the verticalization strategy of Ambev not only made it self-supplying of one of the most challenging management items. It was a commodity, but also was a significant strategy for reducing costs through tax planning.

In the context of pre-internationalization, none of the interviewees mentioned the emergence of substitute products that could threaten the market of *Metalúrgica Delta*.

Regarding the view of competitors, like *Metalúrgica Delta*, its rivals suffered from the impacts of the privatization of CSN, the creation of Ambev and its Metal Bottle Caps company. The company located in the central region of Brazil filed a process of judicial recovery in 2010.

The company located in São Paulo has a strong presence in the Southeast region, manufactures of practically the same products as *Metalúrgica Delta*, but there is one difference: it also produces plastic bottle caps. The economic group to which it belongs also operates in the branches of civil construction, real estate, and financial and agricultural development. It took a step towards internationalization before *Metalúrgica Delta*. In 1994, it began activities through a branch office in Paraguay. According to the CEO of *Metalúrgica Delta*, it suffered a high impact after the creation of the Metal Bottle Caps company of Ambev, but because it well consolidated in the Southeastern region, it never attempted to seek a market in the area dominated by *Metalúrgica Delta* (North and Northeast).

4.2.2 Institution-based View

If the national market-based view drove *Metalúrgica Delta* to internationalize, the Institution-based view was one of the leading parameters for the choice of country for having an FDI in South America and the United States. The first for its relation to cultural proximity, according to its current CEO. Regarding the second, it considered the size of the beer brewing market.

In the analysis of the American market, the former CFO visited the main American client of *Metalúrgica Delta* to evaluate the participation in one of the annual competitions that this client does. According to him, the conditions to participate in the process were superior to what the company could give at that time. Among other things, they required the establishment of a factory near to the client with production just in time. *Metalúrgica Delta* is responsible for the setup of the machines, for any delay in the line, quality problems, and delays in delivery. Also, the firm is required to invest in machines with the highest technology available in the market. Facing this scenario, the top management team of *Metalúrgica Delta* realized that, apart from the enormous psycho-cultural differences and government barriers to foreign companies, the American institutional, investment, technological, and management standards involved in that endeavor were outside the reality of the company. Because of this, it ratified the decision to invest in a market where could be competitive and have more cultural proximity.

To carry out the analysis of the most appropriate locality, it raised the export volumes in South America in 2003. Of the total exported, Argentina accounted for 69%, followed by Paraguay with 23%, according to its former CFO. It found that Argentina occupied the first position in Latin America with a significant advantage. However, in the course of its history, this country has undergone several collapses characterized by institutional uncertainty (PENG, 2009) and, in 2002, the government defaulted on its public debt which caused a severe economic and financial crisis.

In May 2003, Néstor Kirchner was elected the new president of Argentina and began to make a series of reforms aimed at stabilizing the economy and lifting the country out of recession. By mid-2004, the economic momentum in Argentina was already much better; the economy was growing again and designing scenarios similar to those of the pre-recession period (DI BIASI, 2011).

The stabilization of the political and economic scenario, coupled with the constant demand of Argentine clients for the opening of a branch in that locality, according to the CEO, made up the lever necessary for choosing the country.

To minimize country risk, the company decided to find a local partner and thus reduce the risk of having ignorance of laws, technical standards and local culture. The partner company in Argentina is referred to as *Argentina Embalagens* in this research. The company has been present in the market since 1951. During this time, this company has produced plastic packaging, caps and according to the CEO of the company, they saw an opportunity via *Metalúrgica Delta* to enter Brazil. From the perspective of *Metalúrgica Delta*, the partnership with *Argentina Embalagens* met two objectives at the same time: Open the subsidiary in Argentina and, at the same time, associated with a company experienced in plastic packaging, which could be an alternative in the diversification of products.

4.2.3 Resource-based View of the Firm

In the view of the managers of the company, *Metalúrgica Delta* had three significant competitive advantages in its business based on internal resources and/or capabilities. The first advantage relates to the technological aspect. In the 2000s, according to its current CEO, *Metalúrgica Delta* had one of the most modern bottle cap production lines in the world, second only to North American companies. Therefore, to lose this competitive advantage, substantial investments would be required from entrants and/or competitors.

The second significant competitive advantage of the company based on its human capital. The main production line of this type of segment is called lithography. This line requires a high degree of specialization, given its technological level as well as the degree of quality demanded by its customers. There is no workforce with this type of knowledge available in the market due to it being an oligopolistic market dominated by two companies and which have distinct areas of operation. Thus, *Metalúrgica Delta* has trained specialists internally and invests in time training and retraining of its professionals by sending them to courses abroad or by bringing in international professionals to prepare them.

The third competitive advantage for the company refers to its more than 30-year history as well as the experience of its founder in this type of business. This advantage, because of its causally ambiguous characteristic (REED; DEFILLIPPI, 1990), when the family patriarch died in 2001, there was a breakdown in the management process, and the company went through a traumatic process of succession.

Despite *Metalúrgica Delta* having resources and skills that are difficult to imitate, because they are valuable and rare (BARNEY; HESTERLY, 2011; PENG, 2009), it saw two of its competitive advantages - technological assets and human capital - overcome by the firepower from one of its largest customers. With the verticalization of Ambev, these resources were in a high level of idleness, causing the search for new markets by *Metalúrgica Delta*.

4.3 Failures in the Internationalization Process

With the pressure of prices coming from the side of suppliers and customers, the loss of its most significant client, a high level of idleness and the country risk improvement of Argentina, *Metalúrgica Delta* decided to address its internationalization project. After the initial contact with *Argentina Embalagens* in 2004, the companies began negotiations to align the objectives and formalization of the operation.

The first action of *Metalúrgica Delta* was sending a production line, which stopped in Brazil, to the joint venture formed in Argentina (*Metalúrgica Delta Argentina*). The line was the one that did the step of cutting the metal caps and applying the seal. However, the heart of this type of business is the lithography. Thus, the strategy adopted was to send the already printed sheets from Brazil to Argentina, by sea freight. With this, the stage that added the most value to the process would remain in Brazil.

After defining how the production process would be, the division of responsibilities between the partners was: *Metalúrgica Delta* produced and shipped the printed sheets to *Argentina Metalúrgica Delta*, and *Argentina Embalagens* would take care of the process of cutting, selling and local management.

In October 2004, with the first issue of printed sheets occurred the first problem. The Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*, or *AFIP*) or the *Receita Federal da Argentina* did not allow the delivery of the printed sheets. At this time, it discovered that other matters either not rectified or not taken into account during the initial planning of the operation. First, according to the current CEO of the company, the Argentine public institutions are incredibly bureaucratic and not very computerized. Second, according to the former controller of the company, it overtaxed the lithographed sheet as a measure of protection to local activity, because it is considered a semi-finished product in Argentina.

The two points mentioned presented themselves as mortal failures to the initial planning. In the case of the first point, because of the time of merchandise was held at Argentina Customs, this compromised the deadlines agreed upon with the customers in a very detrimental way, causing a shortage, a fact that rarely occurred when exporting.

In the case of taxation, it was even more severe. The Law governing the merchandise tax in Argentina (IVA) The Law governing the merchandise tax in Argentina entitles the credit of the taxes paid in the acquisition of goods when calculating the debts per sale. The point is that with the tax surcharge, the value of the tax credit remained at very high levels.

The operation began, and some other gaps started to appear, primarily regarding the delivery of the lithographed sheets. This model could not be utilized for small quantities because there was a minimum amount of shipping. This fact, in addition to the time already spent for the release of the goods held in Argentina Customs, was even more costly for customer service lead time, considering that in several situations the customers had to wait for the number of containers to be resolved before being served. Regarding this same item, it was still necessary to consider the travel time of 7 to 10 days that it took for the bottle caps to move from Brazil to Argentina.

After the first sales, it discovered that the IVA debits on sales were less than the credits for the purchase of the lithographed sheets. Next, *Metalúrgica Delta Argentina* made many unsuccessful attempts trying to adjust the values of sales prices to local customers.

Due to the various problems of shortages and delays, the operation was not constant, as can be seen in Table 1, which deals with the delivery of lithographed plates to the Argentine branch.

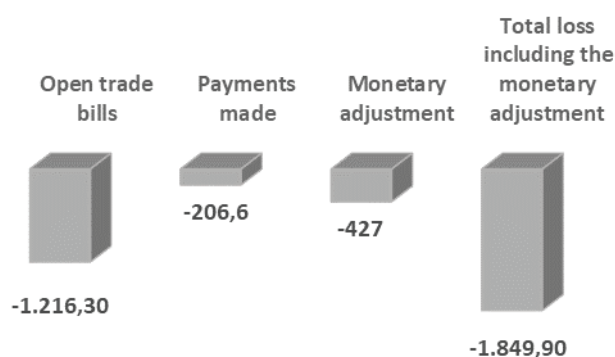
Table 1 - Sending lithographed sheets to Argentina

| Month | Shipment Value R\$ |
|----------------------|---------------------|
| Oct/04 | 63,561.74 |
| Dec/04 | 51,894.00 |
| Aug/05 | 9,023.20 |
| Oct/05 | 145,432.00 |
| Nov/05 | 170,095.00 |
| Dec/05 | 262,173.00 |
| Jan/06 | 227,146.00 |
| Mar/06 | 187,980.00 |
| May/06 | 98,980.00 |
| General total | 1,216,284.94 |

Source: *Metalúrgica Delta*

With this, the model adopted was not profitable. In 2006, with the change in financial management of *Metalúrgica Delta*, the estimate of losses of the operation was calculated and arrived the following values (values expressed in R\$ thousand) presented in Graph 1.

Graph 1 - Estimated losses at *Metalúrgica Delta Argentina* - R\$ thousand



Source: *Metalúrgica Delta*

Given all these obstacles to the designed model as well as the results that did not make the operation profitable, the management of *Metalúrgica Delta* decided to discontinue the service in Argentina in 2006. According to the current CEO, due to the extreme bureaucracy in the country, the forecast for the complete closure of *Metalúrgica Delta Argentina* for all appropriate entities was in December 2013.

4.4 Discussion of the Results

The internationalization of *Metalúrgica Delta* occurred due to several factors. In short, the dependence of the Brazilian beverage market has brought an exacerbated pressure to reduce prices over the past decade. For Prezzotto and Lavall (2010), a strong characteristic of this market is concentration. This characteristic caused a joint and organized action of the segment under the analyzed company.

On the other hand, the dependence of its sole supplier in Brazil gave rise to a continuous pressure to increase costs. For Pontes (2009), the lower the relevance of customers to suppliers and the higher the costs of switching suppliers, the more significant the potential negative impact on performance and, in the case of *Metalúrgica Delta*, this is precisely what happened.

Also, it can mention that the verticalization that occurred at Ambev, which was the largest customer of *Metalúrgica Delta*, caused significant idleness in its industrial plant. The three associated factors led the company to present consecutive losses and increased indebtedness.

The internationalization of *Metalúrgica Delta* represented the chance of sustainability and company growth, both financially and regarding efficiency and organization, which would otherwise suffer severe problems of continuity in the context of the national market. The internationalization motivations of *Metalúrgica Delta* corroborate Pereira (2012) and Dunning and Lundan (2008) in their studies regarding market access and asset efficiency.

However, the company analyzed presented some important failures in its internationalization process, primarily due to the lack of experienced executives working in international markets. As Engelman and Fracasso (2013) cautioned, for a company to internationalize, it is imperative that the executives have experience in the global market. Corroborating this idea, both Nummela, Saarenketo and Loane (2016) and Ooghe and De Prijcker (2008) cite that lack of capacity on the part of the administrators to cope with the additional responsibilities encountered when entering international markets is one of the principal reasons for failure in this type of venture. In this particular case, since it was a family business that was not very professionalized at the time, its administration lacked a global vision and international experience, and it had enormous difficulty in handling the new routines and challenges associated with the process of managing a branch abroad. Casillas (2012) affirms that a venture in the international market must derive from internal changes in the mind of the managers of a company and its culture and/or organizational routines. This fact we did not find in *Metalúrgica Delta*.

Another point that impacted on the failure of *Metalúrgica Delta* was the lack of detailed knowledge of the target market, in the case of Argentina, as well as its laws, both of which are in line with that mentioned by Wang (2010) and Carvalho (2013). Primarily, the characteristics of the Argentine governmental institutions, the high taxation on the importation of raw materials and the extreme bureaucracy in the public agencies, can be mentioned. The high tax had a significant effect on the profits of the company and, had it assessed the market more profoundly and understood it better; it might have concluded that the market was not conducive to the business model it intended to implement. This lack of understanding has caused the company to spend an enormous amount of resources, among them money, human capital and time, in a business that was born doomed to fail, and this understanding is also in line with the failure factors mentioned by Lu, Tao, Chan (2008) in their research.

Another debility emerged from the process of the internationalization itself, given the lack of corporate restructuring of the parent company for branch management, since it did not create an internal structure for monitoring and controlling international activities. In this way, it presented a profound difficulty in perceiving the real operational and financial evolution of its branch, corroborating the one mentioned by Engelman and Fracasso (2013).

In the end, company managers found that the effort to implement a branch was high, both financially and administratively, as well as personnel-wise, and that experience put the gains of internationalization in check. The obstacles encountered led to successive negative results. Nummela, Saarenketo, and Loane (2016) mentioned that the consequences of failure in the internationalization processes could result in the complete closure of the business and this was the case of *Metalúrgica Delta*.

We noticed that the choice of location of *Metalúrgica Delta* based only on the aspects related to political and economic stability. While the internationalization strategy failure ascertains issues such as the preparation of its executives, the bureaucratization of the Argentine institutions, as well as fiscal and tax legislation applicable to the business.

5 FINAL CONSIDERATIONS

Our research questions are “In what context was the internationalization of *Metalúrgica Delta*? What factors led the company to not succeed in this strategy?”. In order to respond them, we met the two primary objectives: (i) to investigate how the process of internationalization of the firm *Metalúrgica Delta*, supported by the market- vs. resource- vs. institution-based view; and (ii) what factors impacted on the failure of the venture.

Based on the theoretical framework used, as well as through interviews with some of the managers of the company at the time of internationalization and obtaining some business results data, we arrived at some meaningful conclusions.

Firstly, about the context of internationalization, we found that, in the pre-internationalization setting, the client and suppliers acted as essential inductors of the process. It mainly due to the transition of its supplier from the public initiative to the private. Also, after experiencing a significant crisis, since clients on the other end with the merger of Ambev, they generated an intense need to trickle its productive capacity to another market. In this way, internationalization having emerged as a natural alternative.

Under the RBV approach, overconfidence on the part of the company administrators in competitive advantages, based on resources and skills, meant that a more in-depth analysis of the internationalization target market was not carried out. We also found that the resources and competencies related by the company were not configured as a competitive advantage for the branch in Argentina as they were strong points in the national market and under the condition of this locality and business model.

About the institution-based view, we verify that the localization analysis based solely on the country risk. It means that the company did not make a profound analysis of the issues related to legal, fiscal, or bureaucratization of institutions, or the protectionist market aspects of the country.

Regarding to the second primary objective, we found that the most significant causes of failure of the internationalization strategy related to the lack of experience of the managers in global businesses. Consequently, it limited reactive power in the face of the difficulties encountered. Also, the absence of a strategic plan that could envision, among other aspects, the institutional issues of Argentina, and not merely just the analysis of country risk.

Finally, the present research tried to contribute in filling the gap cited by Nummela, Saarenketo, and Loane (2016) with regards to go beyond the analysis of the failure process and to understand the context experienced by the company, as well as the consequences of failure.

For managerial implications, this research suggests that in international expansion processes, managers could conduct an in-depth analysis from the standpoint of the strategic tripod considering market- vs. resource- vs. institution-based views without disregarding or undervaluing any of the dimensions. Since one single factor that is not adequately analyzed can jeopardize the project as a whole. It is important to emphasize the role of human capital and institutions since the first one tends to guarantee the management and reaction capacity and the second the knowledge of the legal, bureaucratic and protectionist aspects of the country in which it is intended to operate.

Despite the results relevant to the understanding of the internationalization process and its failures, this study has its limitations and, because it is a case study, there is no way to generalize the findings, since it can be specific to the company, sector or even the characteristics of the host country.

When analyzing internationalization, it should consider broadening the horizons of companies leads to a review of concepts and concentration of more significant efforts in decision-making processes, especially those involving the strategies adopted and the choice of countries to implement the insertion of the company. Thus, as a suggestion for future studies, it recommends the following. First, analyze other processes of internationalization failures involving a more substantial number of companies or different sectors or different host countries to see the applicability of the results obtained. Second, evaluate the impact of top management experience on the performance and continuity of internationalization processes. Finally, evaluate the percentage of multinational companies located in Argentina that closed their activities after a short time and the influence of the institutions in this process.

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