Building a framework for analyzing emerging market business sectors:
A case study of the Brazilian soy industry

Master Thesis

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A case study of the Brazilian soy industry

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Abstract

This thesis proposes a framework through which an emerging market business sector can be analyzed. Such an analysis should lead to the opportunities and threats within that particular sector based on the institutional context, an industrial analysis and a company analysis. The framework includes the decision making process, in which through a rational decision making model the most probable entry mode decision will emerge.

Business strategy and entry mode decisions are well studied topics in business research, though the theories discussing these topics are usually based on advanced markets. By combining variables from well-known theories in international business literature, the framework was build. Subsequently it has been applied to the Brazilian soy industry in a case study, to analyze whether the framework is complete and result in the required information. This showed that in this case the framework was successful in identifying the opportunities and threats of the soy industry in Brazil. Applying the framework to a single organization rather than a whole business sector, could however provide more precise results for the decision making process.

Keywords

Emerging markets, Business sector analysis, Institutional environment, Industry attractiveness, Company analysis, FDI/Entry mode decision, and Brazilian soy industry

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List of abbreviations

AARR .....Average Accounting Rate of Return
ABCD firms .....Archer-Bunge-Cargill-Dreyfus
BDT.....Bayesian Decision Theory
BMI .....Business Monitor International ltd.
Bovespa.....Bolsa de Valores de Sao Paulo (Sao Paulo stock exchange)
BRIC .....Brazil-Russia-India-China
CME.....Coordinated Market Economy
Dutcham.....Dutch Brazilian Chamber of Commerce
FDI .....Foreign Direct Investment
GDP.....Gross Domestic Product
IBGC .....Instituto Brasileiro de Governança Corporativa
IBGE .....Instituto Brasileiro de Geografia e Estatística
IMF .....International Monetary Fund
IRR.....Internal Rate of Return
LME .....Liberal Market Economy
MBV .....Market Based View
Mercosul .....Mercado Comum do Sul
MNC .....Multinational Corporation
NPV.....Net Present Value
OECD.....Organization for Economic Cooperation and Development
RBV .....Resource Based View
ROA .....Return on Assets
ROE.....Return on Equity
ROI.....Return on Investment
US .....United States
VRIN.....Valuable-Rare-Imperfectly Inimitable-Not rent producing

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Introduction

Over the last decade the concept of emerging markets gained a more prominent role in literature. These markets are growing rapidly and the developments within these markets make them interesting for international companies. Due to the rapid developments it is however difficult for companies to analyze the opportunities and threats in those markets. Master student J. van den Ban (2009) developed a framework for analyzing emerging market business sectors in his master thesis. The outcomes of applying the framework should lead to a preferred entry mode for that market. Following van den Ban (2009) this research will extend the proposed framework by including the decision making process. Furthermore, while in the old framework was spoken in theories; this new framework uses variables. Also other relevant theories are discussed and added in the framework. Subsequently, the framework is applied in a case study to the Brazilian soy industry, to test whether it is suitable to analyze an emerging market business sector. The soy industry is the most important agricultural industry in Brazil, employing over five million workers.

The institutional analysis is build up by using variables from Whitley's business systems (1999) and Hall & Soskice (2003) varieties of capitalism. By combining their theories an extensive analysis of the institutional environment is generated. The outcome shows that the opaqueness of the laws and regulations and the bureaucracy in governmental bodies should be kept in mind. Another issue is the low level of education; companies need to consider educating their employees themselves when doing business in Brazil. The industrial analysis is a combination of Porter's (1990) competitive diamond and Porter's (2008) five forces model. The variables of both theories together form a decent base for an analysis of an industry. The Brazilian soy industry is very large, growing, and expected to keep growing. While the industry is very wide, it offers opportunities for various kinds of businesses. It has to be considered though that four multinationals are known to control the processing industry. A big issue is the negative effects of soy production on the environment. This is definitely a topic that firms have to consider, or even see it as an opportunity, when entering the market. The company analysis focuses on the resources that companies should possess to operate competitively in an industry.

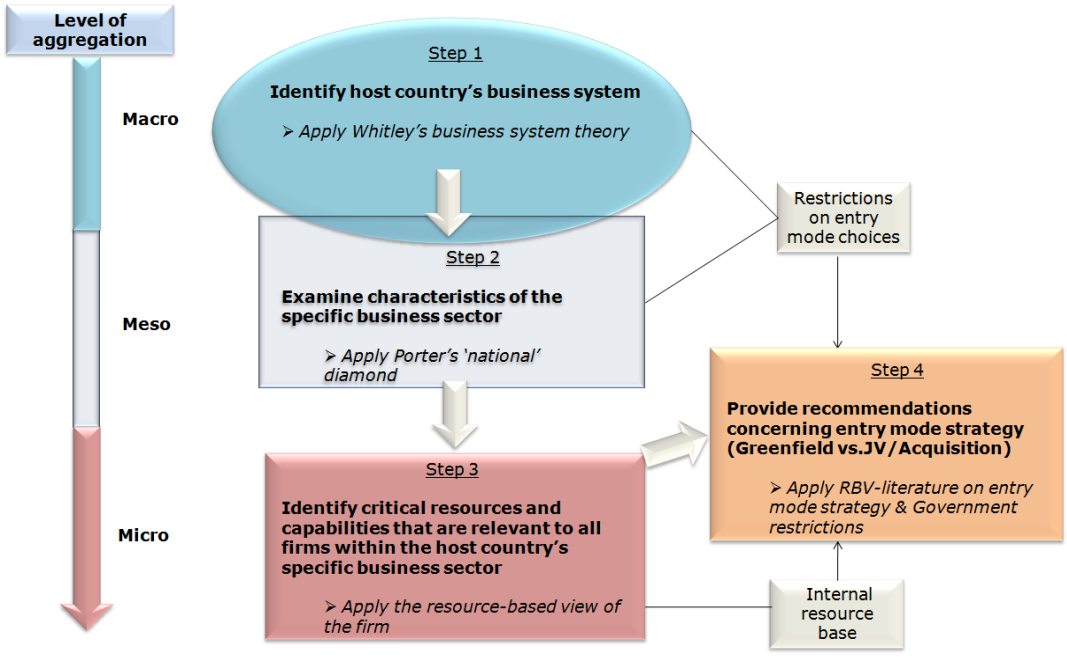
The theoretical foundation can be found in the resource based view (Newbert, 2007), which describes that to be successful firms need to have certain resources and capabilities in order to be competitive. One resource that is very important in Brazil in any given industry is networking and relationships, which are often based on a personal level. Since education level is low, the capability to train your own workforce and create a good transfer of knowledge throughout the organization can generate a great competitive advantage. Industry specific, two other resources are seen as important. Specialized firms or firms operating in niche markets have an advantage, since they are better capable of differentiating themselves from the four multinationals controlling the industry. As the negative effects of soy production keeps getting more attention, firms operating in a sustainable way could create their competitive advantage here. The decision making process considers both the ownership dimension and the intensity of the investment. The ownership dimension is basically the question of how much control the company wants. Assuming a firm wants a majority of control the preferred entry mode is an acquisition or a joint venture, since this provides the firm access to the network of a local company. For this reason, a Greenfield investment is considered very risky and only advisable if the firm has previous experience in Brazil. Two techniques as useful for companies in making an investment decision, the decision tree analysis and the risk analysis. Though discussed in this paper, to correctly implement this analysis more detailed company level information is needed.

This thesis is structured as follows. In the next chapter the theoretical background and the need for this research is discussed. This is followed by the research design containing the problem statement, the research methodology and the type of data collection. In chapter 3 the framework for analyzing emerging markets business sectors is developed. In the chapters following the framework will be applied to the soybean industry of Brazil, including an institutional analysis, an industry analysis, a company analysis and the decision making process. The discussion will provide an overview of the results, which subsequently leads to a discussion of which entry mode for Dutch companies is most suitable. This thesis ends with the conclusion, the limitations of the research and the possibilities for further research.

1. Theoretical Background

Entering a new market involves liabilities for a firm and it therefore needs to acquire knowledge about those markets before making an investment decision. Emerging markets come with even more liabilities than advanced markets, and it is difficult for a firm to analyze their opportunities in a new market, especially an emerging market. Many theories exist for analyzing markets or business sectors, but these theories have been mainly developed based on advanced market economies. In 2009 master student J. van den Ban build a framework for analyzing business sectors in emerging markets. His framework, shown in figure 1, is bases on three existing theories.

Figure 1: Framework van den Ban



Source: Master Thesis J. van den Ban, 2009

Whitley's business systems

Whitley (1999) describes business systems as the distinct ways of structuring economic activities with different kinds of actors following different priorities and logics. The business system is shaped by the institutions within an economy. The economic organizations differ in the way they are coordinated and controlled, the nature of the controlling group and how the actors compete and cooperate. The critical difference

stems from the authoritative coordination, though all market economies exercise domination through market power, the extent and form of authoritative power varies considerably. Economic activities are authoritatively coordinated when actors acknowledge the legitimacy of others to issue commands by virtue of their collective membership of a society (Whitley, 2006). Since entering a foreign market requires adapting to that country's business system, identifying the characteristics of that business system is of importance for a successful investment.

Porter's competitive diamond

For assessing a country's attractiveness based on its competitiveness a much used theory is the competitive diamond by Porter (1990). The competitive diamond can be used to identify the competitiveness of an industry. The competitive advantage ultimately results from an effective combination of national circumstances and firm strategy (Porter, 1990). The diamond is based on four factors. Firstly, the 'factor conditions' distinguishes between basic and advanced factors. Basic factors are e.g. natural resources, and without advanced factors such as human resources and research skills they cannot result in value creation. Thus, the advanced factors can result in the competitive advantage, since these are the result of a significant and long lasting investment by individuals, companies, and governments. Secondly, the 'demand conditions' include the presence of home market demand, markets size, its rate of growth and sophistication. Home market demand determines the degree of pressure on companies to develop advanced factors of production and improving their competitiveness. Thirdly, the 'related and supporting industries' refers to the mutually beneficial exchange of information between companies that are either vertically or horizontally connected to each other. For example, developing close relationships with highly competitive suppliers could facilitate a continuous exchange of ideas and innovations. Next to cooperating with supporting industries in the vertical business chain, exchanging information with more horizontally related industries could also offer opportunities to increase an industry's competitive advantage. Fourthly, 'firm strategy, structure and rivalry' deals with the systematic differences in the characteristics of business sectors of different countries. These characteristics are important determinants of the competitive advantage of industries. The way in which

firms are organized and structured is affecting firm strategy. The four elements in the diamond are interdependently determining competitive advantage. These elements are furthermore affected by two other variables; government and chance. Porter (1990) argues that the role of the government is to encourage companies to raise their aspirations and move to higher levels of competitive performance. Chance refers to events that incidentally occur and cannot be controlled by companies; events could be e.g. wars, major inventions, natural disasters (Porter, 1990).

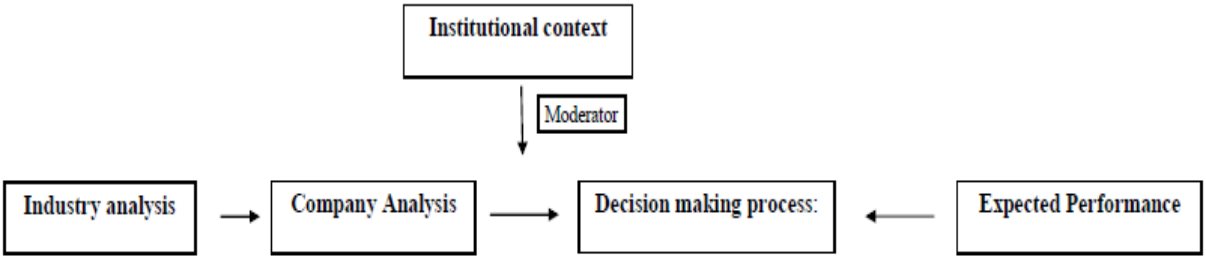
The resource based view

A widely used theory in management studies is the Resource Based View (RBV), which argues that a competitive advantage comes from the resources and the capabilities of a firm (Newbert, 2007). Resources are those assets and capabilities of a firm that are semi-permanently tied to a firm, such as the brand name, reputation, knowledge, technology, personnel, capital, etc. The resources can lead to either being a strength or a weakness of a firm, based on e.g. the bargaining power of suppliers and buyers and the availability of substitute resources (Wernerfelt, 1984).

Need for a framework

Van den Ban (2009) already tried to provide a useful framework as a tool for analyzing an emerging market business sector. This framework is still rather general and does not include a discussion for why these theories are chosen whilst others have been left out. Also the framework provides theories rather than variables, while using variables would be more useful in the practical implementation of the framework. Furthermore, while the decision making process by companies of which markets to enter and how to enter is an important step, it is not included in this framework. The purpose of this study is thus to improve the existing framework and to provide firms with a practical standardized framework they can use to analyze their own business opportunities in an emerging market. Figure 2 shows the basic idea of the new framework, including the institutional, industrial and company level analyses that van den Ban (2009) included as well.

Figure 2: Basic framework



Source: developed by author

This framework adds the decision making process, which is expected to be influenced by the expected performance. The idea is that this new model captures the whole strategic process a firm goes through when entering a new market, where the old model only focuses on an analysis of the market and the attractiveness. In addition to the old model the institutional analysis and industry analysis are extended by including other relevant variables. Another enhancement to the old model is that by using variables instead of theories, the usability is improved and in the case of overlap between theories the variables will be combined. In the next chapter the research question and methodology will be outlined.

2. Research Design & Methodology

The purpose of this research is to further develop the framework proposed by van den Ban (2009) by discussing other theories that might be relevant and by including the decision making process in the framework. This research is twofold with on the one hand enhancing the framework and on the other hand applying the framework on an emerging market business sector. It is chosen to investigate the attractiveness of the Brazilian soybean industry for Dutch firms. Following this, two main research questions arise:

Which theories and variables are relevant in improving the framework for analyzing emerging market business sectors?

What are the opportunities and threats for Dutch firms to invest in the Brazilian soybean industry?

For answering the main research questions several sub questions are proposed. To enhance the framework proposed by van den Ban (2009) an extensive literature study and discussion of other relevant theories is needed. The sub questions related to the framework are as follows:

1. *What theories/variables are relevant in the institutional analysis?*
2. *What theories/variables are relevant in the industrial analysis?*
3. *What theories/variables are relevant in the company analysis?*
4. *What theories/variables are relevant in the decision making process?*

As the framework in figure 2 shows, the expected performance is expected to influence the decision making process and therefore is included in the fourth sub question.

The next step is applying the framework to the Brazilian soybean industry. The institutional analysis is the first step. To get a good understanding of the Brazilian institutional environment, it is however also relevant to discuss the Brazilian economy and the relationship with the Netherlands. This leads to the following sub questions:

5. *What is the current state of the Brazilian economy?*
6. *What is the business relation between Brazil and the Netherlands?*
7. *How does the institutional context in Brazil look like and what does this mean for Dutch companies in Brazil?*

The industrial analysis is the next step in the process. Before doing so, a description of the soybean industry is provided, since it is important to know the general characteristics of this industry. Organizations operating in this industry are expected to already have this knowledge. This results in the following sub questions:

8. *What are the main characteristics of the global soybean industry?*
9. *What are the characteristics of the Brazilian soybean industry and what opportunities and threats exist for Dutch companies?*

When the institutional and industry analysis are completed, the next step is to find out how a company can successfully compete in that industry. The subsequent question is:

10. *What resources are required to successfully compete in the Brazilian soy bean industry?*

The decision making process is the final step in the framework. It includes an analysis whether a market is attractive enough to enter and what the appropriate entry mode is. Logically, the final sub question is:

11. *What are the opportunities and threats for Dutch firms to invest in the Brazilian soybean industry and what entry strategy is most favorable?*
12. *What is the expected performance when entering the market?*

Thomas (2004) argues that the two main criteria for research problems are value and feasibility. Value relates to the extent the problem is worth researching. This research has a rather practical implication. The framework can be used by companies exploring an emerging market business sector. The results of the case study are relevant to firms, but also institutions as the Dutch Embassy in Brazil, exploring the Brazilian soybean industry. It contributes to literature in the way that the framework is a useful tool for case studies in emerging market business sectors. Due to limitation of time, since the master thesis has to be completed within a certain timeframe, the research is cross-sectional in nature. It describes the situation at this point in time, but it does not include the

developments over a longer period in time. This constrains the applicability of the results from the case study in the future, since industries in an emerging country tend to develop at a rapid pace. Feasibility refers to extent the problem can be researched in terms of data availability, time, skills, money, and risks. Data for the first part of the research consists of academic literature which is free available at all times in the Business Source Premier database, to which access is provided by the university. Also institutions as the IMF and the Worldbank have databases with publications. The interviews require more time, skills, and money and involve more risks since it includes a visit to Brazil. This however was still possible within the time frame set for the research, making the whole research process feasible.

This research will be of qualitative nature. Bryman (2004) mentions several characteristics that indicate when a research is more qualitative than quantitative, the most obvious being the use of words rather than numbers. Secondly, qualitative research generally is more of the inductive kind. Thirdly, qualitative research can be described as interpretivist, which means it stresses on the understanding of the social world. While inductive research implies the development of theory, in deductive research observations are made to test hypotheses. This research does not perfectly fit to neither, but comes closest to inductive. Though it does not produce new theory, it does involve the development of a new framework. The research does not test hypotheses based on observations. The analysis of the soy industry can be seen as a case-study, to assess whether the framework meets the objectives.

Research methodology and data collection part 1: the framework

The first research question and sub questions one to four are answered by an extensive literature research, thus data collection will consist of desk research. The framework is enhanced and extended by discussing theories that are widely acknowledged in existing academic literature in international business and management.

Research methodology and data collection part 2: the case-study

Applying the framework to the Brazilian soy industry makes it a ‘single case study’. According to Blumberg, Cooper and Schindler (2008) a case study is an adequate

research method when it is used to test a theoretical model. The downside of using a case study is that the findings often cannot be generalized. A case study research aims to intensively exam a single or a small number of units of interest, in which the units can be industries, organizations, or smaller units. In this research the case study is used for explanatory purposes, since it is used to test whether the framework is sufficient in analyzing an emerging market business sector (Thomas, 2004).

Data will be collected in two ways. First an extensive desk research will have to provide answers to the sub questions. Again academic literature from scientific articles will be used. Furthermore, reports from international as well as local institutions, such as the IMF, the World Bank, the OECD, the Banco do Brazil, and the IBGE, can provide useful information. An advantage is that this type of data collection is not as time consuming and costly as other ways of collecting data and it is free available so the information can be used at any given time. A disadvantage of this type of data collection is that the information from such sources has generally been collected for other purposes, so it may not always be relevant or applicable in this research.

The second type of data collection is asking question, in the form of interviews and questionnaires. This will give answers to questions that cannot be answered by desk research alone, and it also improves the quality and credibility of the research outcomes.\. In total 6 persons have been interviewed, and 5 persons have answered open questions by email contact. From the interviews, two were with employees of the Consulate General and one with the managing director. Appendix 1 provides an overview of the persons interviewed. Interviews tend to be less structured than is the case in quantitative research, since there is generally more interest in the interviewee's point of view. In this research semi-structured interviews apply. A list of questions is prepared, see appendix 2, but the interviewee is free in how to apply to those questions. Furthermore, there is room for additional questions that can pop up during the interview (Bryman, 2004; Blumberg et al. 2008). The list of questions was developed after the framework was build and the desk research of analyzing the Brazilian soybean industry is completed.

Reliability and validity

Bryman (2004) refers to reliability in qualitative research to the degree of which the study can be repeated with a similar outcome. This is a difficult criterion to meet in social research since a social setting keeps evolving over time. This is especially relevant in qualitative research because the amount of observations is generally lower than in quantitative research. In this context the developed framework is reliable, it is based on theories that are all recognized and extensively used in existing theories over a longer period of time. The analysis of the Brazilian soybean industry is less reliable since it is a cross-sectional case-study. When repeated, differences might appear due to the fact that a business sector is subject to change.

The integrity of the conclusion that is generated in a study refers to the validity (Bryman, 2004). There is a differentiation between internal and external validity. Internal validity refers to a match between the research observations and the theoretical ideas, while external validity relates to the degree of which the result can be generalized across social setting. The internal validity in this research is sufficient since the developed framework could be applied to analyze the Brazilian soy industry. The external validity of the framework is high since it can be applied to other emerging market business sectors as well. The outcomes of the analysis of the Brazilian soybean industry on the other hand are sector specific and therefore cannot be generalized to other sectors. This research is cross-sectional, due to the fact that there is a time constraint in which the master thesis should be completed. The limitation to a cross-sectional study in this case is that industries in emerging markets are generally developing rapidly, which means that the results of the study are consistent with current situation but that this can change already in the near future.

3. Framework for analyzing emerging markets business sectors

The purpose of the framework is to provide firms with a practical standardized framework to analyze their own business opportunities in an emerging market. In this chapter the relevant theories are discussed, followed by the new framework in which the existing framework is extended by added variables derived from theory.

Institutional context

Hoskisson, Eden, Lau and Wright (2000) argue that three theories are especially useful in firm strategy in emerging markets: institutional theory, transaction cost theory and the resource based view. The institutional theory perspective is especially of importance in emerging markets because in these countries the government and societal influences are stronger than in developed markets. This theory stresses that an organizations behavior is influenced by the institutional environment surrounding it, affecting the processes and the decision making within organizations. The role of the institutions is to reduce uncertainty and provide a stable environment (North, 1990). Firms can benefit from institutions in the sense that they can provide incentives for change in corporate cultures. Peng (1997) argues that in a transition economy the institutions can put a constraint on reform and the internal growth of organizations. Furthermore, in emerging market research the focus of institutional theory thus far has been on state owned enterprises and how this affects other enterprises as well (Peng, 1997). According to the institutional theory perspective an organization adopts practices that are considered acceptable and legitimate in the environment they operate in (Hessels, Terjesen, 2010). The basic assumption is that organizational structure is framed by the institutional environment an organization operates in (Scott, 2008). In this context two theories, Whitley's business systems (1999) and the varieties of capitalism by Hall and Soskice (2003), are discussed and adopted in the framework.

Whitley's Business Systems

Whitley (1998) describes business systems as the distinct ways of structuring economic activities with different kinds of actors following different priorities and logics. The business system is shaped by the institutions within an economy. The economic

organizations differ in the way they are coordinated and controlled, the nature of the controlling group and how the actors compete and cooperate. The critical difference stems from the authoritative coordination, though all market economies exercise domination through market power, the extent and form of authoritative power varies considerably. Economic activities are authoritatively coordinated when actors acknowledge the legitimacy of others to issue commands by virtue of their collective membership of a society (Whitley, 2006). Since entering a foreign market requires adapting to that country's business system, identifying the characteristics of that business system is of importance for a successful investment. By using eight different characteristics Whitley (1999) identified six different business systems, as is shown in figure 3. The business system theory is a very useful tool in analyzing country-specific information for organizations because it uses variables that can be applied to basically every market economy.

Figure 3: Whitley's Business Systems

Business System Characteristics	Bussines System Type					
	Fragmented	Coordinated Industrial District	Compartmentalized	State Organized	Collaborative	Highly Coordinated
Ownership Coordination						
Owner control	Direct	Direct	Market	Direct	Alliance	Alliance
Ownership integration of production chains	Low	Low	High	High	High	Some
Ownership integration of sector	Low	Low	High	Some to high	Limited	Limited
Non-ownership coordination						
Alliance coordination of production chains	Low	Limited	Low	Low	Limited	High
Collaboration between competitors	Low	Some	Low	Low	High	High
Alliance coordination of sector	Low	Low	Low	Low	Low	Some
Employment relation						
Employer-employee interdependence	Low	Some	Low	Low	Some	High
Delegation to employees	Low	Some	Low	Low	High	Considerable

Source: Whitley, 1999

Fragmented business systems are associated with small owner-controlled firms that strongly compete with each other. Ownership integration of production chains and across

sectors is low and non-ownership inter-firm relations are scarce. An efficient external labor market causes short-term employer-employee relationships and results in a low level of trust and delegation. Fragmented business systems are often associated with short-term commitments to technologies, skills, or markets (Whitley, 1999).

Coordinated-industrial-district business systems are also dominated by small owner-controlled firms, but the degree of non-ownership coordination is slightly higher than in the fragmented business system. Moreover, employer-employee relationships rely more on commitment and trust, though still to a limited degree (Whitley, 1999).

In compartmentalized business systems activities within production chains and across sectors are integrated by large companies that are owned by shareholders through financial markets. On a non-ownership level the degree of cooperation is particularly low, just as the interdependency and degree of trust between employers and employees (Whitley, 1999).

State-organized business systems are dominated by large, mostly family-owned, firms. Horizontal and vertical integration of activities is high, which is arranged through a unified administrative apparatus. The economic development in state-organized business systems is strongly dependent on government policy. Inter-firm relationships through alliances, i.e. non-ownership coordination, are uncommon, which is in line with the strong ties of vertical dependence both between firms and the state and within enterprises (Whitley, 1999).

Collaborative business systems are particularly associated with collective organization and cooperation between competitors, whereas horizontal diversification across sectors is limited. Large firms are dominating the market and cooperation is conducted through alliances, in which a considerable part of strategic decision-making is delegated to managers, and managers are delegating important tasks to their employees (Whitley, 1999).

Highly coordinated business systems are, just as collaborative business systems, dominated by alliance forms of owner control. Both within and between sectors the level of integration of activities is high in this business system type, which is mirrored through the existence of extensive intra- and inter-sectorial alliances and networks. Employer-employee interdependence is typically very strong in highly coordinated business systems (Whitley, 1999).

Hall and Soskice: Varieties of capitalism

As Whitley (1999) also Hall and Soskice (2003) compare national economies based on coordination. They distinguish between two types of economies: the liberal market economy and the coordinated market economy. In the Liberal Market Economy (LME) the economic activities are mainly coordinated by market institutions, while in the Coordinated Market Economy (CME) strategic interaction between firms and other institutions play a much more important role in economic activities. In the varieties of capitalism approach the political economy is seen as a terrain populated by various actors, all seeking to advance their interests in a rational way in strategic interaction with others. The actors can be firms, governments, individuals, etc. The firms are seen as the crucial actors in this theory; they are the key for adjustment in the face of change or competition whose activities aggregate into all levels of economic performance. The firms are seen as actors seeking to make profit by developing and exploiting core competencies or capabilities for making goods or services. Critical to this is the relationships the firm is able to establish with the other actors in the political economy (Hall, Soskice, 2003).

Hall and Soskice (2003) define institutions as ‘a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons’ and organizations as ‘durable entities with formally recognized members, whose rules also contribute to the institutions of the political economy’. In liberal market economies firms rely on institutions, such as the legal systems, to coordinate their actions. Also in a coordinated market economy this is very important, though here firms draw on a further set of institutions for coordination and also the interaction between different actors are

more coordinated. Hall and Soskice (2003) argue that analyzing the institutions in a political economy can be very useful for firms to consider what kind of support they provide for different kinds of coordination. The theory of comparative institutional advantage explains how particular nations tend to specialize in specific types of production. The basic idea of this theory is that the institutional environment of a particular political economy provides advantages for specific types of activities (Hall, Soskice, 2003). In their view the capabilities of a firm are ultimately relational and its success depends partly on the ability to coordinate effectively with various actors. In this way, firms have to develop relationships on five different areas to resolve any coordinating problems. Firstly, industrial relations can coordinate bargaining over wages and working conditions with the workforce. Secondly, vocational training and education can help securing the right skills in their workforce. Thirdly, corporate governance can provide access to capital by assuring investors returns on their investments. Fourthly, inter-firm relations cover the relations in the network of other firms, especially within the supply chain. Finally, the relation with their own employees has to assure that they have the right competencies and cooperate well with others.

The institutional environment within an economy is expected to result in certain comparative advantages. Since innovation is crucial for firms in the long run, Hall and Soskice (2003) focus on the impact of the institutional environment on innovation, and they argue that CME's are better at supporting incremental innovation while the liberal market economy is supportive of radical innovation. Though the approach of Hall and Soskice (2003) was developed based on advanced markets, according to Grimalda, Barlow and Meschi (2010) this approach is useful to aggregate transition economies into these groups based on the institutions that have emerged.

Nölke (2010) however argues that the approach of Hall and Soskice has its limitations. Though the LME/CME approach can be applied to many Northern industrialized economies, it is rather difficult to apply this dualistic approach to economies with a more important role of the state which is often the case in Mediterranean countries as well as emerging economies. Nölke (2010) discusses an additional mode, the State-permeated

Market Economy (SME), in which 'business-clans' or clusters are a type of coordination. SME's are dominated by close cooperation between public and business actors that tend to be based on personal relations. Though this feature can to a lesser extend be identified in LME's and CME's, it is not a dominant factor and not as strongly based on personal ties and common values. The SME mode does not necessarily mean the presence of strong and centralized state or state owned companies, but rather the presence of public authorities within the business clusters. In an SME companies are generally family or state owned, they are less dependent on short term fluctuations on the international capital markets, industrial relations and investment in education are heavily influenced by the cooperation between companies and public authorities which in turn highlights the importance of the class background, and finally the transfer of innovation and the competition policies are supported by authorities (Nölke, 2010). Innovation in the SME is limited, with innovations often imported through an international network of relations. The addition of the SME to the varieties of capitalism approach of Hall and Soskice makes it a good addition to the existing framework.

Variables for the institutional analysis

The variables that can be derived from Whitley's business systems and Hall and Soskice's varieties of capitalism are now combined since there is some overlap in these theories. Though in the explanation of the variables ownership coordination of Whitley and corporate governance of Hall & Soskice differences exist, they cover the same topic and thus will be combined. The non-ownership coordination is combined with the inter-firm relations. The employment relations are combined with the employees' factor. The industrial relations and the training and education remain separate variables.

Industry Analysis

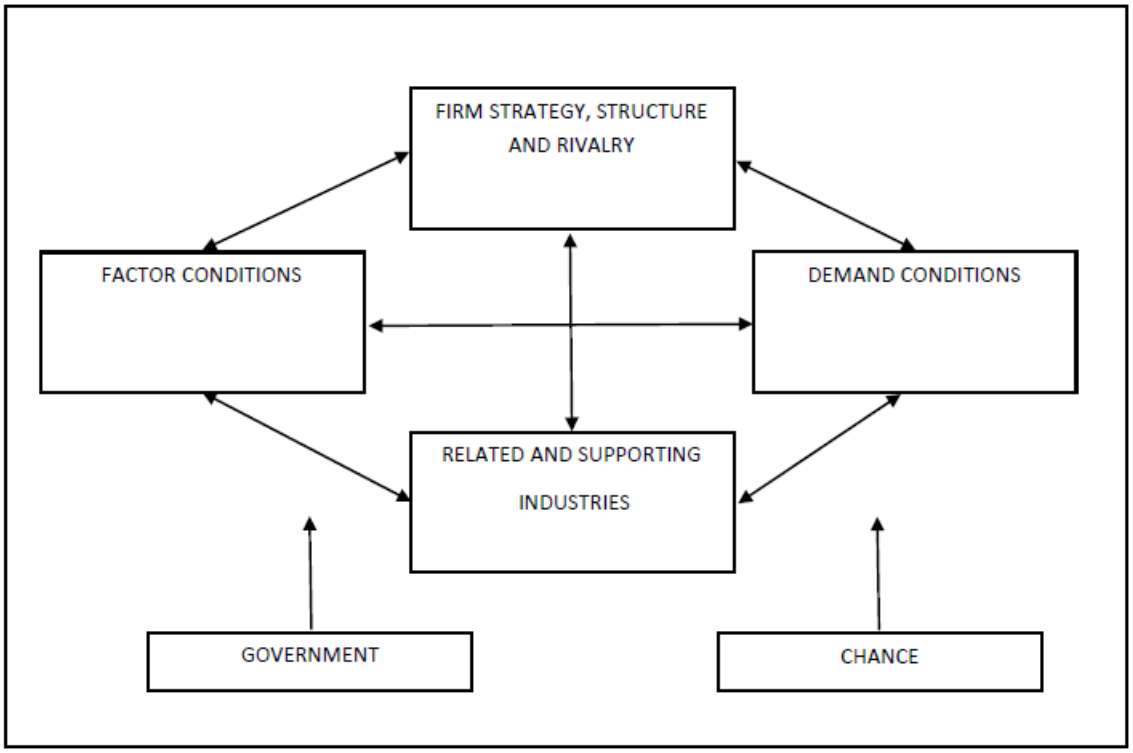
Lasserre (2007) argues that firms choose the location for foreign operations based on an assessment of the attractiveness of a country. The attractiveness of a country is based on two dimensions: opportunities and risks. Porter's competitive diamond (1990) and five forces model (2008) are widely acknowledged theories that are used in analyzing the opportunities and risks of a country. Narayanan and Fahey (2005) studied whether the five forces model applies to emerging economies and found that only the five forces

model is not enough. Three issues appear to be of special importance that are not covered by the five forces model; the transaction costs, capital flows, and the laws. These issues often result from an underdeveloped institutional environment. Since the institutional context is also included in the framework, the model by Porter is suited for the industrial environment.

Porter's competitive diamond

Porter's competitive diamond, figure 4, is one of the ways to assess a country's attractiveness based on its competitiveness and this theory is much used in existing literature. The competitive diamond can be used to identify the competitiveness of an industry (Porter, 1990). The competitive advantage ultimately results from an effective combination of national circumstances and firm strategy. The national diamond is central in evaluating an industry's attractiveness.

Figure 4: Porter's competitive diamond



Source: Porter (1990)

Porter (1990) distinguishes between basic and advanced factor conditions. Basic factors are e.g. natural resources, and without advanced factors such as human resources and

research skills they cannot result in value creation. Thus, the advanced factors can result in the competitive advantage, since these are the result of a significant and long lasting investment by individuals, companies, and governments. Therefore, advanced factors are difficult to duplicate and cannot be easily acquired by others.

The characteristics of demand conditions that drive industry success include the presence of home market demand, markets size, its rate of growth and sophistication. Home market demand determines the degree of pressure on companies to develop advanced factors of production and improving their competitiveness (Porter, 1990).

The related and supporting industries refer to the mutually beneficial exchange of information between companies that are either vertically or horizontally connected to each other. For example, developing close relationships with highly competitive suppliers could facilitate a continuous exchange of ideas and innovations (Porter, 1990). Next to cooperating with supporting industries in the vertical business chain, exchanging information with more horizontally related industries could also offer opportunities to increase an industry's competitive advantage. That is, complementing and overlapping activities can be synergized and consequently result in competitive advantages for both industries (Porter, 1990).

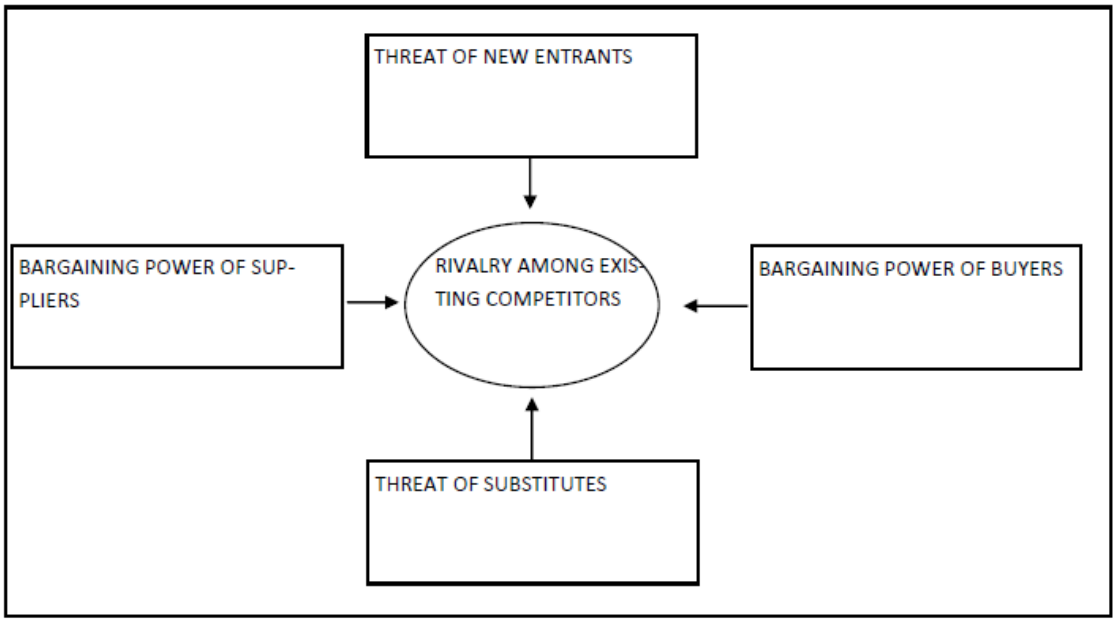
The firm strategy, structure and rivalry deal with systematic differences in the characteristics of business sectors of different countries. These characteristics are important determinants of the competitive advantage of industries. The way in which firms are organized and structured is affecting firm strategy. In addition, Porter (1990) points out that managerial practices and individual attitudes might differ among business sectors. The most interesting relationship that is identified by Porter is between domestic rivalry and sustained competitive advantage. Intense competition between domestic companies enforces them to innovate, improve quality and cut costs. Porter (1990) argues that the nature of competition among domestic companies tends to be more emotive and personal than competition between domestic and foreign companies.

The four elements in the diamond are interdependently determining competitive advantage. These elements are furthermore affected by two other variables; government and chance. Porter (1990) argues that the role of the government is to encourage companies to raise their aspirations and move to higher levels of competitive performance. Chance refers to events that incidentally occur and cannot be controlled by companies; events could be e.g. wars, major inventions, natural disasters (Porter, 1990).

Porter's five forces model

According to Porter (2008) industries might appear very different from each other but to understand industry competition one should in all cases analyze the underlying industry structure by five forces, shown in figure 5. While in one industry the power of buyers might be the strongest of the forces, in another industry it could be the power of suppliers, but the basic idea is that the strongest of the forces should shape the strategy formulation and determines the profitability of an industry. Porter (2008) argues that competition and profitability is determined by the industry structure and not by whether a market is emerging or mature or regulated or unregulated.

Figure 5: Porter's five forces model



Source: Porter, 2008

The threat of new entrants in an industry is largely determined by the extend barriers to enter exist. New entrants can increase the degree of competition, since they want to gain market share this puts a pressure on prices, costs and investments to compete. Factors influencing the entry barriers are among others economies of scale, brand identity, required capital, access to distribution channels, and governement policy. When the threat of new entrants is high, firms should keep prices low or invest in increasing the entry barriers (Porter, 2008).

When suppliers in an industry are powerfull they limit the profitability since they capture more of the value themselves by charging high prices to firms. Suppliers are powerfull when there are only few suppliers and they are more concentrated than the industry they sell to, when the supplier does not depend heavily on the industry because it serves other industries as well, when costs of switching to another supplier are high, when it supplies differentiated or patented products, when there is no substitute product, or when suppliers have the power to threaten with forward integration or in other words enter the industry themselves (Porter, 2008).

On the reverse side of powerfull suppliers are powerfull buyers. When the buyers are powerfull they can capture value by forcing down the prices or demaning higher quality or better service. Buyers have more negotiating power when there are only few and they buy in large volumes, when the products are standardized and switching to other suppliers is easy, and when they have the power to threaten to integrate backwards and produce products themselves. Buyers are more price sensitive when the product it purchases is a significant part of its budget, when they make low profits and have to decrease purchasing costs, or when the quality of the product they purchase does not affect their own product. Buyer power can be reduced by making exlusive arrangements with particular distributer or marketing directly to the end users (Porter, 2008).

A substitute product performs the same or has a similar function, such as email is a substitute for express mail. Substitutes can reduce the attractiveness and profitability of an industry since it puts a constraint on price levels. An industry can distance itself from

substitutes by product performance, marketing, or other means to promote their own product. The threat of substitute products is high when it offers an attractive price-performance trade-off to the industry's product, when the buyer's costs of switching to the substitute product are low. Apart from the threat of substitutes, firms should also be alert to whether there own product might be a substitute in another industry (Porter, 2008).

The rivalry among the existing industry competitors can take various forms, such as price discounts, new product introductions, advertising, and service improvements. The degree to which rivalry exists depends on the intensity and the basis of the rivalry. High intensity exists when there are many competitors and they are more or less equal in size and power, when the growth in the industry is slow, when the exit barriers are high, or when the firms are highly committed to the industry even though it goes beyong economic performance. When rivalry exist of the basis of price competition, profits are directly shifted to its customers. The probability of price competiton to occur is higher when products/services are rather identical among competitors and switching costs of the costumer are low, when fixed costs are high and marginal costs are low, when economies of scale increase efficiency, and when the product is perishable. Rivalry on the basis of other dimensions such as brand name, product features, or services will have less influence on profitability but improves value. Furthermore, rivalry based on such dimenions are likely increase entry barriers for new entrants (Porter, 2008).The purpose of the industry analysis by using the five forces is not to analyze only the attractiveness of an industry but rather to use the outcomes in making strategic decisions based on the opportunities and threats within a market (Porter, 2008).

Variables for the industrial analysis

While the diamond focuses on the industry characteristics in general, the five forces model is usefull to describe characteristics from a company's perspective. For this reason, the variables derived from both models can not be combined, since no overlap exists. The variables are the following;

- Basic and advanced resources
- Market demand
- Related and supporting industries

- Firm strategy, structure and rivalry
- Government
- Chance
- Threat of new entrants
- Power of suppliers
- Power of buyers
- Threat of substitutes
- Rivalry among competitors

Company Analysis

Whilst the institutional context and the industry analysis focus on the external environment of the firm, the company analysis focuses on the firm-specific characteristics that can give a firm competitive advantage. Three theories are discussed, of which only the Resource Based View (RBV) will be integrated into the framework. It is also explained why the RBV is the more relevant theory.

Transaction costs theory

Hoskisson et al. (2000) mentioned the transaction cost perspective as being the second relevant theory in analyzing emerging markets. The transaction cost perspective presumes that the transaction costs of a firm are linked to the governance modes present (Williamson, 1996). Governance modes can enhance efficiency and so decrease the transaction costs, though governance might involve bureaucratic costs (Hoskisson et al. 2000). According to Williamson (1996) the ongoing debate about transaction costs indicates that the exchanges within and between organizations are critical for the selection of an efficient transaction governance structure. Choi, Lee and Kim (1999) argue that the pattern and processes of the rapid developing emerging markets, in which governance systems are often absent, are not well understood and that social, historical and institutional conditions are hardly considered. Corporate governance deals with ways in which suppliers of capital can assure themselves of getting a return on their investment (Shleifer, Visnhy, 1997). Charkham (1992) describes governance systems as a reflection of a country's political and economic history, and the social and political attitudes of the

people. A corporate governance system evolves over time, with the changing environment. There is a clear link between the Resource Based View described below and the transaction cost and agency theory in the sense that good corporate governance within a firm can be a unique resource itself, though it is not expected to be a competitive advantage. But it also leads to management being better able in identifying the unique resources of a firm (Barney, 2001). Since this theory has a lot of overlap with the institutional context part and the resource based view, it is not integrated in the framework.

Market Based View (MBV)

Two main theories exist that try to explain why some firms perform better than other firms (Makhija, 2003). The first one is the market based view, which focuses on the external market orientation. The second is the resource based view, discussed below, which focuses inwardly on the firm. In the market based view stresses privileged end-product market positions as a base for higher future returns and higher firm value. The competitive advantage in this model is due to barriers to competition arising from the structure of the market. Since this theory has is its focus on the same issues as discussed in Porter's models, it is not included in the framework.

The Resource Based View (RBV)

A widely used theory in management studies is the Resource Based View, which argues that a competitive advantage comes from the resources and the capabilities of a firm (Newbert, 2007). Resources are those assets and capabilities of a firm that are semi-permanently tied to a firm, such as the brand name, reputation, knowledge, technology, personnel, capital, etc. The resources can lead to either being a strength or a weakness of a firm, based on e.g. the bargaining power of suppliers and buyers and the availability of substitute resources (Wernerfelt, 1984). According to Hoopes, Madson and Walker (2003) a unique resource needs to be valuable, rare, and isolated from imitation or substitution in order to be a source of a sustainable competitive advantage. Galbreath (2005) argues that capabilities are the most important resource due to their high levels of ambiguity and barriers to duplication. This suggests firms should actively seek to develop their knowledge base, the management and transfer of knowledge throughout the

organization. Also intangible assets are important in building competitive advantage, since these too are difficult to duplicate. Galbreath (2005) proves that intangible assets such as reputation contribute more to firm success than tangible assets, though he argues that also tangible assets are of importance. Tangible assets might be easier to duplicate, but they can be of great use in creating barriers to duplication. According to Hoopes et al. (2003) the capabilities of a firm cannot be just a resource of competitive advantage themselves but can also enhance the value of other resources. Barney (2001) argues that a sustained competitive advantage derives from a firm's unique resources and capabilities. Rent-producing resources need to be Valuable, Rare, Imperfectly imitable, and Not perfectly substitutable (VRIN). In international business the RBV is helpful to identify the required resources that provide the foundation of international diversification, and transfer of knowledge throughout an MNC and international experience of management can contribute to firm specific resources that are difficult to copy by other firms (Peng, 2001). Peng (2001) also argues that in emerging markets domestic firms are interested in foreign alliances to acquire competitive advantages to their domestic competitors and that this indicates that in these markets networks and foreign investments are of great importance to build on resources.

According to Makhija (2003) especially in emerging markets VRIN resources and capabilities can lead companies to more success than competitors that do not have these. The resources and capabilities of the firms are the primary determinant of firm value in rapidly changing environments such as emerging markets (Makhija, 2003). In the context of this research the resource based view allows for identification of critical resources and capabilities that firms should possess to succeed in a particular business sector. Many scholars have studied entry mode strategy for foreign markets from the RBV approach. The RBV enables firms to select the most suitable entry mode for a foreign market, based on its own resources (Meyer, Wright, Pruthi, 2009). In the RBV approach the choice of entry mode is mainly determined by the context specific resources and capabilities. Especially in emerging countries foreign entrants often require resources and capabilities that are highly context specific and that there is a negative relationship between the

foreign entrants' need of specific resources to increase its competitiveness and entry by Greenfield investments (Meyer, Estrin, Bhaumik, Peng, 2009).

Variables for the company analysis

Though the resource based view primarily focuses on firm heterogeneity, Makhija (2003) argues that it is possible to identify critical resources and capabilities each firm should have to be able to successfully compete. He also argues that it is possible to identify resources and capabilities that are country or industry specific. This makes the RBV a very suitable theory to include in the framework. Barney (2001) explains that the RBV is very useful in determining potential competitive advantages within in a business sector, though firm will still need additional sustained competitive advantages that differentiate them from competitors. The outcomes of the institutional and industrial analyses will disclose the resources that are essential within that specific industry. Couturier and Sola (2010) list various resources and capabilities that potentially can be an essential resource. The resources are access to capital, technology, firm size, and reputation, and capabilities could be the learning process, risk tolerance, managerial skills and knowledge, and organizational culture.

Decision making process

Once a firm has analyzed what the opportunities and threats are in a certain market it has to decide how to enter that market. Following the analysis of the institutional context, the industry and the company, an organization faces two major decisions that are closely linked. Based on the company analysis various resources prove to be of importance in the market, if the organization does not have this resource it will have to make a strategic decision in how it can acquire that resource. The second decision is the investment decision, which compromises the strategy of entering the market/country. Both decisions are closely linked, since the lack of a resource might indicate that a joint venture is a preferred entry strategy. In emerging markets the resources that need to be acquired are often highly context specific, and not available in the organization before entering that markets. This would lead firms to acquire these by acquisitions and joint ventures (Meyer, Estrin, Bhaumik, Peng, 2009). Böckem and Tuschke (2010) argue that an organizations investment decision depends on the attractiveness of the target market and

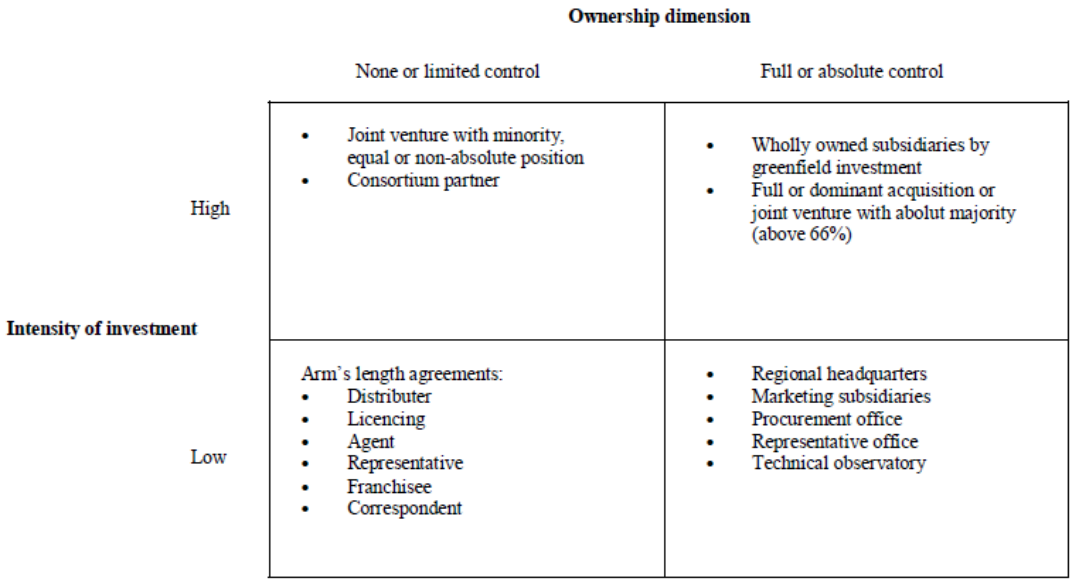
the investment decision of other successful firms. Organizations tend to imitate the decisions of prior movers. Countries can profit from this by attracting large and successful companies that are viewed as prestigious peers in the market.

Bayesian Decision Theory (BDT)

Decision theory relates to the problem of making a decision, and statistical decision theory relates to this problem of decision making based on statistics that can give insight to the uncertainties involved with the decision making problem. In decision theory the information on which a decision analysis can be executed can come from sample information, knowledge of the possible consequences of the decisions, and prior information. A Bayesian decision analysis utilizes prior information in the decision making process (Berger, 1985).

Lasserre (2007) explains that the entry choice depends on two dimensions; the ownership dimension and the investment intensity dimension. The ownership dimension relates to whether one should enter the market with wholly owned operations with full control or enter into a partnership. The investment dimension relates to the decision between investing in assets and competencies for value-adding activities and limiting operations to commercial, development and administrative activities. An overview of the different entry modes related to these two dimensions is shown in figure 6. The choice of entry mode will depend on what opportunities and threats will come out when analyzing the market by using the framework.

Figure 6: Entry modes



Source: Lasserre, 2007, p.195

The choice of entry mode is influenced by many variables. A joint venture allows targeting the essential resources without having to acquire and subsequently dispose of the unnecessary remainder. However, firms with prior host-country experience are more likely to acquire a suitable local company instead of choosing for a joint venture. In addition, in emerging markets restrictions often exist on private and/or foreign ownership, these legal restrictions have to be taken into account before entering a host country (Lockett, Thompson, Morgenstern, 2009). Investment decisions are one of the most difficult decisions management has to make. It in general involves a lot of capital, the decisions made have long-lasting effects, a mistake cannot be worked off in a short period of time, investments are related to the implementation of firm strategy, and investment decisions come with a high degree of uncertainty (Hesposs, Strassman, 1965). Two techniques are particularly helpful in addressing the uncertainty in investment decisions; the risk-analysis and the decision-tree analysis, which both follow the principal of the BDT since they are based on making decision by collecting data.

Risk Analysis

In a risk-analysis one analyzes the effect each variable will have on a particular investment decision and how probable it is that that will occur. In the decision making

process the risk analysis should identify and assess all risks, they should be planned for and controlled. This anticipation is of major importance when taking decisions in uncertain conditions (Piccirillo, Noro, 2008: p. 86).

Risk can be defined by the following formula:

$$\text{Risk} = f(\text{impact, probability, frequency})$$

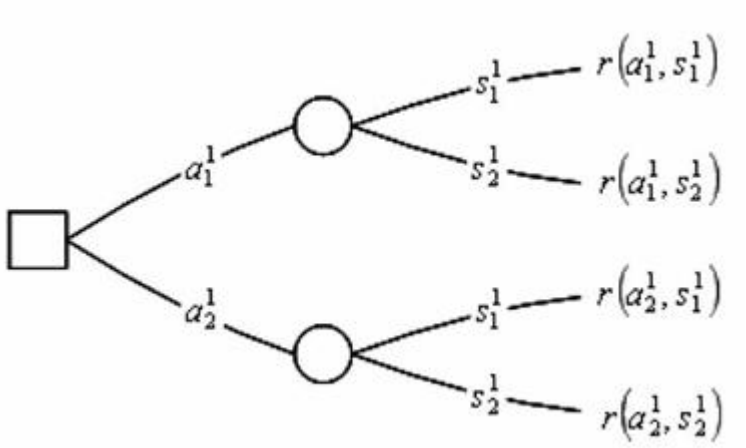
The impact refers to the magnitude of the event outcome. The probability relates to how probable it is a given event occurs. The frequency to how often the given risk could occur (Piccirillo, Noro, 2008: p.87). The final decision that an organization makes is often related to the amount of risk that linked to that decision, and it often depends on the risk tolerance of the decision maker. The risk analysis consists of several processes that are linked (Piccirillo, Noro, 2008: p. 88):

1. Strategic objectives: The objective of a strategy should be understood.
2. Risk identification: The risks likely to affect the strategy should be determined. The most common approach is to divide risk into financial and non-financial categories.
3. Risk quantification: The probability and the consequences of the identified risks need to be evaluated to assess the range of possible outcomes. The risks need to be classified by the probability and severity of it happening and alternative options have to be considered.
4. Risk mitigation: Consider how the risks can be controlled and reduced.
5. Risk control: Document all lessons learned in the past for future benefit.

Decision Tree Analysis

A decision tree analysis can be very convenient to analyze series of investments over time, in which every decision point comes with two or more alternative decision choices all with an indicated probability of it happening (Hespos, Strassman, 1965; Coles, Rowley, 1995). The basic idea of the decision tree is shown in figure 7.

Figure 7: General form of a decision tree



Source: Santos, Barker & Zelinke, 2008

Santos, Barker and Zelinke (2008) describe the decision tree analysis as a very useful manner of assisting in decision making when the (probabilities of) risks are known. Coles and Rowley (1995) explain the use of a decision tree as a two-step process: the forward pass and the backward pass. In the forward pass the decision maker identifies the decisions and events. The structure of the problem is developed and the probability of events happening is calculated. In the backward pass the decision problem is analyzed and the expected value of each branch is estimated by working backwards in the tree. Finally, this process will lead to a preferred strategy. A practical implementation of the decision tree however also comes with various problems. Firstly, uncertainty exists whether all decisions and events are correctly identified. Secondly, uncertainty exists whether the identified probabilities of events happening are correct. Thirdly, different decision makers may identify different decision criteria, leading to different outcomes. And finally, using a decision tree it is still very difficult to estimate profits or other performance criteria (Coles, Rowley, 1995).

Variables for the decision making process

The first step in the decision making process is to analyze what the outcomes of a certain decision will be, based on prior information. Useful tools for doing so are the risk analysis or the decision tree analysis. For these analyses information on the expected performance is essential, which is discussed in the next paragraph. The next step is to decide what the intensity of the investment will be, or in other words to what dimension

the firms want to operate in that market. Also the firm has to decide to what extend it want ownership control.

Expected Performance

When decision have to be made, the decision maker would like to know what the outcomes of the decision will be, in other words what the future performance could be. Measuring performance impact of a certain strategy is very difficult in an emerging market. First, financial reporting might not be available or based on developed market standards, and even if data is available it can be unreliable. Second, due to the rapid developments of the system, comparisons are difficult to make. These issues apply for both listed and non-listed firms (Hoskisson et al, 2000).

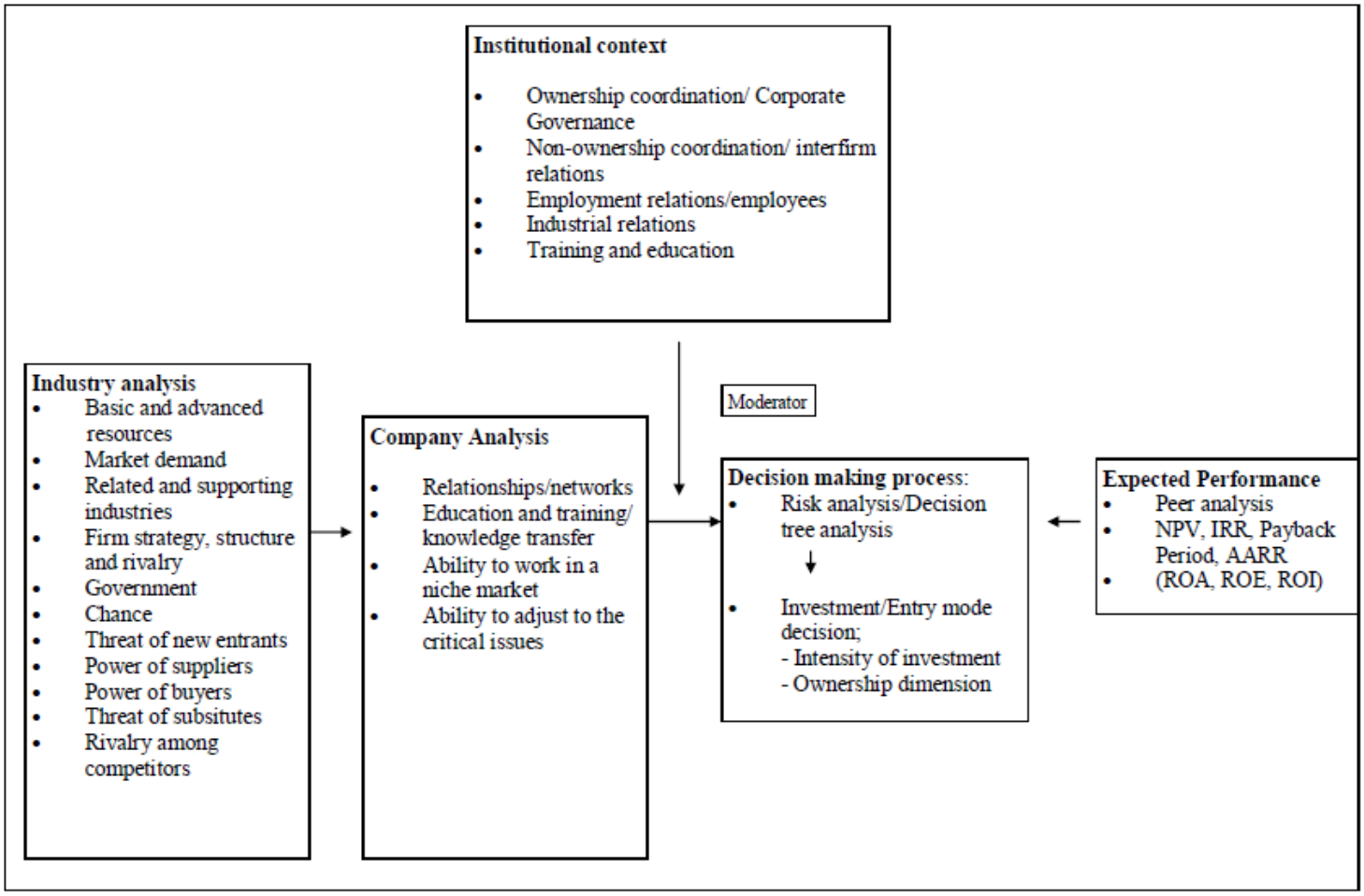
Another difficulty in making an estimate of the future performance is that the measurements relating to future performance that can be used for private as well as for listed companies are based on accounting related performance measurements such as ROA, ROE and ROI. When one does not do business in the country yet, these figures do not exist (Eiteman, Stonehill, Moffett, 2010). For listed companies measurements such as Net Present Value, Internal Rate of Return, Payback Period, and average Accounting Rate of Return are common methods for determining the output of an investment (Hermes, Smid, Yao, 2007). Also for these measurements certain data is required that will not always be available, making these measurements difficult to apply as well (Eiteman et al.2010). As Böckem and Tuschke (2010) explain, organizations tend to imitate successful organizations in FDI. So what an organization might do when the right figures are not present to predict future performance is to analyze how other companies are performing in the market. For this to be possible, however, financial figures need to be available and often this will only be the case for listed companies.

The framework

The variables derived for each analysis are here integrated into the framework for analyzing emerging market business sectors. By applying this framework, an organization should be able to assess whether a certain business sector in an emerging

market is attractive for the organization and what entry mode will be most suitable for the organization. The framework applied to the Brazilian soy industry is shown in figure 8.

Figure 8: Framework for analyzing emerging market business sectors: the Brazilian soy industry



Source: developed by author

The institutional context shown in the upper part of the model will be equal for all business sectors within a country since it describes the institutional environment. Even when industry outlooks and company resources provide incentives for investment, negative development within the institutional context could withhold those opportunities. The institutional context thus directly influences the decision making process. The industry analysis is business sector specific, for the country that the analysis is carried out, and naturally cannot be generalized to the same business sector in other countries. The result of this analysis will point out the opportunities and threats within that specific business sector. In this research these opportunities and threats are based only on external

factors, and thus are valid for the all parties in that industry and not just for one organization. The result can be made more company specific when the framework would be applied to a single firm, since then e.g. market share of that firm can be considered. The outcomes of the industrial analysis influence the company analysis, since it should give direction to what resources are essential to operate in that industry. The company analysis points out resources that are important for all companies to possess within the industry. When executed for a single company however, it contains more company specific resources as well. The outcome of the analysis explains which resources and capabilities are essential to be competitive in the business sector, and by analyzing the resources an organization possesses the resources to be acquired can be identified. Based on this company analysis an organization can thus identify if it is competitive enough. The outcomes of the industry and company analysis lead to the decision making process, which is further influenced by the institutional context, in the model shown as the moderator. In the decision making process an organization can make use of a risk analysis and a decision making tree in order to consider all alternative decisions and related risks available. The process of decision making is influenced by the expected performance related to each decision.

The advantage of applying this model is that it considers both the external environment and the internal resources and capabilities. The model is based on theories that are widely discussed and highly appreciated in existing literature. The applicability of this framework compared to the framework of van den Ban (2009) has been improved by including the decision making process. Also the use of variable within the framework makes it more practical for organizations to use. To analyze whether the framework is complete, in the next chapters in a case study the framework is applied to the Brazilian soy industry.

Case Study: The framework applied to the Brazilian soy industry

By applying the framework in a case study to the Brazilian soy industry is assessed whether the framework meets the requirements. Thomas (2004) explains that a case study is a useful method to test a theory, in this case the new framework. Chapter 4 to 7 cover each block of the framework, which is succeeded by a discussion. The data was collected by both desk and field research. The field research consisted of interviews and email contact, see appendix I, in which a list of open questions was used, see appendix II.

4. Institutional Analysis

This institutional analysis determines the institutional context of Brazil based on the variables from the framework. Before doing so, first it is important to get an understanding of the Brazilian economy and how it got there. Furthermore, the relation between Brazil and the Netherlands is discussed. This chapter will conclude with an overview of which opportunities or threats the Brazilian institutional environment creates for Dutch companies.

Historical background

Brazil is the largest and only Portuguese speaking country in Latin America. The language stems from the colonial period of the country by the Portuguese from the year 1500, when the country was discovered by Pedro Alvares Cabral, until 1822 when the country was declared independent (www.state.gov). Initially the natural resources of the country were not discovered so the Portuguese started the production of sugar, bringing in their own knowledge and using slaves from Africa for manpower. For the trade of sugar the Portuguese relied on financing and the commercial skills of the Dutch. Together, the Portuguese and the Dutch held a trade monopoly of sugar in Europe. This ended when Portugal was incorporated into Spain, at that time in war with the Netherlands, and the Dutch occupied the sugar area in the North East of Brazil. When the Dutch were driven out by the Portuguese they started the production of sugar in the Caribbean, ending the trade monopoly (Schwartz, 2005). Years later gold and other valuable minerals were discovered which partly made up for the recession caused by the declining sugar industry.

In the beginning of the nineteenth century many things changed, the Portuguese royal family fled to Brazil due to the Napoleonic wars which lead to the development of the educational and cultural sectors. In 1822 the country was declared independent, but it experienced difficult years after because exports declined leading to a depression. Then the coffee industry started rising and while it was initially meant for domestic use only, soon Brazil became the largest coffee producer in the world. The production of coffee inland required the construction of railroads. Since manpower was scarce more slaves were brought in from Africa, even though pressure to abolish slavery was already arising. After slavery was abolished in 1888 the shortage of labor became critical which lead to labor migration from other Latin American countries. Coffee remained the driver of the Brazilian economy, but the production of sugar, cotton, cocoa and tobacco were also important (Baer, 2007).

The period from 1840 till 1930 was a period of economic growth, though the country did experience difficulties during World War I and the great depression. Also coffee overproduction decreased coffee prices significantly. Economic changes started to arise in the 1930's, when after a revolution the old republic was abolished and in 1937 after a military coup lead to a dictatorship. The unrest was created because of economic problems. Due to the great depression, world demand for coffee declined and prices fell sharply. While before the role of the government was to respond to the export market, it became clear the country had to look for other sources of income apart from the export of primary goods. While Brazil was still struggling with economic developments, the country was faced with further declining demand during World War II. The period after WW II was a very fluctuating one. Industrial diversification continued and the country became a democracy again. A balance of payment crisis emerged and the government increased trade regulation in the hope to structure the Brazilian economy. The focus became industries that were considered basic for growth, such as the automotive, steel, and chemical industries. Brazil experienced rapid growth during 1950-1961 with GDP exceeding 7% each year and 9% annual growth of the industrial sector. But the government policy lead to problems as well, imports increased because of the industrial focus and due to the foreign exchange policies resulted in large foreign debt. These

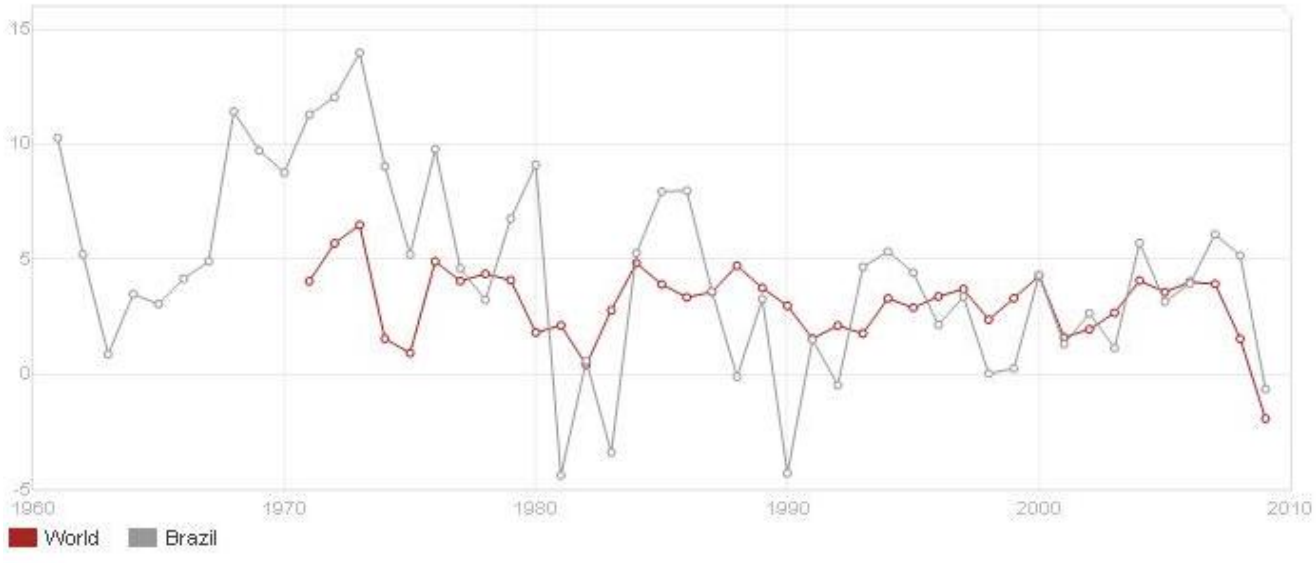
economic problems, along with political unrest, lead to a decline in GDP growth rate. A new military regime introduced reforms to decrease inflation, remove the distortions of import-substitution industrialization, and modernizing capital markets to increase incentives for direct investment. Together with the conditions of the world market and the military government reforms the economy started to grow rapidly again during 1968-1974, with GDP rising to 11% (Baer, 2007).

Due to the oil crisis in the early 1970's trade fell rapidly, the country chose to continue its growth policies by financing the industrial investments with foreign debt. But this policy increased imports, while exports were still declining, leading to a current account deficit. At that time the international financial market was willing to lend Brazil large amounts of money for low interest, but debt levels soon became very high and at the end of the 1970's the interest increased forcing the country to lend even more only to meet the interest payments. Another feature of this period between 1974 and 1980 were the huge inflation rates of 16% in 1973 to even 110% in 1980. To stabilize the economy various plans were introduced mainly with the focus on reducing inflation, but none were able to resolve the problems, the economy stagnated and public debt remained enormous. In 1990 a democratic chosen president was installed, and he introduced yet a new stabilization plan which again failed and the president was accused of corruption and replaced. In 1992 president Franco was installed, he named a minister of finance and put in place a team which had to develop a new plan to stabilize the economy. This new plan 'Plano Real' experienced little resistance from the public since it avoided measures taken in the earlier plans (Baer, 2007). The 'Plano Real' consisted of introducing an equilibrium budget mandated by the National Congress, a process of general indexation of prices, wages, taxes, contracts and financial assets, and the introduction of a new currency tied to the US dollar (the Brazilian real). Though inflation was eliminated, due to the Asian crisis and events in Russia the market became risk averse to emerging markets, making it more difficult to attract investors. Brazil received IMF support in 1998, and since 1999 the Brazilian real is no longer tied to the Dollar. Over the last years the Brazilian economy is growing steadily (Baer, 2007).

The current state of the Brazilian economy

Being the fifth largest country in the world both in terms of surface and inhabitants, with a predominantly young population, Brazil is an important emerging market in the world. The country is member of the G20 and takes a leading role in promoting Latin American trade. After China, Brazil is the largest receiver of FDI, of which the European countries are the largest providers (Ghosh, Havlik, Ribeiro, Urban, 2009). The main industries in Brazil are the services (66% of GDP), industry (28% of GDP) and agriculture (6% of GDP). The economic history of Brazil was erratic, but the new measurements initiated in the 'Plano Real' were the foundation of sustained recovery. Over the years confidence has been restored and measures to stabilize the foreign exchange markets have succeeded. According to the OECD the improved economic forecast is mainly due to the strengthening of institutions (OECD, 2005). Figure 9 shows the GDP growth rates of Brazil compared to the world average. It confirms that in the previous century the economy was highly fluctuating while over the last decade the economy became more stable and the GDP growth rates are more in line with the worldwide trends. Only in 2009 Brazil experienced a negative GDP, which was due to the economic crisis (data.worldbank.org).

Figure 9: GDP growth Brazil compared to the world average



Source: data.worldbank.org

From 2000-2007 the annual GDP growth rate was around 3,4% and this was the most stable and continuous growth period the economy had seen for decades. Exports have increased, which was partly due to the shift to more non-traditional markets such as China. Though it is argued that the regional exports within the Latin American region is still way below its potential, networks could be further developed and inefficient infrastructure is limiting growth opportunities. The cautious economic policy of the government led by President Da Silva has led to a sharp decline in public debt, allowing repaying all IMF liabilities. Also the stabilizing of the political environment has been very important in the changes. While the last decades the outlook of a change of government that could turn the economic policies upside down caused major political risks, the current stable government is making it possible to make long term decisions (Ghosh et al., 2009). In 2007/2008 the country experienced exceptional growth rates before it was hit by the financial crisis. While in 2009 GDP growth was negative, since 2010 the GDP growth returned positive, and based on a total GDP of 2.194 trillion US Dollar it is the eighth economy in the world. Though the Brazilian economy experienced great developments, it is not an advanced market yet. Large differences exist between low and high incomes, still leaving many people living below poverty line (www.cia.gov).

In the near future the high growth will be hampered by government measures, high interest rates together with cuts in public spending should slow down the fast pace in which the Brazilian economy is now moving. Inflation targeting will remain important in the monetary policy of Brazil. It is expected that the growth rates will become more moderate over time due to developments in the world economy (Brazil Country Report, 2011). Over a longer term Brazil may be able to grow into an economic power in the international economy. The country recovered remarkably well from the financial crisis, and the increasing middle class as consumers make that Brazil will remain an attractive market for investors. An enormous incentive for investing, especially for firms in the infrastructure business, is the 2014 FIFA World Cup and the 2016 Olympic Games in Rio de Janeiro. GDP is expected to grow steadily over the next decade, see figure 10.

Figure 10: GDP forecast

	2012f	2013f	2014f	2015f	2016f	2017f	2018f	2019f
Nominal GDP, US$bn [1]	2,209.1	2,469.3	2,731.4	3,043.5	3,373.0	3,658.5	3,993.2	4,389.8
Real GDP growth, % change y-o-y [2]	4.0	4.3	3.8	4.2	5.0	4.6	4.7	4.7
Population, mn [3]	202.5	204.1	205.6	206.2	206.8	207.9	208.1	208.4
GDP per capita, US$ [2]	10,909	12,099	13,285	14,760	16,310	17,598	19,189	21,064
Consumer prices, % y-o-y, ave [2]	4.5	4.3	4.7	5.0	4.8	4.6	4.5	4.6
Current account, % of GDP [2]	-0.9	-0.6	-0.4	-0.3	-0.3	-0.3	-0.4	-0.5
Exchange rate BRL/US$, ave [2]	1.68	1.68	1.67	1.64	1.62	1.63	1.63	1.62

Source: BMI, Brazil Business Forecast Report 2011

There are however also various issues that could negatively affect the economy in the future. First, though many firms were privatized, many other major companies are still state-owned with government officials holding seats on corporate boards. Selling state assets could significantly improve the government's fiscal position, but so far no signs of privatization are noted. Secondly, and related to the first issue, is corruption. There are still high levels of corruption in the Brazilian economy that hampers economic growth. Another factor that could hamper economic growth is a weak recovery of the world economy following the economic crisis (BMI, Brazil Business Forecast Report, 2011).

Government policy

Brazil is a federative republic with 26 states and a federal district. Elections are every four years, and the president can only be elected for two four year periods. Within the congress nineteen political parties are represented (www.cia.gov). In 2010 Brazil elected its first female president, Dilma Rousseff. Her policy program included a claim of 'change with continuity' in which the liberal strategy that the outgoing president Da Silva pursued will be continued. A high priority of the current government is a reform of the tax system. Simplifying the system can potentially increase revenues, but to change the tax system a majority of three-fifth of the congress has to support the plans and such a major change is a rather sensitive issue for some parties. Other issues high on the agenda of the current president are growth with equity policies to eradicate poverty, defending of human rights, promoting of social inclusion and gender equality (Brazil Country Report, 2011).

The period that President Da Silva held office millions of Brazilians were helped out of poverty by the policies of surging exports, economic growth and social programs. A majority of the Brazilians is now middle-class leading to an increase in domestic consumption, though poverty still is a major problem in the country. The rising employment and increasing domestic demand caused 6% inflation in 2010, leading the central bank to increase interest rates and the government to cut spending in 2011. Foreign investments are generally encouraged by the Brazilian government, since domestic savings are not sufficient enough to maintain long-term high growth rates Brazil should continue to attract FDI. To generate growth and reduce the vulnerability to international financial market fluctuations export promotion is a seen as main component in economic growth and poverty reduction. To increase the country's international profile the government is seeking to expand trade ties with other emerging markets and developing markets. Furthermore, the relations of the Mercosul union with Uruguay, Paraguay and Argentina will be strengthened. Mercosul is pursuing trade negotiations with various countries and regions, one of them being the European Union. (www.state.gov).

Business relation between Brazil and the Netherlands

The relation between the Netherlands and Brazil started already in the seventeenth century when Count Johan Maurits van Nassau ruled over the northeastern part of Brazil, which was for the Brazilians a very positive experience. Currently around 9000 Dutch are living in Brazil while around 15.000 Brazilians are living in the Netherlands. Every year bilateral consultations between the two countries are conducted. In 2003 the Queen of the Netherlands made an official visit to the country, in 2008 the president of Brazil visited the Netherlands. Recently, the Dutch secretary of state of international trade visited Brazil with a delegation for a trade mission (www.minbuza.nl).

After the US and Venezuela, the Netherlands is the third destination for Brazilian exports, which is due to the fact that a large part of its export to Europe is shipped to the Rotterdam harbor (Flaskerud, 2003). In 2005 the exports from Brazil to the Netherlands counted for 5.2 billion US dollar, while the imports from the Netherland to Brazil only

were 0.6 billion US dollar (www.brazilianembassy.nl). Europe is the largest market for Brazilian exports, and the Netherlands is an important gateway to this market. The export products shipped to the Netherlands are agricultural bulk products, fruits and raw materials (www.brazilianembassy.nl). In 2009 the exports from Brazil to the Netherlands accounted 3,9 billion Euros, a 20% decline compared to 2008 which was due to a decreasing demand because of the crisis. The imports from the Netherlands to Brazil were 1,1 billion Euro, which is also a decrease compared to 2008. Over 40% of imports from Brazil is nutrition such as meat, vegetables, fruits and cattle feed. Almost 75% of the exports to Brazil are related to chemicals or machinery, also pharmaceuticals are important export products. Together with the other BRIC-countries, trade between the Netherlands and Brazil doubled since the year 2000 (www.cbs.nl).

The embassy of the Netherlands is located in the capital of Brazil, Brasilia. The embassy's main task is to promote the interests of the Dutch government. Together with the Consulate General in Rio de Janeiro, the Consulate General in Sao Paulo and two business support offices in Recife and in Port Alegre, the Embassy forms an economic-diplomatic network which supports and advices Dutch organizations in Brazil (brazilië.nlambassade.org). In 1952 the Dutch Brazilian Chamber of Commerce (Dutcham) was founded, with the objective of promoting trade and investments between the two countries. It is a non-profit organization that offers members assistance and advice when a firm is considering moving to Brazil. This organization furthermore offers firms access to a network of companies by regularly organizing events for its members (www.dutcham.nl).

The institutional environment

Based on the variables derived from Whitley's and Hall & Soskice's theories, the institutional environment will be determined. Subsequently this will lead to issues that Dutch firms need to take in account when entering Brazil. Figure 11 shows again the variables that used to determine the institutional context.

Figure 11: Variables for the institutional analysis

Source: Developed by author

Ownership coordination & Corporate Governance

Ownership coordination is determined by the type of owner control, the ownership integration of production chains, and the ownership integration of sectors. Ownership control is concerned with the owner's involvement in managing economic resources and activities. Three types of owner control are distinguished; direct control, market control, and alliance control. The type of ownership control is determined by the variables shown in figure 12.

Figure 12: Characteristics of owner-control types

Characteristic	Direct	Alliance	Market
Involvement in management	High	Some	Very low
Concentration of ownership	High	Considerable	Low
Owners' knowledge of business	High	Considerable	Low
Risk sharing and commitment	High	Considerable	Low
Scope of owner interest	High	Considerable	Low
Exclusivity of ownership	Considerable	Limited	High

Source: Whitley, 1999, p.35

Da Silva and Leal (2006) and Rabelo and Vasconcelos (2002) show that in most Brazilian company's ownership and control is quite concentrated, most companies in their research were controlled by one single direct shareholder. Family-owned firms are most common in Brazil, though generally they experience lower valuation and performance than state-owned companies, foreign investors, or institutional investors. Corporate governance used to be weak, with management extracting private benefits from their control. But over recent years, since 2000, this however is changing. More and more companies are listed on the Sao Paulo stock exchange, and adhering to higher corporate governance standards (Da Silva, Leal, 2006; Gorga, 2008). These developments also show a trend in which Brazilian companies move from highly concentrated ownership to a slightly more dispersed ownership. Though family ownership is still very common, government ownership is decreasing, while institutional ownership is increasing (Gorga, 2008). Due to the high level of concentrated ownership, and many family members of the family owned business being on corporate boards, the involvement in management is high (Da Silva, Leal, 2006). Whitley (1999) describes that family owned business are a typical illustration of direct control. It is also fair to conclude that the owners' knowledge of business is high as well. Both family-owned businesses and state owned enterprises are in general committed to their business and are exposed to more risk. Furthermore, they have more interest in business than portfolio holders do. The exclusivity of ownership refers to the extent that ownership rights are seen as indivisible and difficult to share. Family owned business usually tend to share control over the firm only with family or long lasting family-like relationships, which leads to a considerable level of exclusivity of ownership boundaries. Based on these characteristics can be concluded that the type of owner control most common in Brazil is direct control.

Ownership integration of production chain, i.e. vertical integration, and ownership integration of sectors, i.e. horizontal integration, are the remaining two characteristics in determining the ownership coordination. More than half of the family owned companies are part of family owned business groups, in which one holding company is at the center of a pyramidal structure. The structure is hierarchical, with monitoring and decision

making centralized at the holding company. The main purpose of these business groups is to control many firms with only a small percentage of total capital (Rabelo, Vasconcelos, 2002). Though in these family-owned businesses the level of integration, both vertically and horizontally, is at least of some to in certain cases a higher extent, it is important to consider that even though these business groups are important within Brazil, none of them has ever been able to internationalize (Rabelo, Vasconcelos, 2002). Since the early 1990's many state-owned enterprises were privatized, in which the government structured the process by selling control blocks instead of a dispersed sale of shares in the market. This lead to a higher amount of shared ownership between the family-owned business groups and the institutional investors. The amount of foreign investors in previously state owned enterprises is, apart from telecommunication, relatively low. Wan (2005) argues that the family owned business groups in Latin America have a lot in common with the South Korean 'chaebol' business groups, which are substantially diversified both horizontally and vertically and ties with government officials are very important.

In 1995 the Brazilian institution for corporate governance (IBGC) was founded with the main perspective to, among other issues; improve the transparency and disclosure within a company's management. The objective was to improve the access to the international capital market for Brazilian firms. The institution claims that their policies lead a higher and sustainable growth within companies (www.ibgc.com.br). Black, Carvalho and Gorga (2010) studied the corporate governance of Brazilian public companies and found that large differences exist between firms, but that in general the firms have small boards consisting of insiders (often family). The Brazilian corporate law only provides limited protection to investors, but the Bovespa provides additional rules that go further than the legal minimums and these additional rules have become more popular in Brazilian firms. Rabelo and Vasconcelos (2002) argue that especially in emerging market the role of the government is of major importance in creating efficient corporate governance structures. Many important industries in Brazil were created under state guidance or used to be state owned. Many Brazilian companies and business groups still have close ties to the government, creating a competitive advantage for Brazilian firms over international firms.

Non-ownership coordination/ Inter-firm Relations

To assess to what extent the activities in a business system are integrated through alliances, obligations, and non-ownership linkages, three inter-firm relationship characteristics are examined. The contrast here is between on the one hand zero-sum, adversarial contracting, and competition and on the other hand more cooperative, long term, mutually committed relationships among partners and competitors. First, the alliance coordination of production chains refers to the relationship between the members of a production chain. During the 1990's global competition increased the pressure on the Brazilian exports, and relationships with suppliers and buyers within Brazil became more important (Schmitz, 1999). Schmitz (1999) found that in the shoe-production industry over 60% of his sample firms experienced an increase in cooperation with suppliers, covering issues as information sharing, sharing experiences, and quality improvement. The same developments were seen in other production industries (Schmitz, 2010). Fleury and Fleury (2003) also shows in their research that over 70% of the firms in their sample were connected to a vertical supply network, however only 4,8% was part of a business alliance in which they would also work together with competitors and these were only large enterprises in the chemical and electronics industries. Secondly, the collaboration between competitors refers to the extent relationships exist between competitors. While Brazilian firms do increasingly build alliances within their supply chain, cooperation with competitors hardly exists (Fleury, Fleury, 2003). The same is true for the third relationship characteristic; the alliance coordination of sectors refers to alliances between firms in different industries. While firms do get involved in supply chain networks, hardly any of them has an alliance across sectors (Schmitz, 2010; Fleury, Fleury, 2003).

Quote Hans Mulder: the Brazilian firms are in general quite open to foreign firms, but many foreign firms have had difficulties building good business relations with them. Especially family owned businesses are completely focused on the domestic market and already have long lasting relationships that are sufficient enough for their business. It takes a lot of effort to show that working together can have added value. If a family owns more organizations they do tend to work together, but outside of that network cooperation is not very common.

Quote Hudson Aperecido Martins: Herder do Brasil is a subsidiary of a Dutch firm but the way the business is run is the Brazilian way. It is easier in making contact and building relations. Cooperation with other companies occurs, we provide product that require quite an investment and a good relation with the buyer is very important. With competitors we do not really communicate, we know who they are but the market is so big that our own firm is still growing.

Employment relations/ Employees

The employment relation in a business system is studied by examining the employer-employee interdependence and the delegation to employees. The employer-employee relation refers to the employment system which can be explained by two extremes with on the one hand life-time employment, which is common in Japan, and on the other hand high rates of employment change, often seen in the Anglo-Saxon system. Though Brazil has an overly regulated labor market, the job and worker turnover rates are very high in the industrial sectors. Gonzaga, Maloney, and Mizala (2003) argue that this can cause great problems since employers under invest in human capital which further decreases the commitment between the employer and the employee. Due to these very high turnover rates the delegation to employees is generally low. The delegation to employees refers to the discretion and trust that employers grant to the bulk of the workforce (Whitley, 1999).

Quote Odécio Roland: It is true that Brazilians tend to change job often, especially low educated people. This is partly because of culture; when they have enough money to live on for a while they quit and start working on another job only a few months later. But maybe if employers would offer some kind of education so that the people can develop themselves, than they might become more loyal to the company. I think this is true because, since higher educated people swop jobs much less. Developments like this will improve the quality of the labor market in general. I'm not sure what the effect will be on the delegation of responsibilities. Brazilian firms have a strong hierarchy and everybody has its own tasks and responsibilities, especially in family owned businesses important issues are only preserved at the top of the hierarchy.

Industrial relations

During the 80's and 90's of the previous century it was politics and law, and not collective bargaining that set the labor relations in Brazil. Trade unions existed but were controlled by municipalities, which gave them control but not a lot of freedom. During economic reforms the last decades trade unions gained more freedom e.g. because of the privatizing of the public sector. Though collective bargaining still occurs according to the rules of the law, some unions are able to enforce firms with new rules and better codes of conduct. Most unions however still rely on labor law to resolve arguments. But whether unions have been able to gain more freedom or not, fact is that there bargaining strength is still low, e.g. since millions of Brazilians are still unschooled and working in the informal sector. Trade unions in Brazil usually cover a whole sector within a geographical area and everybody working in this sector. Bargaining occurs between company representatives and labor representatives. (Lang, Gagnon, 2009).

Vocational training and education

Gonzaga et al. (2003) argue that Brazilian employers should invest more in human capital. In general the workforce has a low level of qualification and lack of on the job training make a low productivity. Brazil generally knows high turnover rates and the lack of investment in the training of employees can further decrease the commitment between the employer and the employee. Zapparoli (2004) argues that the education at Brazilian universities does not link well to the job market. While sequential programs at the universities could actually improve the employee's skills and the productivity, the employers are unaware of these programs and struggle in training their employees.

The Brazilian institutional environment

The different characteristics of the institutional environment have now been analyzed and the business system in place in Brazil can be induced. The observations that match the Brazilian system come closest to the 'fragmented' and the 'state organized' business systems, see figure 13, in both cases five out of the eight characteristics match. While fragmented systems are dominated by small firms, state organized systems tend to be dominated by large often state owned or family-owned firms that are integrated in production chains. In state organized systems families are still able to maintain direct

control over large firms, partly because of state support. Even though many previously state-owned enterprises are now in hands of alliances between families and institutions, the government still feels committed to these companies. The Brazilian system matches both types of systems to a certain extent, and also in both cases some issues do not match. It is therefore fair to conclude that the Brazilian business system is combination of the fragmented and state organized system.

Figure 13: Brazilian business system

Business System Characteristics	Bussines System Type	
	Fragmented	State Organized
Ownership Coordination		
Owner control	Direct	Direct
Ownership integration of production chains	Low	High
Ownership integration of sector	Low	Some to high
Non-ownership coordination		
Alliance coordination of production chains	Low	Low
Collaboration between competitors	Low	Low
Alliance coordination of sector	Low	Low
Employment relation		
Employer-employee interdependence	Low	Low
Delegation to employees	Low	Low

Source: Whitley, 1999, p.42

The institutional environment does not seem to match either the liberal market economy or the coordinated market economy, but has characteristics from both types and is more an intermediate combination of the two types. The outcomes do however match with the SME, as discussed by Nölke (2010). The collaboration between companies and authorities seems to be profitable for Brazilian firms, and many relations and networks are (partly) based on personal ties. Also the class background can be identified in Brazil, with an enormous gap between rich and poor. Nölke (2010) argues that the Brazilian type of coordination suites the country well and on the short term will not create problems. On

the long term however due to the limited innovation capacity it could slow down economic growth.

It appears that Brazil has a decent institutional environment, though these institutions do not always fit well together and work together which could actually lead to more economic growth. Especially the (investment in) training and education seems to need a boost to improve the skills and productivity of the labor force.

How Dutch firm should adapt to the Brazilian system partly depends on the system that they are accustomed to. Whitley argues that many continental European countries come close to the collaborative business system, in which there is more collective organization and cooperation within sectors and owner control is typically alliance in nature. Also, the employer-employee interdependence and the trust in workers is generally greater than in some of the other business systems. According to Hall en Soskice (2003) mainland Europe, including the Netherlands, are a coordinated market economies.

Quote Hans Mulder: The Dutch have in general proven that they are quite good in adapting to other markets, e.g. we have a long history of international trade with Brazil. I think that they will be able to adapt to the Brazilian culture and way of doing business quite well. The bigger issue is that the country is more bureaucratic than people expect, many Dutch companies ran in to problems because they were not prepared for the difficulty and the opaqueness of the laws and regulations here.

5. Industry Analysis

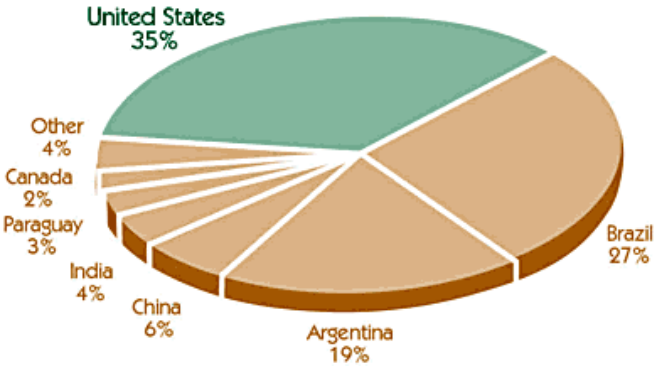
To assess whether an industry is attractive to invest in, the variables of the industry analysis are examined in this chapter. Though organizations operating in this industry are expected to possess relevant industry knowledge, a brief overview of the soybean industry with special attention to various critical issues is provided. Then the Brazilian soybean industry is analyzed based on both the competitive diamond and the five forces model by Porter (1990; 2008).

The soybean industry

Soy is an annual plant that grows in temperate, sub-tropical and tropical climates. The largest soy producing countries are the US, Brazil, Argentina, Paraguay, and the production of soy is also recently increasing in India and China though in the latter countries the total production is used domestically (Dros, 2004). The edible beans the plant produces deliver high protein and fat yields. While the most recognizable products are food made of soybeans (milk, soy sauce, tofu, other meat-substitutes), only 6% of all soybeans produced are used for this. Most soybeans are crushed for producing soy-meal and soy-oil, which in turn is processed into cattle-feed, food-products, cosmetics, detergents, and industrial products. Furthermore, it is increasingly used for producing biodiesel (Soy Barometer, 2009). Soy is the most important protein in animal feed and soy oil is the most consumed vegetable oil worldwide (Dros, 2004). Soybeans have been part of the Asian kitchen already for centuries, having started in China and then were introduced in other Asian countries as well. In the seventeenth century end products as soy sauce and tofu were traded from Asia to the western world. Only a century later the soybean itself was introduced in Europe, which is about the same time that soy production first was introduced in the US. Over time many research was conducted on the potential of the soybean and its nutritive value for humans and cattle and other soy-products were introduced (Hymowitz, 1990). In early 20th century soy was first introduced in South America by Japanese migrants. The soy industry has been growing ever since, and is now the most important agriculture export product in Brazil, Argentina, Paraguay and Bolivia (Dros, 2004).

The value chain of the soybean starts at the soybean farmers. The trade and processing of the soybeans is dominated by the four ABCD multinational firms (Archer Daniel Midlands, Bunge, Cargill, and Louis Dreyfus) that process the beans into meal or oil. Other firms buy the soy meal or oil from these huge traders to further process it into end products. China and Europe are the largest importers of soy worldwide, after China the Netherlands is the largest importer of soy. 22% of the soy import of Europe passes through the Rotterdam or Amsterdam harbor, making the Netherlands an important link in the soybean value chain (Soy Barometer, 2009). All four before mentioned multinationals operate both in Brazil and in the Netherlands. Figure 14 shows the total soybean production of 2010.

Figure 14: Total soybean production 2010 by country

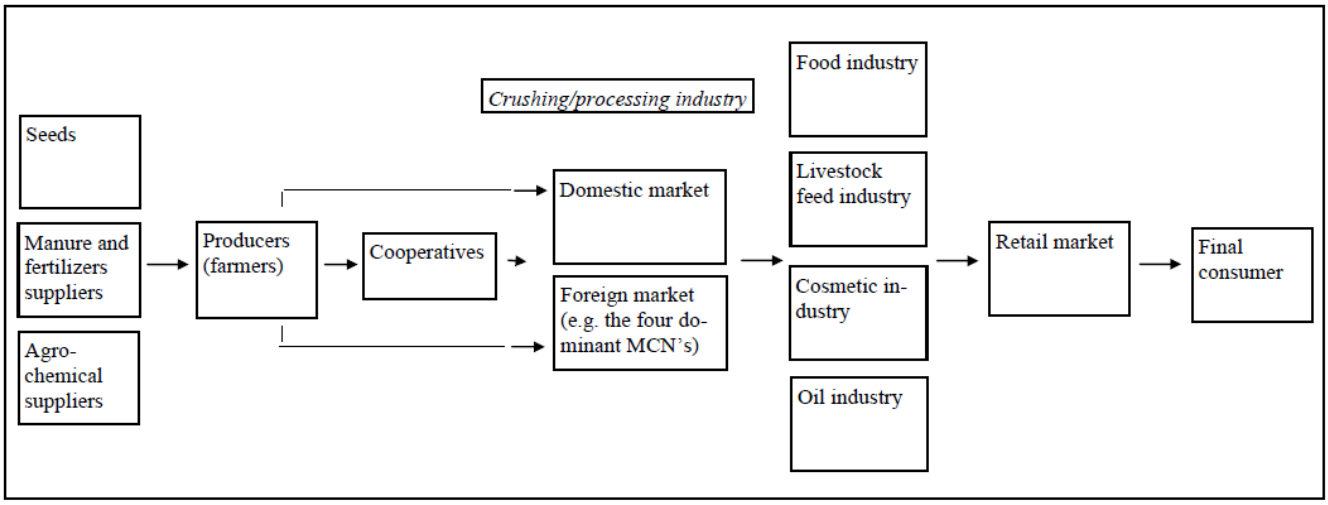


	Million Bushels	Million Metric Tons
United States	3,329	90.6
Brazil	2,572	70.0
Argentina	1,818	49.5
China	558	15.2
India	353	9.6
Paraguay	276	7.5
Canada	158	4.3
Other	430	11.6
Total	9,494	258.4

Source: www.soystats.com

The soy production chain is made up of various operations in producing, processing, distribution, storage, and the marketing of materials. Figure 15 shows the basic production chain of the soy industry.

Figure 15: Soy production chain



Source: made by author

Critical issues

It is expected that the growth in soy production will mainly take place in Latin America, even though the community is increasingly concerned with about managing the natural resources in this region (v. Berkum, Bindraban, 2008). In recent years responsible soy bean production came under the attention, due to various negative effects that soy production tends to have. Various global initiatives and standards and criteria for responsible soy production have been developed (Soy Barometer, 2009). Negative effects are related to the following issues:

- Deforestation: the fast expanding soybean industry contributes to massive deforestation
- Soil degradation: As a result of loss of biodiversity, increased CO2 emissions, drying out of soil and erosion by wind and water, artificial fertilizers are needed for compensation
- Land conflicts: Large enterprises try to occupy land by illegally clearing forest, or by taking away land from local farmers and communities
- Food security: Local food supply is at risk because land that was originally used for other products now are used for soy which is mainly exported
- Slavery: Forced labor is common in the soy industry, with bad working conditions and work being seasonal

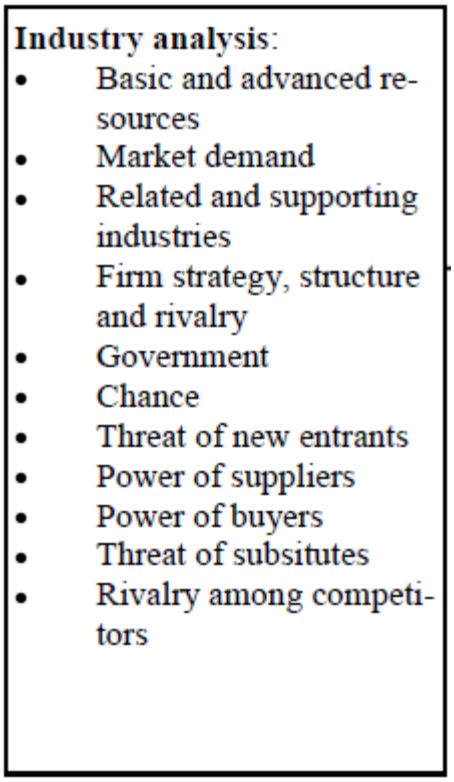
- Genetic Modification: 70% of all soy is made resistant to herbicide by genetic modification, aggravating the discussion on this issue by opponent and proponents
- Pesticides: Health risks for local population increased because of the use of pesticides and fertilizers, which end up in ground and surface water

Due to the concerns about the soy production a Round Table of Responsible Soy started with the objective of securing that future expansion of the industry is carried out in a sustainable way in an international context (v. Berkum, Bindraban, 2008).

The Industrial analysis

By analyzing the variables included in the framework, see figure 16, the opportunities and threats within this industry should become clear. Though in this paper the variables are all discussed based on the whole industry, the latter five variables can be applied to a single firm which is expected to make the results more specific.

Figure 16: Variables for the industrial analysis



Source: Developed by author

Basic and advanced resources

Within factor conditions a distinction is made between basic (natural resources) and advanced (e.g. human resources, research capabilities) factors. The soy production in Brazil is mainly focused in the south, in the states Parana, Santa Catharina, and Rio Grande, and in the Center West area, in the states Mato Grosso, Mato Grosso do Sul, Goias, and the district surrounding the capital Brasilia. The land in use now for soy production is already larger than the land in use in the United States, and the soil in the South is naturally very productive. In the Center West area the fertility of the soil is enhanced by adding nitrogen, phosphorus, and lime (Flaskerud, 2003). The climate in Brazil semi-tropical to tropical and the temperatures vary little during the year, and it is wetter and milder than the climate in other soy producing countries (Flaskerud, 2003).

The infrastructure in Brazil is especially important for the agricultural industries, since the harvest has to be transported to the harbors from where it is exported. Trucks sometimes have to drive over 1,500 miles to access a harbor. Traditionally, transport of harvest is done by trucks. The roads in Brazil vary from high quality freeways to dirt roads. Since the privatization of the major roads and railroads many improvements have been made, but they have high tolls so the truckers prefer to avoid them. The harbors in Paranagua, Santos, and Rio Grande are well developed and are directly accessible from the Atlantic. Together they process 74% of the soy exports. The harbor in Itacoatiara, in the Amazone River, is becoming more important as well since the increasing soy production in the Center West area. Here the Amazon River is deep and wide enough to manage ocean-going ships. There are ongoing improvements on the transportation from the inland to the harbors (Flaskerud, 2003).

Quote Odécio Roland: The infrastructure, especially the road network, has improved over the years. But Brazil is a big country, even with a good infrastructure large distances have to be covered. Depending on the type of company it is thus very important to think about what your goal is and what the best location is for that in Brazil.

Quote Frederica Heering: Many investments have been made to the infrastructure and the network of freeways is still being improved. It is however very common that from the freeway to a farm one has to cover a dirt road over several kilometers. With a car that is not easy, so imagine doing that with a truck. I also know about 'fazenda's' that have a railroad on their land, so harvest is loaded on trains instead of on trucks.

The soy producing farms in the south are generally much smaller than the farms in the central west area. Flaskerud (2003) found that the larger farms in the central west area are very well managed and use the latest technologies. These larger farmers often combine soy production with cotton, sugar, and coffee, and sometimes with large cattle as well (Flaskerud, 2003). Cavalett and Ortega (2009) argue that soybean production does not provide high profits for the farmers, prices paid for raw soybeans or soy meal and oil are low while the costs for chemicals used in soy production are high.

The educational level of the Brazilian labor force is low, especially when compared to developed countries. Also in comparison to other large emerging markets, the education of Brazilians is lagging. Only since the early 1990's the government started investing in education as a way of decreasing inequality in the society, and since then major improvements have been made (e.g. illiteracy among adolescents dropped from 12,1% in 1991 to 6% in 1996). Even though, still many students only attend primary school and do not enroll for secondary school (Avalos-Bevan, 2006). Furthermore, it is argued that while over 5% of GDP is spend on education, the focus is on access rather than quality in primary and secondary education. It is also argued that too much of the available funds are spend on higher education (Avalos-Bevan, 2006; www.cia.gov, 2011).

Until 2003 the Brazilian capital market was illiquid and too shallow to support all capital needs of local companies. Firms therefore had to raise capital at the international capital market. The creation of 'Novo Mercado', a listing segment of the Bovespa stock exchange, lead to an enormous increase of the domestic equity markets during 2003-2007 and allowed for sustainable growth. More financial services companies entered the market, and also more foreign investors became interested, along with an emerging

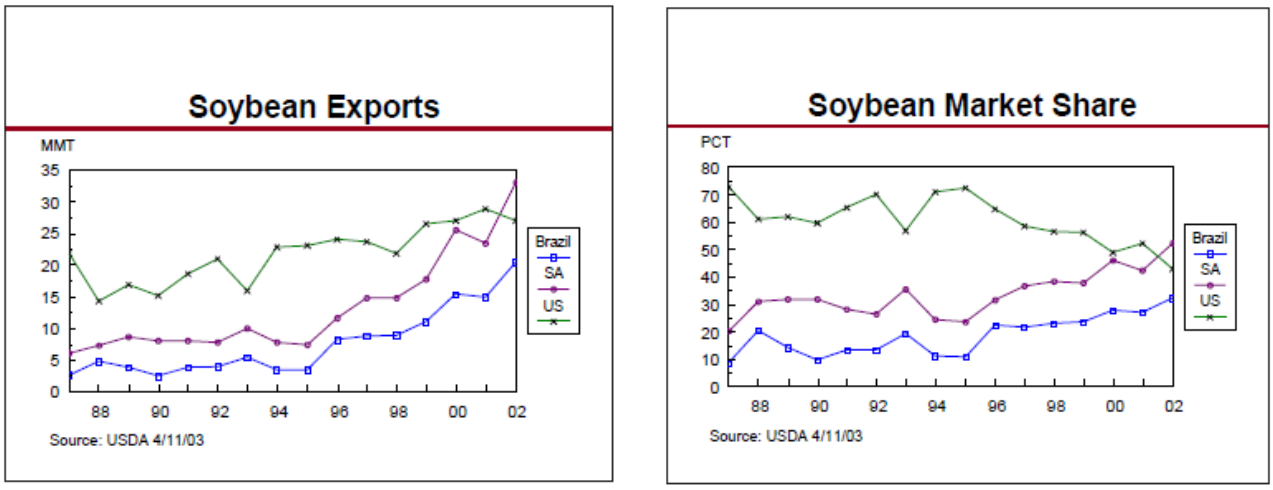
stronger institutional environment. The Brazilian capital market lived through the financial crisis surprisingly well, much better than the developed markets (Brazil Business Monitor, 2010). Farmers gain capital by retained earnings, and from financial arrangements with the suppliers. In previous years the government has invested a lot in the agricultural industries, and especially in promoting the soy production (Flaskerud, 2003).

Quote Frederica Heering: The agricultural industry in Brazil has had a lot of support from the government of the years. They improved the access to capital by implementing special programs. Also sustainability has been added to the agenda, but this still needs further development. Though farmers in the Central and Central West area of Brazil are in general well developed mega farms, in the South of Brazil still many smaller farmers have their business and it is especially these smaller farmers that have more difficulties.

Market demand

The soybean industry in Brazil has grown rapidly over the past decades; see figure 17, from only 18 million metric ton in 1987 to 51 million metric ton in 2003 and Brazil is now the second largest producer of soybeans in the world after the US (Flaskerud, 2003).

Figure 17: Brazilian Soy Industry Growth



Source: Flaskerud, 2003

In 2003 the US was still the world leader in soybean production, but all South-American countries together did already catch up with the US. Furthermore, in Brazil the production keeps increasing and they have the advantage of lower costs and more acres available for growth (Flaskerud, 2003; Hecht, Mann, Levinstein, 2008). There are even US soybean farmers moving operations to Brazil. The demand for soy is exploding, and the main increase in demand is industrial, where soy is used in producing paint, textiles, plastics, glue, and many other products. The benefit of soy is that it is nontoxic, nonpolluting, and biodegradable. And very importantly, soy can be used for producing biodiesel and with today's increasing oil prices this can be a very lucrative business for Brazil (Hecht et al. 2008). Of all major field crops soy enjoys the highest global growth in demand, with a 145% increase from 1990/1991 until 2010. Next to emerging markets as India and China, in which demand is booming, also in other emerging markets in the Middle-East, Africa, and South-East Asia the demand for soy has grown sharply. Furthermore, it is projected that in ten years due to the ongoing increase in demand the soy industry will have to produce an additional amount of soy equivalent to the current production of Brazil, Paraguay and Uruguay combined (www.unitedsoybean.org).

The soybeans are mostly exported, while beans processed into oil and meal in Brazilian processing units is mainly meant for the local market. Many Brazilian processing units had to close because they were not competitive enough (Jaccoud, Stephan, Lemos de Sá, Richardson, 2003). Figure 18 shows how the home market demand in Brazil has increased during the 1990's. This was partly due to the increasing population, but also the growing middle class and the increase in demand for animal protein influence the increasing demand (Jaccoud, et al., 2003).

Figure 18: Demand of the Brazilian home market during 1990/1994/1998

Product	Total Consumption (1000 t)			Per capita Consumption (Kg/inhab/year)		
	1990	1994	1998	1990	1994	1998
Grain	16.667.1	23.234.0	22.482.0	115.2	150.0	139.5
Meal	2.915.7	4.460.0	5.900.0	20.1	29.2	36.6
Oil	2.130.5	2.425.0	2.740.0	14.7	15.9	17.0

Source: Jaccoud, et al., 2003

The disposable income of the Brazilian population has risen sharply since 2002, due to sustained economic growth. This resulted in a sharp increase in consumption and retail demand. Though income distribution in Brazil is still one of the most unequal in the world, the expanding middle class means an increasing mass consumer market (Eghbal, 2007). Figures 19 and 20 show key indicators of the consumer income and spending, it also shows the forecasted (f) figures which indicate that consumer income and expenditure is expected to keep growing.

Figure 19: Key retail indicators Brazil 2007-2014

KEY RETAIL INDICATORS, 2007-2014								
	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Consumer spending per capita, US$	5,898	7,219	8,026	8,687	9,405	9,254	9,624	10,009
Consumer price index, % change y-o-y	4.5	5.9	4.3	4.5	4.3	4.3	4.4	4.5
Retail sales, US$bn	372.06	437.86	414.71	527.86	567.95	620.94	694.81	759.43
Annual growth rate in US$, %	23.4	17.7	-5.3	27.3	7.6	9.3	11.9	9.3
Retail sales per capita, US$	1,965	2,280	2,130	2,674	2,850	3,066	3,404	3,694
Total retail sales as % of nominal GDP in US$	27.9	27.8	27.5	28.1	27.3	27.0	27.7	27.8

Source: Latin American Monitor: Brazil Monitors 2010

Figure 20: Key lifestyle indicators Brazil 2007-2011

Lifestyle Indicators					
	2007	2008	2009	2010	2011
Internet users	58,709.1	64,944.0	75,982.4	84,068.2	92,016.5 (f)
New registrations of passenger cars (million)	1,686.4	1,814.3	1,657.3	1,430.8	n.a.
Consumer expenditure on food (US$Million)	197,431.7	235,110.4	239,252.5	306,413.7	316,150.4 (f)

Source: World Consumer Lifestyles Datebook 2011

Quote Frederica Heering: Though soy is the most important crop in Brazil nowadays, the Brazilians are not very keen on the most well-known products as soy sauce, soy milk or meat substituting products. It is a 'meat-culture' so the soy for the home market is mainly processed in other products and cattle feed.

Related and supporting industries

Porter (1990) argues that a competitive advantage is created by the presence of related or supporting industries that are internationally competitive. The advantage can be created by more cost-effective inputs in an efficient way or advantages in innovation and upgrading by the related or supporting industry. For assessing this issue first it is important to look at the value chain again to see what the supporting industries are. The parties in the industry that can be defined as supporting industries for one another are the following; the agricultural properties, the material suppliers (fertilizers, pesticides, machinery, etc.), the processing and transforming industry, and the network of wholesalers and retailers. Related industries can be other agricultural industries including their whole supply chain. Jepson (2006) studied agricultural cooperatives in Mato Grosso, Brazil, and found that the combined operations of the cooperation with other firms led to a decrease in the total production costs and an increase in risk sharing. The commercializing of the agricultural industry by cooperatives and firms provided individual farmers with important resources such as land, capital, and technology (Jepson, 2006). Furthermore, farmers often do not have enough space to store all harvest, the cooperatives and the processers often handle most of the storage (Flaskerud, 2003). Cooperatives helped in commercializing the agricultural business, but the exports of soybeans in still in hands of foreign multinationals. There are a few Brazilian soy bean processing firms that are able to serve their home market, but they have not been able to compete with foreign firms (Jaccoud, et al., 2003). Many soy farmers do also cultivate corn as a second crop, since an early harvest of soy allows planting and harvesting corn on the same land (Flaskerud, 2003).

While the Brazilian soy industry is able to produce at lower costs than the US industry, the infrastructure in Brazil is less developed. Because of this the US have the advantage

of distributing the soy to international markets more efficiently and at lower costs. Brazil can thus increase its competitiveness to other soy producing countries by improving its infrastructure and decreasing the distribution costs. This will also benefit other industries relying on the transportation of goods overland. Since the privatization of the railroads and many freeways many improvements have been made or plans exist to improve them. The distribution of goods in Brazil will however always go over a longer distance than in other countries, as a result it can never become a competitive advantage (Huerta, Martin, 2002).

Firm strategy, structure and rivalry

How companies are created, organized and managed strongly depends on the national circumstances and contexts. The institutional context of Brazil is already widely discussed in the previous chapter, so no need to repeat it here. The focus will be on how the national context influences the competitiveness of the soybean industry. Strategy is the way how an organization deals with change and how it plans its' future activities (Porter, 1990). To meet the growing demand of soy in the global market, the soy production in Brazil will have to increase. There are various ways to enhance the soy production. First, and most obvious, one can release more land for growing soy. This however encounters a lot resistance from environmental groups because it is associated with deforestation. Secondly, the production of other crops can be replaced by the production of soy. Again this will lead to resistance, since other crops are also of importance for both domestic use and exports. Finally, by innovation and improved technologies the yields per acre can be increased (Jaccoud et al., 2003; Flaskerud, 2003). Brazil can only create a competitive advantage with increasing the amount of land available for soy production, since competing nations will generally use the same improved technologies and also have the option of replacing other crops by soy.

A trend that is increasing over the last decade is bio-diesel. The demand for energy in Brazil is increasing, for a great part due to the growing middle class that turn into consumers. The high oil-prices nowadays have increased the interest by many parties in bio fuel, and the production of bio fuel has tripled in the period from 2000 to 2007.

However, due to the increased demand in various crops because of the production of bio diesel, the food prices also have increased hitting the low income families in emerging and developing countries hardest. China, for example, has already put a restriction on the amount of corn to be used for ethanol to avoid further increases in food prices (Coyle, 2007). After the US, Brazil is the largest producer of ethanol (mostly of sugarcane) and biodiesel (mostly of soy). The government actively encourages the use of ethanol and biodiesel, since it can be produced domestically and the country will depend less on the global oil industry. Also 80% of the new-sold cars in Brazil have flexible fuel capabilities and ethanol is available at most gas stations. The production of biodiesel from soy thus provides opportunities for the Brazilian soy industries and related industries, but the government should control the developments. However, in recent years a new oilfield offshore was discovered increasing the production of traditional energy and the production of environmental friendly energy cannot keep up with the increase in demand in the domestic market (Coyle, 2007).

Quote Frederica Heering: bio-diesel is a big thing in Brazil, almost all gas stations offer ethanol next to regular gasoline and diesel. It is wrong though to assume that this is all made of soy. With soy one produces bio-diesel, but the ethanol is produced of sugar-cane. And while it is argued that the rising demand because of bio-diesel is causing an increase in food prices, I think that if the farmers can ask a higher price for their product this might have a positive effect on the development of rural areas.

Quote Tamara Mohr: There are many negative effects of the cultivation of soy and there are a lot of local organizations trying to get the local public and authorities to pay more attention to this. This is not always easy, since the demand of soy keeps increasing and it is an important source of income. Our organization together with other organizations to get more international attention to the issues, because we think there are ways to improve the sustainability of the soy production and still meet the growing demand.

Government

As stated in the institutional analysis Brazil is a federative republic with 26 states and a federal district. Foreign investments are generally encouraged by the Brazilian government, since domestic savings are not sufficient enough to maintain long-term high growth rates Brazil should continue to attract FDI. To generate growth and reduce the vulnerability to international financial market fluctuations export promotion is a seen as main component in economic growth and poverty reduction. To increase the countries international profile the government is seeking to expand trade ties with other emerging markets and developing markets. Furthermore the relations of the Mercosul union with Uruguay, Paraguay and Argentina will be strengthened. Mercosul is pursuing trade negotiations with various countries and regions, one of them being the European Union. (www.state.gov).

In 2008 the World Bank assessed the investment climate in Brazil. Access to finance seems to be a major problem in Brazil, because of high interest rates and complicated procedures firms do not apply for loans which put a constraint on firm growth. Though interest rates have been declining, they are still high compared to international standards. While the quality of transports and electricity provision still needs improvements, firms in Brazil don't see this as an obstacle in doing business. They do however experience extra costs/financial losses because of the poor state of the road network and regular power failures. The level of education is also a matter of concern; in general it takes firms in Brazil a longer period (6 to 12 weeks) than in other countries to fill a skilled vacancy. It is quite normal in Brazilian firms to train and educate the workers on the job. Crime is a big issue in Brazil, with about half of the firms expressing their concerns about losses due to vandalism and theft. Though compared to other Latin American countries, Brazilian firms experience less criminality and less direct costs due to criminality (Fan, Guilherme Reis, Jarvis, Beath, Frauscher, 2008).

The World Bank ranked Brazil 125th out of 181 countries in their 2009 doing business survey in terms of regulations. Opening a business in Brazil requires patience, the procedures are complex and on average it takes 152 days to start up. Tax regulations are

equal for foreign and domestic firms. Restrictions on foreign ownership only exist in a few sectors, including media, communications, mining, aviation, and radioactive ore. Within 150 kilometers from the national borders foreign ownership of land is prohibited without approval of the National Security Council (Brazil Country Report, 2010). A factor that can still be a difficulty for foreign firms investing in Brazil is corruption, especially when dealing with governmental bodies. Though corruption is illegal and laws, regulations, and penalties exist in Brazil, they are not very effective (Brazil Country Report, 2010).

Chance

Chance refers to events that incidentally occur and cannot be controlled by companies; events could be e.g. wars, major inventions, and natural disasters. A recent event that occurred by chance and that hit the global economy was e.g. the financial crisis. Though Brazil experienced a decline in exports for a short period, it has come out of the crisis reasonable well and recovered faster than most advanced market economies (Brazil Country Report, 2010). The climate in Brazil is one of the main reasons why Brazilian land is so fertile and why so many different crops can be grown. This climate however also can cause natural disasters. In the past Brazil had to cope with droughts, which increases the incidence of fires. Especially the droughts in the south of Brazil reduce the yield of soy production. The country also experienced periods of extreme rain fall, causing floods (www.wamis.org).

Quote Henrique Villas Boas Concone: Due to the Brazilian climate we can grow a lot of different crops. Our land is much more fertile than in other Latin American countries. But we also experience extreme weather, e.g. in the years of 'El Nino' we experience droughts in the North East and extreme rainfalls in the South and South West of the country. This can heavily affect the yield per acre, I know of farmers that lost their whole harvest because of floods. But that is the downside to our semi-tropical and tropical climate. In the South in some years they experience frost that can decrease the yield.

New entrants

When a Dutch firm wishes to enter the Brazilian soy market, it will be a new entrant. It can enter at various stages in the production chain and in an industry that keeps growing there will always be an opportunity. On the suppliers side it could e.g. enter by supplying fertilizers to the farmers. Since the soy production is expected to keep growing, the demand for supplies will also grow. The Rabobank argues that increasing the domestic production of fertilizers will not decrease the imports since the demand will increase (cornandsoybeandigest.com). Entering the crushing and processing industry will be a challenge due to the dominant MNC's which all already have operations in Brazil. Due to their size those firms are better able to create economies of scale and produce at lower costs. Furthermore, they have already established long term relationships with e.g. the farmers/cooperation. When a firm does succeed to enter this market, it will face fierce competition and has to be able to distinguish themselves from other firms in some way. The Netherlands is mentioned as a possible player in responsible soy production and the promotion of it (soy barometer, 2009). Companies e.g. specialized in sustainable agriculture could focus on this. The downside here is that it is not expected to be very profitable; most organizations dealing with these issues are non-governmental organizations.

Quote Odécio Roland: In more or less every industry we notice that the interest of foreign companies increases. Brazil is hot, so to say. The country was not as affected by the financial crisis as much and all statistics show growth. In the agricultural industry there will definitely be opportunities for Dutch firm, since the Netherlands have a lot of experience with agriculture themselves companies might be able to extend their business here.

Quote Frederica Heering: There are definitely possibilities for Dutch firms in the soy industry, or in the agribusiness in general. I know there exist networks between Brazilian and Dutch farmers and cooperation's to share experiences and knowledge. Especially companies with a focus on more specialized products or services could potentially be successful.

The power of Suppliers and Buyers

A supplier is powerful when it does not depend on one industry that it sells to. The suppliers of e.g. fertilizers and also the crushing and processing firms are quite powerful because they do not solely depend on the soy industry. The ABCD firms are stronger also because they are so big, which gives them more power to negotiate and they could integrate forward into the industry. The soy farmers on the other hand are less powerful suppliers because they are more dependent on their buyers. Also as buyers the soy farmers are not very powerful. Since there are so many farmers, the suppliers do not rely heavily on just one single farm so if a farm would switch from supplier this would not really harm the supplier. The crushing and processing industry is quite a powerful buyer, it is buying a standardized product and it is widely available which makes it easy to switch to another farmer.

Quote Henrique Villas Boas Concone: The agricultural sector is big, and I agree that the suppliers and buyers do have a powerful position. But the farmers do not have a very weak position themselves, the last years it was very normal to negotiate about prices because the demand is bigger than the supply. Also the increasing corporation between the farmers, in cooperation's improves the position of the farmers.

Threat of substitutes

Soybeans can be processed into various products; food, cattle feed, cosmetics, industrial products, ethanol. In the food industry e.g. soy is used as a substitute for meat products. Because the product can be used in various industries in various ways, being replaced by substitute products is not a very big risk in the production of soy. But because of increasing prices due to the increase in demand, the risk that industries are looking at substitutes does increase.

Rivalry among market competitors

Porter (2008) argues that rivalry among competitors can drive down profit potential. The degree to which this occurs depends on the intensity and the basis of the rivalry. Intensity is greatest when there are many competitors in more or less the same size, the industry growth is slow and exit barriers are high. The soy farmers are faced with a certain extent

of rivalry since there are many farmers, ranging from small to very large but not really an industry leader. However, since the demand for soy is still growing this does not heavily affect the profit potential and the exit barriers are not very high since they could switch from growing soy to growing e.g. sugarcane. The crushing and processing industry also know many competitors, but since the market is dominated by four players this decreases the intensity of the rivalry. As for the farmers, their demand also still increases not affecting profit potential to much because of competitors and at least the four dominating MNCs are all processing other agricultural products as well, decreasing the exit barriers. The basis on which firms compete can relate to e.g. price, product features, or delivery time could further affect the profit potential, in which competing on prices will be most destructive. In the soy industry the competition based on prices, especially for the farmers, is the most obvious strategy, since they are all selling the same product without any special features.

Quote Henrique Villas Boas Concone: In my experience the agribusiness is not very competitive if you would compare it to e.g. the telecommunications industry. Especially the farmers do not consider each other as rivals that much. Maybe in the future is demand would decrease this will change, but I don't see that happening very soon.

Apart from these five forces Porter (2008) mentions other factors that are of importance when strategizing. Growth within an industry will decrease the rivalry among the existing competitors but it will draw in new entrants, which in the end will lead to an increase in rivalry. Strategy will also depend on technological developments, the government, and complementary products and services (Porter, 2008).

The Brazilian soybean industry

The soy industry in Brazil is outlined in this chapter as a growing industry, with the prospect that it will continue to grow. The industry variables discussed by applying the Porter Diamond (1990) and the five forces model (2008) provided various factors that oar of special importance to consider as an organization. Appendix III shows the competitive diamond and the five forces model including the factors coming forward in this analysis.

6. Company Analysis

Though the resource based view in general is used to define the critical resources of a firm, here it is used to define which resources a firm needs in order to be competitive within the soybean industry in Brazil. Competitive advantages come from the resources and capabilities of a firm. In order to be a sustainable competitive advantage a resource has to be valuable, rare, and isolated from imitation or substitution (Hoopes, Madson, Walker, 2003). In emerging markets, such as Brazil, the resources and capabilities are the primary determinant of firm value (Makhija, 2003). Especially in emerging countries foreign entrants often require resources and capabilities that are highly context specific and there is a negative relationship between the foreign entrants' need of specific resources to increase its competitiveness and entry by Greenfield investments (Meyer, Estrin, Bhaumik, Peng, 2009). A distinction is made between resources that are needed to operate in Brazil in general and resources that are of specific importance in the soy industry. These resources are defined based on the institutional and industrial analysis in combination with the results from field research in Brazil.

Relationships

The basis of a business agreement in Brazil is trust, and it is very common to build on such a relationship from a personal level. Brazilians prefer a relationship based on cooperation rather than a basic supplier-buyer relationship. It is important to be patient, this usually results in better relationships and contracts (Kompas Dutcham, 2011). Where in the Netherlands business deals are often assessed on financial information in Brazil the personal relation with the business partner plays a larger role.

Quote Hans Mulder: A business deal can be won or lost just by the fact whether a Brazilian partner likes you and thinks you are a competent partner or not. In getting to know a business partner one starts with small talk, and the European way of getting straight down to business is not appreciated, this should be considered when doing business in Brazil.

But it is not just the relationships with suppliers or buyers that an organization needs to work on in order to be successful in Brazil. Good relationships with the institutions are very important e.g. to get the right permits to do business. Knowing the right people can be very helpful, especially in starting up a business. But it is not just the importance of the relationships that can make or break a business, local business partners also have more knowledge about the complex and often bureaucratic regulations (www.worldbusinessculture.com). Between 1995 and 2005 two hundred Dutch companies started doing business in Brazil of which only 25% was able to make profit, and the main reason of failure was the underestimating of thresholds and difficulties of doing business in Brazil (Kompas Dutcham, 2011).

Quote Hans Mulder: It is advisable to have a local partner that can help with starting up a business, and if this is not possible a joint venture with a local company could be a possibility to acquire the needed network of relations.

Training and education of employees

The Brazilian workforce is generally not very well educated compared to advanced markets and it is argued that employers should invest more in their human capital. Training workers will increase their commitment to the firm and their productivity. Furthermore, it will increase the trust in employees and decrease the job turnover which means the firm does not need to use resources to hire and train new people (Gonzaga, et al. 2003). While there is a surplus of low skilled workers on the labor market, finding well educated professionals can be very problematic. Dutcham advises organizations to seek professional recruiters in drawing up the job profiles and finding competent employees.

Quote Hans Mulder: By hiring a professional recruitment agency one can save a lot of time and these agencies often have better psychological insight to judge whether a person is really competent for a job.

In a report by Boyden Global Executive Search is argued however that the quality of education has improved enormously and that there is a lot of local talent with the potential of becoming executives. Even the skills of lower educated employees have improved; many people now speak at least Basic English. The benefit of hiring locals is the better understanding of the Brazilian business culture and they bring in their own network which can be very valuable for an organization. They also report that many companies have successfully moved from hiring expats to hiring and training local talent (The Boyden Report: Brazil, 2010).

Quote Odécio Roland: Local employees are in many cases less expensive and while they might not have all the required knowledge, they do know the country and the language. You just have to make the choice whether you want to teach Brazilians the right knowledge or hire Dutch expats to teach them the Brazilian culture and language."

Quote Tatiana Chagas: In order to hire an expat one has to follow many rules and meet many requirements, the application for a working visa for an expat can be very bureaucratic. The Brazilian government does prefer multinationals to hire locals."

An organization has thus to make a deliberate choice in whether to train and educate locals, for which it does have to make a customized training program, or to bring in Dutch employees that have to learn the local culture and language. Expatriation can be a necessity in knowledge transfer from the home country to the host country, but long term competitiveness of multinationals also lies in the loyalty of local personnel (Lasserre, 2007, p.338).

Operating in niche markets

From the industrial analysis it became clear that the industry of soy crushing and processing is controlled by four multinationals which all have operations in both Brazil and the Netherlands. Furthermore, these multinationals not only control this part of the production chain, they have a lot of power over their suppliers (the farmers and cooperation's) and in some cases they are even the suppliers of seeds and fertilizers for

farmers. This makes it very difficult to compete effectively and still be successful. But these MNC's are not the only parties, there are smaller companies in the market and they do manage to be profitable. Also global demand is still growing, so for companies willing to invest in this market now it is the time to do so. The key to success could lie in the focus of a smaller part of the market in which a firm is able to specialize and differentiate from competitors. Rennie (1993) explains that due to a radical shift in customer preferences from standardized to specialized products, niche markets have become an important opportunity for smaller international firms since they are generally better able than large firms to adapt.

Focusing on a smaller part of the market in combination with the second topic that could lead to a competitive advantage offers possibilities for various kinds of organizations, which are discussed further on.

Quote Frederica Heering: There are definitely possibilities for Dutch firms in the soy industry, or in the agribusiness in general. I know there exist networks between Brazilian and Dutch farmers and cooperation's to share experiences and knowledge. Especially companies with a focus on more specialized products or services could potentially be successful.

Adjusting to critical issues

The increasing demand has its down side, because it will aggravate the critical issues that are explained earlier on in this paper. Growth in soy production will probably mainly take place in Latin America, even though the community is increasingly concerned with managing the natural resources in this region. Due to the concerns about the soy production a Round Table of Responsible Soy was started with the objective of securing future expansion of the industry is carried out in a sustainable way in an international context (v. Berkum, Bindraban, 2008). Though multinationals mention on their websites how concerned they are about these issues, they have hardly taken any concrete measures to address these issues in their operations. Van Berkum and Bindraban (2008) explain that the Dutch are especially capable of handling these issues due to their expertise and

the Dutch agribusiness is very capable of countering the negative effects of soy production.

Quote Tamara Mohr: Especially in rural areas they are not very concerned about the environment, these areas still know a lot of poverty and their first concern is getting food on the table. With more attention to the negative effects of soy production by international companies and the international society I think the problems can be addressed much more effective.

According to Cavalett and Ortega (2009) the soybean producing part of the production chain is by far the most resource consuming part. For this reason it is essential that more a more sustainable production system is developed for the long term sustainability of the production chain.

Concrete market opportunities

Combining the lack of investment in sustainable soy by the current market competitors and the increasing concern about these issues could offer opportunities for new entrants. Several concrete opportunities for Dutch firms are discussed here.

- Companies doing research on fertilizers or pesticides could focus on developing e.g. biodegradable products. Though the majority of the Brazilian farmer produces soy in the traditional way, the amount of farmers working in a sustainable way is increasing. Local as well as international NGO's work very hard to fight the negative influences of soy production and the development of such product would fit perfectly in their goals.
- For suppliers of pesticides and fertilizers it is an attracting market to enter anyway, since the market is still growing and the demand for such product keeps increasing. Building on a good network is very important though.
- Advisory or consulting firms in the agricultural industry could focus on advising farmers how to produce soy in a sustainable way and still remain profitable, or advising local, regional, and national institutions on how the production of soy can be improved in a sustainable way. Though many NGO's operate in the

country, they are often quite small and focus on a small area. Also they are more focused on convincing parties to operate in a sustainable way, rather than providing them with concrete measures.

7. Decision making process

Once it is defined what opportunities a market offers and which resources are required to be successful, an organization has to decide how it is going to enter that market. Two interlinked decisions have to be made. An analysis of the decision making process within a whole industry will result in the most probable decisions made by organizations in general. Applying the framework to a single organization however will provide the various options including the risks from which the organization can then decide how to enter.

The presence of critical resources

First the organization has to determine whether it has the resources and if not which resources it still needs to acquire and how it could acquire them. Four resources were identified in the company analysis for which now is discussed how to acquire them.

Good relationships and a good network are essential in Brazil. If an organization has previous business experience in another industry in the country then it could build on these to create a network in the soy industry. When an organization does not have previous business experience in the country it will be very difficult and time consuming to create such a network. In that case an organization could get access to an existing network through a Brazilian partner, e.g. in the form of a joint venture or an acquisition.

Training and education is something still lacking at the moment, and though improvements are made in Brazil it has not yet reached a competitive status. The preferred strategy will thus be to implement a system of knowledge transfer from the home country to the host country. Furthermore an organization could develop a training program to learn employees in Brazil all necessary skills. The organization thus needs to bring this resource to Brazil, which means that for this particular resource the choice for the type of ownership is hardly influenced.

Being able to differentiate yourself as an organization from the other players in the market is a very important aspect in the soy industry. Companies already operating in niche markets or with a focus on specialized products or services will certainly have an advantage here. Through differentiation they will be able to compete with the market competitors. Organizations that do not meet this requirement should evaluate very well how they could differentiate their products or services in the Brazilian market and what adjustments it needs to make to their current range of products or services. An important aspect such organizations need to ask themselves is whether the extra investment in adjusting products or services will be worth it. When an organization is able to find a partner company in Brazil that is operating within the same niche, a joint venture or an acquisition is an option. Another option is a Greenfield investment, but as argued one does need access to a network for this. A compromise could be the acquiring of an organization that can be transformed into a subsidiary that fits to the existing organization.

For the last resource, being able to adjust to the critical issues, the same applies. Companies that already operate in a very sustainable way do not need to make additional investment in their products or services and thus will be able to operate competitively right from the start. Since corporate social responsibility keeps getting more important, organizations not operating in a sustainable way might consider making the investment to introduce sustainability throughout the organization as a whole and not just the operations it wants to start in Brazil. Without access to a network a joint venture or acquisition will again be the appropriate entry strategy. In that case one could introduce sustainability in the partner company. In Greenfield investments the company will be able to fully remain their own sustainable character in their operations.

Choosing the entry strategy

Second, the appropriate entry strategy has to be chosen. Lasserre (2007) explains that the entry choice depends on two dimensions; the ownership dimension and the investment intensity dimension.

The ownership dimension relates to whether one should enter the market with wholly owned operations with full control or enter into a partnership. Foreign ownership in Brazil is only restricted in certain sectors, within the soy industry no restrictions exist. It is however very important to build good relations and have access to a network. Because of this a Greenfield investment is more risky and only advisable when the organization has previous experience in Brazil, e.g. in another business sector. Organization lacking access to such a network are advised to choose for a partnership such as a joint venture or for an acquisition.

The investment dimension relates to the decision between investing in assets and competencies for value-adding activities and limiting operations to commercial, development and administrative activities. The choice for a low or high investment is very company specific. An organization that has as main purpose to have access to the Brazilian market but that does not intend to invest a lot could opt for an arm's length agreement such as a licensing agreement. More control can be created by having e.g. a representative office in Brazil, which requires less investment that a joint venture or an acquisition.

Investing in an emerging market involves a lot of uncertainty. Two techniques discussed to be especially helpful in addressing this issue are the risk analysis and the decision tree analysis. These techniques both follow from the BDT and make it possible to make decisions based on collected data. For such an analysis however more company level information is required. It is thus not feasible to execute such an analysis within the limits of this research. Useful data to include in a risk analysis or a decision tree analysis is information about the expected performance related to the various decisions. Since this again requires company specific data it is not feasible to execute this within the limits of this research.

Discussion & Conclusion

The aim of this paper is to propose an improved framework to analyze emerging market business sectors. The basis was the framework proposed by van den Ban (2009) and by an extensive literature review new theories have been added to the model. Subsequently the framework was applied to the Brazilian soy industry to test the applicability of the model. Now the features of the different steps in the model will be discussed, followed by the discussion and conclusion of the framework as a whole. Also the limitations to this research and topics for further research are provided.

The institutional analysis contains variables from Whitley's business systems theory and Hall & Soskice's varieties of capitalism. The combination of these theories has provided an extensive set of variables. The variables that are especially new are the industrial relations and the training and education. The other variables of Hall & Soskice are related to Whitleys' and thus were combined. The conclusion of applying it to the Brazilian institutional environment is that it is quite different of what companies are used to in the Netherlands. An important issue is the bureaucracy, the formal rules and laws concerning business are very opaque and difficult to understand for outsiders. Also corruption in general still occurs when a company needs something, like a permit, from a governmental body. It was concluded that the Brazilian institutional context does not fit in a single business system as they are proposed by Whitley. Just as van den Ban (2009) found in Vietnam, the Brazilian system seems to be a combination of the fragmented and the state organized system. Also the LME/CME approaches of Hall and Soskice doesn't seem be apply. The new proposed SME by Nölke (2010), in which business 'clans' or clusters play an important role, however does match the Brazilian institutional environment. This suggests that the addition of this theory is correct, since it takes the characteristics often seen in emerging markets better into account.

In the industry analysis variables from the Porter Diamond and the five forces model, also by Porter, were included. Since some overlap in the required data for analyzing the various variables exists, a clear distinction is made in the external part (the diamond) and

the internal part (the five forces model). From the industry analysis can be concluded that if a Dutch firm considers entering this market, now would be the time. Demand is still increasing and a large part of the increasing production is expected to be realized in Brazil. Soy can be used in a wide range of products, making it interesting for a wide range of companies. Though the market is controlled by the ABCD multinationals, there are some smaller companies able to compete, which means that given a firm has the right resources it will be able to operate profitable in this industry. The case study furthermore shows that adding the five forces model is very useful to clearly outline all industry characteristics and being a good base to identify the critical resources within an industry.

These critical resources are the issue of investigation in the company analysis. The RBV is in this paper used to identify the essential resources in an industry, though when applying the framework to a single company one should approach it the other way around. Than one will also analyze whether the unique resources a company possesses, that create a competitive advantage in the home market, will create competitive advantages in the foreign market. The case study showed that to operate successfully in Brazil a firm should have access a good network and good relations within the market. Also the capability to train its own employees is very important since the workforce is not well educated. Since it is quite difficult to bring in staff from the Netherlands, a firm has to teach their employees and give them the knowledge needed. Within the soy industry two issues were given special attention. First, firms that can differentiate themselves from the current market competitors have a competitive advantage when they are able to enter the Brazilian market. Second, the negative effects of soy production are getting more and more the subject of discussion. Firms working in a sustainable way, which is they address the critical issues within their operations; have a competitive advantage over the current market competitors. Though other theories have been discussed in the literature review, it has been chosen to remain only with the RBV, since other theories have too much overlap with the theories included in the industry analysis. Furthermore, especially when applying this framework to a single firm the RBV can be applied in the way it was originally meant; identifying the resources and capabilities of a firm that create a competitive advantage.

In the framework proposed in this paper a new step has been introduced in the whole process; the decision making step. Based on the industry and company analysis the opportunities and threats in a market can be identified, that are further influenced by the institutional environment. It is thus expected that organizations have various options to choose from when entering a market, and the process of making the decision for one of these option is included in this step. By collecting available data a company could perform a risk analysis or a decision tree analysis. It is expected that especially the expected performance within the market has an influence on the decision, though data to calculate the expected performance might not always be readily available. Another option is to do a peer analysis, in which one look at how comparable organizations perform in the market. Applying this decision making process to the Brazilian soy industry showed that it is hardly feasible to execute this for a whole industry, though it does result in the decisions most probably to be made. This step in the model is especially useful and feasible for a single company, since then more specific data is known.

The overall conclusion is that the proposed framework in this paper has shown to be adequate in analyzing an emerging market business sector. All the variables included in the institutional, industry and company analysis were analyzable in the case study, and the case study resulted in opportunities within the business sector that was studied. The decision making process, influenced by expected performance, unfortunately could not fully be analyzed due to the fact that more company level information is needed. The overall conclusion from the case study based on the framework is that there are definitely opportunities in the Brazilian soy market. As explained companies need to possess or acquire certain critical resources. Especially access to a network and relationships could be a resource that could indicate whether an organization should choose for a joint venture or acquisition rather than a Greenfield investment. The latter is only advisable when an organization has been able to build on a network e.g. through previous host country experience in other markets. Main possibilities are in specialized products, with which the organization is able to differentiate itself from other companies on product level. Other possibilities exist for companies operating in a sustainable way.

This paper adds to current literature a framework to analyze emerging market business sectors. The framework can be applied both at industry level as well as company level, though it is explained that the decision making process can only be executed at company level.

Limitations

This paper is cross-sectional and since industries are subject to change the outcome of the business sector analysis will be different in time, e.g. Barney (2001) explains that resources that lead to a sustained competitive advantage at one point in time might not do so in the future.

In this paper a Brazilian business sector was analyzed by the variables discussed in the framework. A major issue that is not included in the case study however is the presence of an enormous informal labor market in the country. Other emerging markets too are known of having to deal with this issue. The main characteristic of informal labor is that there is no formal registration and no contractual relationship between the employer and the employee (Henley, Arabsheibani, Carneiro, 2008). Though the economic development in Brazil has improved the outlook of the middle and upper class, a large part of the population still works in the informal sector with limited means to enforce social redistribution. Data on the informal sector is limited, since it is difficult to measure and as many other issues subject to change (Nölke, 2010).

The strategy of an organization is the result of the decisions made by its management. Management makes these decisions based on the information they have. The framework in this paper shows how a firm could assemble all relevant information. The decisions made based on that information may however differ between companies based on how the manager perceives the information and his intuition and emotions. The managerial behavior in decision making is not included as a variable in this paper.

Further research

The case study is based on sector analysis, which limited the application of the decision making process based on expected performance. Further research could include a case study with one or more companies as units to test with both qualitative and quantitative data whether the variables that are included in the framework correspond with the findings in such a study. Furthermore, such a study can also test how the framework applies to a single firm and if the model is complete.

While international organizations are expected to still be strongly rooted in their country of origin, the effects of this are not included in this study. Harzing and Sorge (2003) show that the country of origin is an important predictor of the control mechanisms used by a firm, and also influences the internationalization strategy of a firm. It would be interesting to study whether the country of origin of a company has an effect on the decision making process. The outcomes of such a research could give an indication whether the theoretical framework can really be generalized to other countries as well.

In the varieties of capitalism approach by Hall & Soskice is argued that the type of capitalism influences the capacity for innovation. While an LME is better capable of promoting radical innovation, a CME capacitates incremental innovation. Nölke argues that the innovative capacities of SME's such as Brazil are limited, and this could in the long-term lead to a decline in economic growth. Future research could shed light on how innovate industries could operate in such markets and how these market economies could also secure economic growth in the long term.

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Appendix I: Field Research

Interviews

Date	**Name**	**Company institution**
14-06-2011	Odécio Roland, Head economic department	Consulate General Sao Paulo
15-06-2011	Hans Mulder, Managing Director	Dutcham
20-06-2011	Tatiana Chagas, Trade officer	Consulate General Rio de Janeiro
22-06-2011	Esminha Porquesi, Consultant in infrastructure and architecture	Self employed in Brazil since 2009
29-06-2011	Henrique Villas Boas Concone, Project leader	Fazenda San Fransisco
13-06-2011/ 18-07-2011	Alex van der Galiën, Advisor	DHV/Fryslan Ferbynt (personal contact)

Email contact

Name	**Company institution**
Frederica Heering, Advisor agribusiness	Consulate General Sao Paulo
Jan van Wissen	Nederlands Centrum voor Handelsbevordering
Hudson Aperecido Martins, General manager	Herder do Brasil (subsidiary of the Ecology Group B.V.)
Carlos Pace	Meyn do Brasil
Tamara Mohr	Both Ends (Dutch NGO in the Dutch Soy Coalition)

Appendix II: Question list for field research

General questions.

- Can you describe the work your institutions/organization does? (only for embassy/Dutcham)
- What can your organization do for Dutch firms that are planning to go to Brazil? (only for embassy/Dutcham)
- Can you describe in what business/industry your company works? And the reason why it has entered the Brazilian market? (only for companies)

Institutional context.

- It appears most domestic firms in Brazil are still family owned businesses. From your experience, how do they react on foreign firms entering Brazil?
- How would you describe the way in which firms in Brazil integrate in their production chain/ sector?
- How important are networks/business relations in Brazil, and how far are they based on collaboration between competing firms and across production chains or sectors?
- The Brazilian workforce is generally not highly educated and especially low-educated employees tend to swop job regularly. How should Dutch firms deal with this?
- Also the delegation to employees and trust between employers and employees seems to be low. How should Dutch firms in your opinion deal with this?
- The government privatized many of the previous state owned enterprises, how would you describe their role in business nowadays? Do Dutch firms experience resistance from the government or do they feel 'welcome'?
- As in many other Latin American countries, corruption is said to be a problem in Brazil. What is your experience with corruption, and how do you think Dutch firms should deal with corruption?

Industrial context.

- The soybean industry is the largest agricultural industry in Brazil, employing 5,5 million people. But there are many criticisms about the industry. How do you personally feel about the whole industry?
- The infrastructure in Brazil is not as developed as what we are used to in the Netherlands. How can Dutch firms deal with this, and can the lack in infrastructure be an opportunity for Dutch firms?
- The last decade it became much easier to raise capital in Brazil, also for foreign firms, and for Brazilian firms to find foreign investors. Is it really not that difficult to raise capital in Brazil as a new entrant to the market? Explain why?
- The consumer market in Brazil is growing rapidly, do you experience that Dutch firms have picked up on this (in any industry)? Can you go further into this, what kind of firms, motives?
- Within the soybean industry, how much collaboration is there between the different parties (farmers, cooperatives, exporters, etc.)?
- How does the domestic market for soy cope with the international demand and increasing exports?
- How do firms in the soybean industry cooperate with other industries, e.g. other agricultural businesses?
- Do the critical issues, e.g. deforesting, get a lot of attention in Brazil? How does the population in general think about the critical issues?
- The export market is for 75% in hands of four large foreign multinational, how can Dutch firms create opportunities for themselves?
- The domestic market is controlled by Brazilian firms, how can Dutch firms create opportunities here?
- How does the government manage the soybean industry? Can you describe their influence?

Company level.

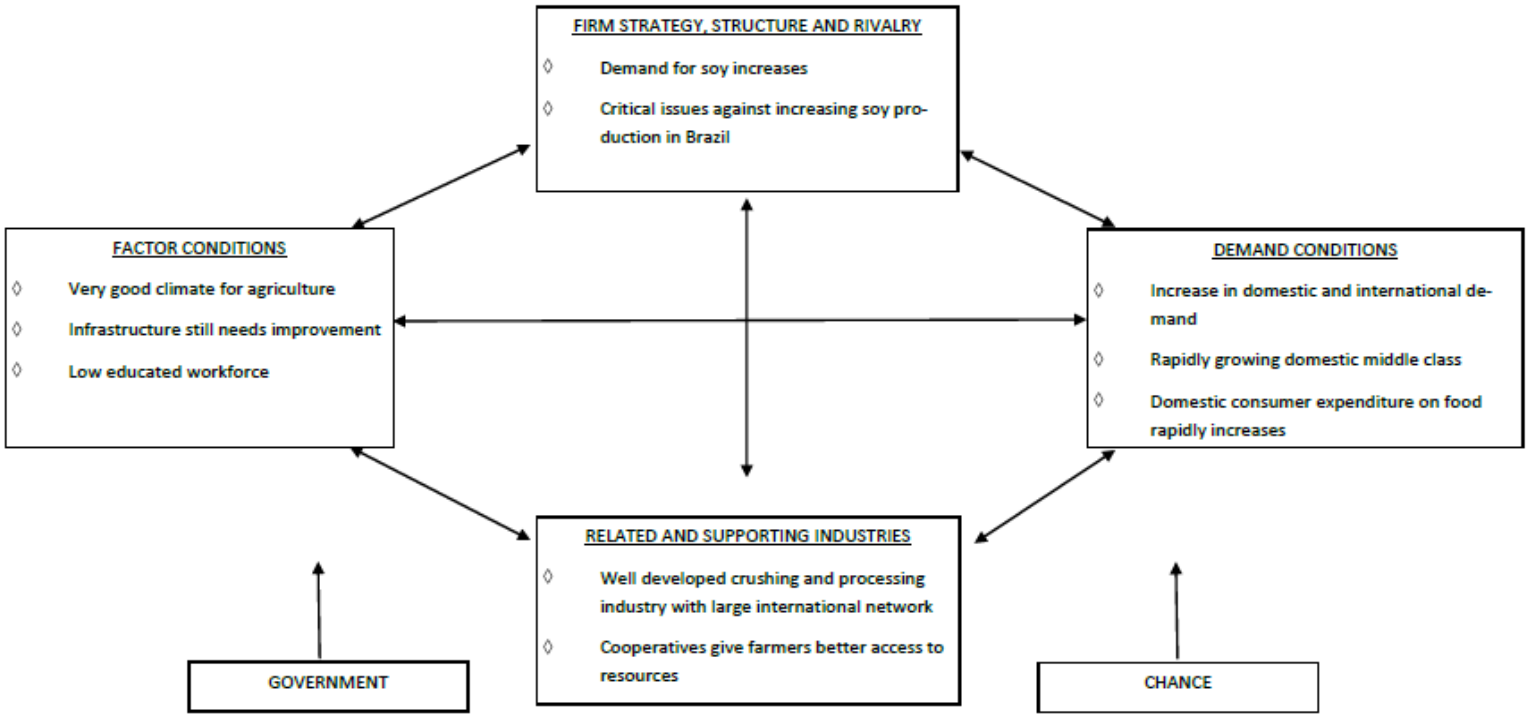
- Can you describe resources or capabilities that any Dutch firm should have, to be able to succeed in Brazil? And why are these so important?

- From you own experience; how do Brazilians think about Dutch firms? Positive, negative, etc.
- Is it advisable for a Dutch firm interested in the soy industry to first build on relations in Brazil before actually entering?
- The level of education is low, so how can Dutch firms recruit skilled employees? Do you think building on a well skilled workforce can create a competitive advantage for Dutch firms?
- How important is it to have a good reputation in Brazil? Does a well known multinational company have a lead over smaller firms?
- In what way should Dutch firms adapt their managerial practices when entering Brazil? (Typical cultural differences)
- Can you describe resources or capabilities that are essential in the soybean industry?

Decision making.

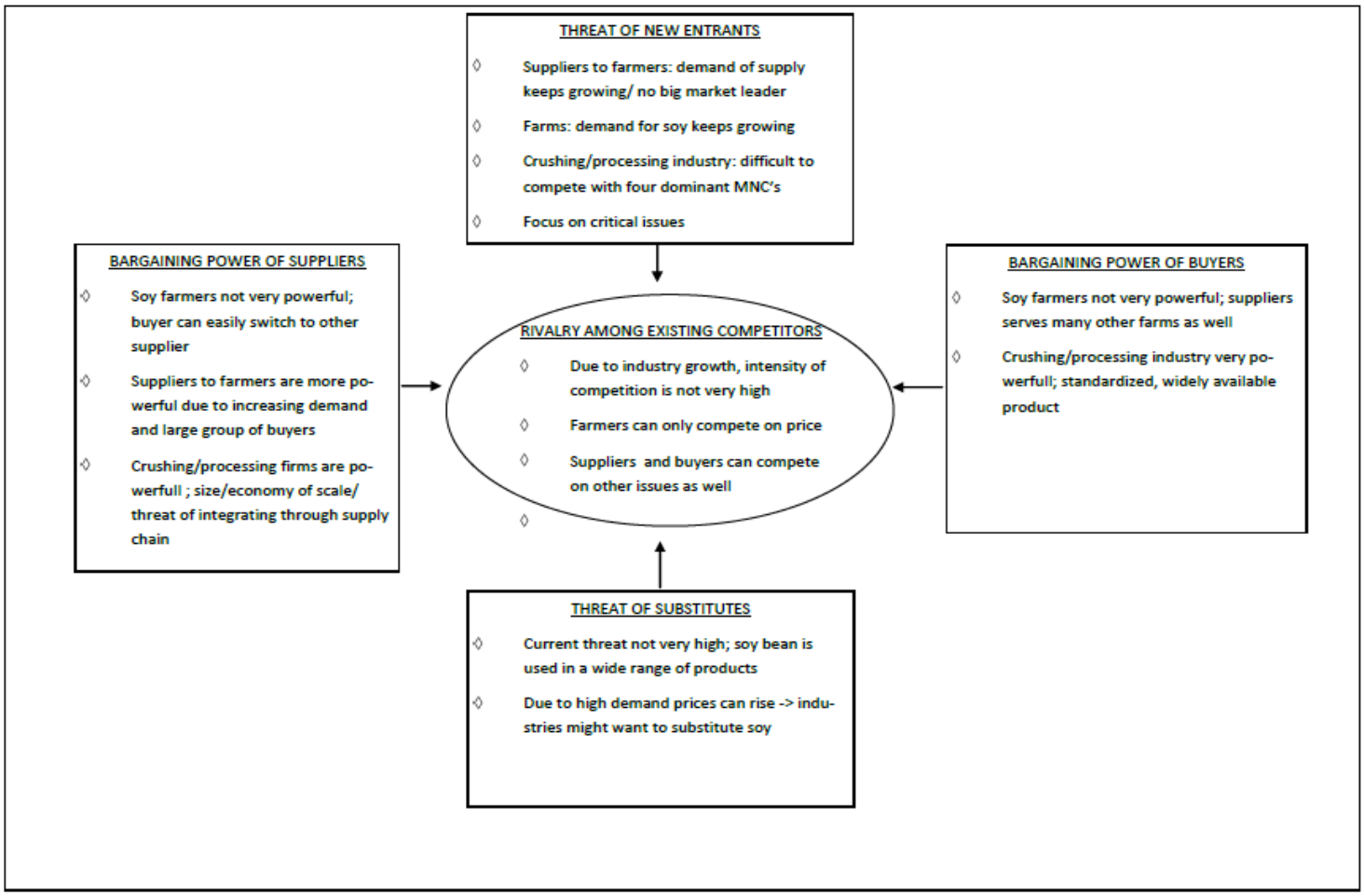
- What do you think is the most preferred entrance strategy for Dutch firms in general?
- What do you think is the most preferred entrance strategy in the soybean industry?
- How can Dutch firms best assess the future potentials in Brazil?
- How can Dutch firms mitigate the risks in the Brazilian market?

Appendix III: The Porter Diamond and 5 forces model applied



Source: Developed by author

Five forces model applied to the Brazilian soy industry



Source: Developed by author