Title
Internationalization strategies and entry modes of multinazionali tascabili.
*The case of Facco S.p.A. in Argentina and Brazil.*

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ABSTRACT

A recent phenomenon characterizing the current development of the Italian entrepreneurial tissue is represented by the rise and expansion of multinazionali tascabili. In spite of the great contribution that this group of companies provides to the development of the Italian economy, scarce studies about their internationalization process have been carried out up until now. Multinazionali tascabili’s *modus operandi* is characterized by high attention to quality and customer care, and the Made in Italy labelling represents one important source of their competitive advantage. These factors might have an impact on the entry mode and internationalization path that multinazionali tascabili tend to choose in order to enter foreign markets.

The aim of this thesis is to explore through a case study approach based on the experience of Facco S.p.A. which paths of internationalization are followed by multinazionali tascabili. With a focus on the Argentinian and Brazilianian market, the research examines whether the main internationalization models suggested by the literature have been applied.

To study how multinazionali tascabili approach Argentina and Brazil, the country specific barriers have been examined, as well as the potential ways to overpass them, that mainly reside in the chosen entry mode. The research highlights that the main obstacles in the development of trade relationships with Argentina lie on import restrictions in the shape of bureaucratic and technical requirements, while in the case of Brazil tariff barriers are often too high to enable international trade. When tariff barriers are excessively high, a company might opt for an intensively resource-committing entry mode – as a cross-border acquisition – even though it possesses scarce knowledge about the foreign market. Acquiring an already established business in the target market could allow to both defeat the liability of foreignness mentioned in the network approach, and act as a substitute for the level of foreign market knowledge that the Uppsala model defines as crucial to determine the degree of a company’s international commitment. This is found to be true above all if the management of the acquired company is still involved in the business after its acquisition.

Keywords: Internationalization, Trade Barriers, Entry Modes, Multinazionali Tascabili, Quarto Capitalismo, Italy, Argentina, Brazil.
RESUMÉ

Le tissu entrepreneurial italien est de plus en plus caractérisé par le développement des multinationals tascabili. Même si ces entreprises sont un des protagonistes de la croissance économique italienne, les études dans le domaine de leur processus d’internationalisation sont rares. Multinationals tascabili basent leur avantage compétitif sur l’offre de produits d’haute qualité, sur leurs relations avec les clients et sur la possibilité d’offrir un produit Made in Italy. Ces facteurs pourraient impacter la modalité d’entrée et le parcours d’internationalisation généralement choisis par les multinationals tascabili.

Le but de cette thèse est celui d’explorer à travers un case-study basé sur l’expérience de Facco S.p.A. quels sont les parcours d’internationalisation adoptés par les multinationals tascabili. En se concentrant sur le marché argentin et brésilien, la recherche vise à examiner si les modèles d’internationalisation qui ont été suggérés par la littérature ont été appliqués ou pas.

Pour étudier comment les multinationals tascabili approchent Argentine et Brésil, on analysera les barrières au commerce présentées par les deux pays et les modalités pour les vaincre, qui sont souvent déterminées par les modalités d’entrées qui viennent choisies. Les obstacles principaux pour le développement du commerce international avec l’Argentine sont représentés par les restrictions aux importations qui apparaissent sous forme de pratiques bureaucratiques trop lourdes qui découragent les exportateurs vers l’Argentine. Dans le cas du Brésil, les barrières tarifaires trop hautes empêchent le commerce international. Quand les barrières tarifaires sont excessivement hautes, les entreprises pourraient choisir des modalités d’entrée impliquant un massif emploi de ressources même s’elles ne disposent pas d’une vaste connaissance sur le marché étranger (comme, pour exemple, une cross-border acquisition). Acquérir une activité qui est déjà établie dans le marché cible permet, peut-être, de réduire les effets négatifs qui dérivants de la liability of foreignness dont le network approach parle, et remplacer le niveau de connaissance du marché étranger qui l’Uppsala model définit comme le déterminant du niveau de ressources que les entreprises sont disposées à investir dans leur internationalisation.
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A mio papà, che non ha mai smesso di essermi vicino, di supportarmi, di incoraggiarmi, di sostenermi e di credere in me.

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INTRODUCTION

Internationalization is a phenomenon whose roots are anchored in the past, but now more than ever it is a focal topic of studies since the level of globalization of the markets is higher and higher and the current trend is more and more towards thinking global rather than local.

Companies, even small-sized ones, attempt to approach international markets as soon as they have the required capabilities and means.

Independently from the specific reason pushing companies towards an international development, a common driver can be found in the desire of companies to build, or sometimes to regain, a competitive advantage through the exploitation of the opportunities offered by foreign markets. The greatest competition arising from liberalization and globalization of the markets, the local market saturation and higher competiveness of emerging countries is toughly challenging Italian companies which cannot afford anymore to target only their local market.

Italian companies, so, need to define (or sometimes to redefine) their internationalization strategies, aware of the fact that the choice of the entry mode and the targeted country are one of the most critic strategic decision that an international company needs to face.

In spite of the vast literature about internationalization of small and medium enterprises\(^1\), literature has a deficiency in studies and analysis concerning the internalization of those enterprises whose size overpasses the limits to be categorized as SMEs. In the particular case of Italy, these companies are defined as multinazionali tascabili, or also as part of quarto capitalismo.

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\(^1\) The European recommendation 2003/361/EC defines small and medium enterprises (SMEs) categorizing them into three main groups according to their number of employees, annual turnover and annual balance sheet. Particularly:
- Medium enterprises employ less than 250 employees and produce a turnover lower or equal to 50 million euros and/or having a balance sheet total not higher than 43 million euros;
- Small enterprises employ less than 50 employees and have a turnover and/or a balance sheet total equal or lower than 10 million euros;
- Microenterprises employs less than 10 people, and their annual turnover and/or balance sheet total does not exceed 2 million euros.
Probably the prevailing focus on SMEs is due to the fact that they represent 99% of all European businesses (European Commission). However, companies part of *quarto capitalismo* are a growing phenomenon in Italy and they are foreseen to become the driving force of the Italian economy in the next years. For this reason, it is of great interest analysing their approach to the international market, their internationalization process, and the choice of their entry modes.

This research is developed through a case study approach based on the experience of Facco S.p.A., an Italian company producing poultry equipment that enters in the *quarto capitalismo* category and that carries out several international operations.

The aim of this thesis is to analyse whether the main internationalization models proposed by the literature fit also to the case of this new category of enterprises, or if there are some shortages. The company’s choice of internationalizing will be analysed, as well as its entry mode questioning the rationales that pushed the management’s decision to internationalize and to adopt a certain strategy rather than another.

Relevant to this thesis is the decision to restrict the area of study from the broad-spectrum analysis of the comprehensive international operations of the company towards a more insightful focus on its relationships with Argentina and Brazil. Those two countries have been chosen because entering them is extremely challenging for several reasons such as their distance from Italy (both in geographical and psychic terms), tariff and non-tariff barriers imposed on imports towards these countries, and political instability.
1. LITERATURE REVIEW

The aim of this chapter is to provide a general framework of the existing literature about the internationalization process of a firm. The contributions which are considered the most relevant for the purposes of this thesis will be presented, focusing above all on the entry modes that can be chosen by an internationalizing company and on the internationalization models which suggest the paths of internationalization that this company might adopt.

In order to narrow the broad field of study regarding internationalization and to have a deeper understanding of the context in which the analysis of the case study will be carried out, in this chapter the main characteristics of the countries involved in the search will be explored. Particularly, some hints about the Italian entrepreneurial tissue will be provided, and an analysis of the main economic features of Argentina and Brazil will be introduced.

1.1 The entry modes

The main entry modes can be broadly allocated into three different categories, each of them requiring a different level of resource commitment and providing a different level of control. From the lowest level of control and commitment to the highest, those categories can be listed as it follows: exports, strategic alliances and foreign direct investments (S. Silvestrelli, 2012).

1.1.1 Exports

Export related operations require a low degree of commitment and imply a low level of risk, but they provide the exporter with a low degree of control. Exports can be further classified into indirect export, direct export and cooperative export (Hollensen, 2007).

In the case of indirect export, the company is not directly carrying out the exporting activities, which are delegated to a third party. Indirect exports can be developed through the support of five main figures: export buying agent (an agent located in the exporter’s home country is asked by foreign buyers to seek for potential sellers of a certain product: the agent approaches the company and takes the responsibility to export its product); broker (an agent
located in the exporter’s home country who has the mere responsibility to bring exporter and importer together); *export management company/export house* (EMCs are hired by the exporter company in order to carry out the export activity in its name); *trading company* (trading companies are involved in operations like shipping, warehousing, finance, consulting, and other activities arising from exporting); *piggyback* (the inexperienced exporting company decides to rely on a larger company already operating in a foreign market, that will act as an agent or will buy the company’s products in order to sell them through its export facilities).

When performing *direct export activities*, the firm is directly involved in the export process: it sells its products directly to an importer or to a foreign buyer. In direct exports, the exporting company can rely on the help of *distributors* (also called *importers*) or of *agents*. Distributors are independent companies located in the targeted foreign market that import the product and then sell it. They take title of the good, and have the freedom to set their conditions of sale. Usually distributors possess the exclusivity in the sale of the product in a certain area. Agents are independent companies selling the good on the foreign market on behalf of the exporter, which still has the responsibility to manage the transaction regarding to, for instance, shipping, arrangements on financing or credit. Agent agreements can be exclusive, semi-exclusive or non-exclusive according to the preferences of the parties: if the agreement is exclusive, the agent possesses an exclusive right of selling in certain territories; if it is semi-exclusive, the agent deals with other goods that are not competing with the ones of the company; if it is non-exclusive, agents deal with several goods which might also be competing with the company’s products.

In the case of *cooperative exports*, two or more companies willing to export create export marketing groups through the establishment of collaborative agreements among them. Usually export marketing groups are composed by those companies that are trying to enter a foreign market for the first time and aim to strengthen their exporting capabilities.

**1.1.2 Strategic alliances**

Companies adopt intermediate entry modes when they decide to not satisfy the foreign demand through the domestic production and to expand through an external development (Jeffs, C. 2009, Hollensen, 2007). This kind of entry mode is usually chosen by companies possessing a certain competitive advantage that otherwise could not be exploited because of a lack of resources in the home company. Intermediate entry modes imply the transferral
of knowledge and skills between the involved companies, and the most common forms are (Hollensen, 2007):

- **Contract manufacturing**: production is outsourced to a specialized third party while the company can focus in the development of core activities as research and development, logistics, or marketing. This allows the company to benefit from a solid flexibility, even though the company loses the control over the production, implying the risk that the manufacturer does not meet the company’s production standards.

- **Licensing**: production is outsourced to a foreign manufacturing (the licensee) by the local firm (the licensor). This form is similar to the contract manufacturing, but requires higher levels of commitment and responsibility by the licensor, which transfers to the licensee the right to use a certain patent, know-how not subject to patent, technical or marketing advice and assistance and the use of a trade mark.

- **Franchising**: it is the situation where the franchisor sells to the franchisee a certain right, which can vary from the mere right to use a brand name to the right to use a business concept. There are two major kinds of franchising: the first consists in the product and trade name franchising, where the franchisor transfers to the franchisee the right to sell its products using the trade name, the trade mark and the product line of the franchisor. The second case is the international business format franchising, meaning that the firm aiming to enter the foreign market (the franchisor) transfers to an entity in the foreign country (that can be either a franchisee or a sub-franchisor) a certain business format. The business format is composed, for instance, by trademarks, copyrights, patents, designs, trade secrets, know-how, and it enables the entity in the foreign country to establish a business and run it profitably according to the franchisor’s directions and under the franchisor’s control. Franchising allows to combine the benefits of the two kinds of entities that are involved, namely the franchisor’s possibility to reach economies of scale and the local knowledge of the franchisee.

- **Joint Ventures** can be of two kinds. In an equity joint venture, the partners create a joint enterprise with a separate personality and which is owned and controlled by both the investors. A contractual joint venture, instead, is a partnership where the partners share the risk and the cost of investment, as well as the long-term profit, but without creating a third entity.
1.1.3 Foreign direct investments

Foreign direct investments (FDIs) are “A category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor” (OECD, 2008). The investment is categorized as FDI once the direct investor owns at least 10% of the direct investment enterprise’s voting power: this will of controlling the direct investment enterprise and to establish a long term relationship with it is the determinant that distinguishes IDEs from portfolio investments. More precisely, companies which can be classified as direct investment enterprises might enter in one of the following groups (OECD, 2008):

- **Subsidiary companies**: they are companies which are controlled by the direct investor, who holds over 50% of the subsidiary’s voting power. Usually subsidiaries have a separate legal entity from the one of their parent company (source: exportiamo.it).
- **Associates**: the direct investor holds between 10% and 50% of the voting power.
- **Quasi-corporations** are unincorporated enterprises which are effectively 100% owned by their owners, but operate as if they were a separate entity. Quasi-corporations “Produce goods and services in an economy other than their own but do not establish separate legal corporations in the host country” (source: stats.oecd.org). Examples of these enterprises are “Branches, land ownership, partnerships, trusts and resident portions of multi-territory enterprises” (OECD, 2008).

The OECD Benchmark Definition of Foreign Direct Investment (2008) individuated four main types of operations that can be considered as foreign direct investments:

1. “Purchase/sale of existing equity in the form of mergers and acquisitions (M&A);
2. greenfield investments;
3. extension of capital (additional new investments); and
4. financial restructuring”.

More precisely, when a company enters a foreign market through establishing another unit, it can either run an acquisition through which an existing company is acquired, or establish its own operations from scratch making, in the latter case, a greenfield investment. Through acquisitions the acquiring company has the possibility to rapidly and efficiently enter the
market since it gains access to the already established distribution channel, customer base, brand name and reputation of the acquired company. Another advantage for the acquiring company arises if the key managerial positions of the acquired company remain present providing their knowledge and expertise about the local market. Sometimes, if the market is saturated, companies aiming to enter a certain market do not have any other way than entering it through acquisition. However, in spite of those benefits, acquiring a foreign company might entail conflicts and coordination problems between the local and the foreign teams. To avoid those difficulties, companies might opt to install their operations through a greenfield investment which allows to build avant-garde facilities that can be customized to the company-specific needs. Greenfield investments usually take place when the production logistics is a key success factor and/or if the firm has a well determined international development path (Hollensen, 2007).

The main reasons why a company might decide to commit to FDIs are two. At first its strategy might be the one to save production costs: in this case, the company develops horizontal FDIs, i.e. it internationalizes through locating the production close to the market it aims to serve – in this case the activities and the production phases that are delocalized are the same ones the company carries out in its home market. Secondly, the other situation when a certain company might decide to commit to FDIs rises when the company needs to fragment and spread the different production phases across more than one country. In this case the company opts for a vertical FDI.

In horizontal FDIs international production and exports are substitutes (E. Helpman, M. J. Melitz, S. R. Yeaple, 2003). Moreover, a third type of FDIs is represented by the conglomerate FDI, which arises when the company aims to diversify its strategy and invests in an unrelated foreign business (N. Herger, S. McCorriston).
A graphic representation summarizing the main entry modes to approach a foreign market can be found in the following table.

*Exhibit 1: The main international entry modes*

1.2 Internationalization models

Over the last three decades firms are becoming more and more international (N. K. Malhotra, J. Agarwal, F. M. Ulgado, 2003). Saying that a firm is international can refer “Either to an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad” (J. Johanson, F. Wiedersheim-Paul, 1975).

A univocal definition of internationalization has not been approved yet, probably because the complexity and multidimensionality of the phenomenon are so broad that it is possible to analyse it in different contexts and through different variables (G. Ietto-Gillies, 2009).
accordingly to the chosen level of study, which can be, for instance, corporate level, macroeconomic level or industrial level. Internationalization has been defined as the company’s evolutionary process originating from its simple but systematic relationship with foreign markets, as non-occasional exports, and that throughout the time leads to deeper and more complex involvements of the company in foreign markets (M. Rispoli, 2002). Another definition stresses more the concept of adaptation, defining internationalization as the process that firms undertake to adapt its operations to international environments (J. L. Calof, P. W. Beamish, 1995). More recently, rather than a process of adaptation, the phenomenon is defined as a process of integration to the international economic activities (Mathews, 2006), introducing the importance of the company’s assimilation inside a network of relationships with other foreign actors.

Multinational companies have followed certain defined patterns in their expansion towards foreign markets, and this gives us the possibility to generally define a trend predicting their future behaviours (Vernon, 1979). Before examining the internationalization theories which are considered the most relevant for the purpose of this thesis, an attempt of categorizing the broad literature about internationalization modes will be carried out in this subchapter.

1.2.1 A categorization of the main internationalization models

Literature about internationalization springs from the classical theories on international trade, which introduced the rising interest towards explaining the reasons why internationalization does exist. It is the case, for instance, of Adam Smith’s theory of absolute advantages (1776), and of David Ricardo’s theory of comparative advantage (1817), individuating the rationales for internationalization respectively on a country’s absolute and comparative advantage. These theories where further integrated by the factor proportion theory, the Heckscher and Ohlin’s contribution (1933) explaining the countries’ international relationships according to their production factors endowments. However, these theories are focused on the study of trade flows between nations, and failed in explaining the firm’s internationalization patterns that started being developed from the 1960s, a period characterized by severe technological improvements and the flowering of multinational corporations. Theorists were encouraged to develop new approaches more firm-centred envisaging to study transnational companies and their internationalization processes. In this context, the product life cycle theory was introduced by Vernon (1966) and integrated by Wells (1968, 1969) in order to show that internationalization is strictly connected to
technology and innovation, and that the kind of international relationship developed depends on the current stage of the product life cycle (S. C. Dima, 2010; R. E. Morgan, C. S. Katsikeas, 1997).

A great attempt to categorize the more recent schools of internationalization has been carried out by Coviello and McAuley (1993), who identified three main branches of internationalization models according to their way of defining internationalization.

Particularly, the economic school of Foreign Direct Investments is based on the belief that the internationalization of the company is a rational path whose development depends on the analysis of internalisation, ownership and location advantages, and that market imperfections are the main drivers for internationalization. Are part of this group the market imperfections theory (Hymer, 1970), the eclectic paradigm (Dunning, 1988), the internalization – transaction cost theory (Coase, 1937; Williamson, 1985; Buckley and Casson, 1976, 1985). Those theories analyse the strategies that companies adopt to enter a foreign market considering that, besides the traditional methods of exports and FDIs, internationalization can also be developed through other strategic options such as licensing, franchising and subcontracting (S. C. Dima, 2010; P. J. Buckley, M. C. Casson, 1998; R. E. Morgan, C. S. Katsikeas, 1997; Coviello, McAuley, 1993).

Another important contribution derives from the behavioural school of the Establishment Chain, which is built on the foundation that internationalization is an evolving path that is undertaken by the company, whose intensity depends on the level of the company’s knowledge about the foreign market (Johanson, Vahlne, 1977). More precisely, this school is nourished by two main contributions: the Uppsala model introduced by Wiedersheim-Paul in 1975 and further developed by Johanson and Vahlne in 1977, and the innovation-related internationalization model which considers internationalization as an innovation for the firm. The latter has been introduced by Roger (1962), who individuated different stages of the adoption process. Successively many authors developed Roger’s contribution giving born to different innovation-related internationalization models according to their personal interpretation of the adoption stages (Coviello, McAuley, 1993; O. Anderson, 1992).²

² For the aim of this thesis, this group of theories will not be further explored. Deeper insights can be consulted directly from the authors’ contributions: Backley and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Reid, 1981.
Finally, Coviello and McAuley identified the relationship school of the Network perspective which is based on the concept that a company’s internationalization depends on its set of relationships. As a consequence, this school, whose representative is the network approach, focuses its studies on the company’s behaviour inside a network of relationships.

To conclude, recent studies highlight how the traditional models to explain internationalization are not fitting to the case of two newly risen phenomena: the born global firms which, contrarily to what supported by the stage approach to internationalization, consist in “Smaller entrepreneurial firms that internationalise from inception, or start shortly thereafter”, and the born-again globals which consist in “Firms that suddenly internationalize after a long period of focusing on the domestic market”, as suggested by J. Bell, R. McNaughton, S. Young, D. Crick (2003).

Born global firms started to spread since the 1980s, and what is interesting of their business model is that they are able to perform international business activities since the early phases of their life even though they have scarce financial, human and tangible resources. Their winning strategy in the international environment depends on their focus on innovativeness, knowledge and capabilities. Moreover, a great influence on the capability of the born global firm to operate in the global market lies on the management’s entrepreneurial, innovative and international orientation (G. A. Knight, S. T. Cavusgil, 2004).

Born-again global are companies born as home-focused and, consequently to a certain critical incident, start dedicating to international operations (J. Bell, R. McNaughton, S. Young, D. Crick, 2003). A critical incident can be identified in a change in the decision making process (as management buyout or acquisition by another company), in customer followership if clients start operating in foreign markets, and in the implementation of new information and communication technology systems that ease the communication with foreign economic actors and improve the company’s processes and activities making it become more competitive.
The internationalization models that are considered the most important for the goal of this thesis will be further developed in the next pages.

### 1.2.2 The internationalization models – theories on international trade

#### 1.2.2.1 Product life cycle

The Product life cycle model was developed by Raymond Vernon in 1966, and then revised in 1979. The assumption at the basis of this model is that every advanced country in the
world has equal access to scientific knowledge and equal capability to understand scientific principles, but this does not imply that the degree of application of those principles in conceiving new products is equal in all the advanced countries. One of the main capabilities required to entrepreneurs is to be able to track down when it is the right moment to apply the possessed scientific knowledge to a new product. Entrepreneurs’ responsiveness depends on the ease of communication and of gathering knowledge, which depends in turn on geographical proximity. Consequently, it is more probable that entrepreneurs track down the existence of unfulfilled needs and new opportunities in their own market than in others (R. Vernon, 1966) – “An inventor usually comes up with products suitable to his own market” (L. T. Wells, 1968).

According to the product life cycle theory, innovation is firstly developed in the advanced country and reflects its specific needs. The first facilities producing innovative goods are set up in the innovator country, where skilled engineers and scientists having the required level of knowledge are present. Even though there are other developed countries which could offer the same level of knowledge, the choice of the location where to develop the innovative product is usually the home market because of the proximity to both the headquarters and the target customers which imply, as a consequence, respectively higher control and ease of information exchange (R. Vernon, 1966, 1979).

Vernon’s intuition is that early producers tend to establish their production facilities in the country where the target market is, independently from the least-cost seeking (R. Vernon, 1966). In the early stages of a new product introduction, the location choice is not based on the traditional cost minimization (i.e. according to production, transportation or import duties) because the product is not completely standardized yet and flexibility is required. In fact, even though in the home market the cost of inputs might be higher than in foreign countries, since the product is not optimally perfected yet there is no certainty that the inputs that are chosen in the first stages will be used also in the future stages. As a consequence, it is premature to choose a location for the production according to the input conditions offered by the different countries (R. Vernon, 1966, 1979).

As time passes by, in case of a growing demand, uncertainty decreases thanks to the greater expertise deriving from repeated production. This implies a lower need of flexibility for the company, which starts being concerned about lowering production costs, and so develops standard processes allowing to reach economies of scale. Simultaneously, as the
product awareness increases and the knowledge about the existence of the product starts spreading also outside the home borders, the demand for the product start arising also in other advanced markets that were not the targeted ones. As a consequence, the company starts exporting to those foreign advanced countries that perceive the need for its product (R. Vernon, 1966).

The more the foreign demand grows, the more the company faces the choice between licensing a producer abroad or setting up a producing subsidiary in the importing country – while the first choice could be risky in the case of technological products because of discrepancies in the technological development, the second one is convenient if the marginal cost to produce in the home market and then export is higher than producing directly in the foreign subsidiary located in the importing market (R. Vernon, 1966, 1979). The choice is also influenced by factors as the threat of new entrants in the importing country, the tariff level, and the political situation. Moreover, generally the tendency towards choosing production in the foreign country rather than exporting is encouraged either if economies of scale are not so relevant in the analysed industry or if the production scale in the home country facility has already reached the limit for having scale advantages from producing in a single location (R. Vernon, 1966). Finally, the emotional factor in decision making cannot be omitted: managers might opt to set up a foreign production facility just to maintain the status quo. It is the case, for instance, when a production facility is established abroad in order to enlarge the company’s reach or to fight against a potential threat of competitors that could erode the company’s market share. The menace of losing a market is another reason why the management could decide to set up a production facility abroad. It is the case, for instance, of a company that intensely exports into a certain country, and is obliged to invest in the importing location to protect itself from governmental manoeuvres launched to restrict imports (R. Vernon, 1966, 1979).

When a company introduces a production facility in another advanced country, production-cost differences among the home facility and the foreign facility can be identified, and for the company it might be convenient to serve a third market from the new location. Moreover, if the difference between the production cost in the home country and the production cost in the new location is large enough to cover transport costs, it is likely that the new location will start exporting back to the home country (R. Vernon, 1966).
Nowadays it is easy for the companies to be well informed about the conditions in foreign markets, but getting information and analysing it is costly. Companies face a trade-off between producing standardized products that could fit to the homogeneous world demand and having a tailored production according to the specific needs of a certain market. In the first case, the company can both save the costs of gathering market-specific information, and exploit economies of scale, while in the second the company can be responsive to the needs of individual markets. If companies opt for a standardized international production of an innovation, activities linked to the innovation, manufacturing processes or customized products receiving core inputs from the local economy, and research-oriented production tend to be processed close to the headquarters, while non critical aspects of the development process can be entrusted to more distant locations (R. Vernon, 1966, 1979).

Once opted for international production, integration of the global production facilities is needed in order to reach synergies as economies of scale: a common pattern is to establish component plants in both advanced and less advanced countries, and to develop the assembly in another location. Alternatively, companies could also focus and specialize on the home market while developing foreign producing subsidiaries that are entrusted to develop the company’ business activities within the markets where they are located.

The product life cycle theory well describes the situation of less-developed countries: even though many multinationals have set up their subsidiaries in these countries, a gap in the level of innovation comparing to developed countries is still present and, so, subsidiaries in the less developed countries still have to absorb the innovations that their parents previously introduced in their more developed markets. In rapidly industrializing countries as Brazil, companies are demonstrating to be able to introduce the innovations corresponding to their specific market’s needs and conditions, or to adapt their parent’s products and processes. Then, consistently with the product life cycle model, start exporting their innovations and consequently set up their producing business units in other neighbouring developing countries that are less developed than them (R. Vernon, 1979) – in Onkvisit and Shaw words (1983): “The advanced nation ends up buying its own creation”.

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In their approach Onkvisit and Shaw (1983) explain the international product life cycle through determining and describing the stages of the diffusion process of an innovation as follows:

- Stage 0: Local Innovation. A new product is developed and introduced in the original market, that is usually a highly developed country possessing both the capital and technology needed to develop new products.

- Stage 1: Overseas Innovation. Once the innovative product is perfected, the company that introduced the innovation in its home country seeks other markets where to export it. Typically, the chosen country (or countries) are other advanced nations having similar needs, culture and income levels. In this stage the innovative company can both save production costs thanks to the rise of scale advantages and, since the only competitors are few local firms, behave as a monopolist offering in the product at a higher price.

- Stage 2: Maturity. The demand for the innovation increases in the other advanced countries pushing the innovator to start local production, and demand in lower developed countries start rising. However, other firms in foreign advanced countries start developing the product, also helped by protectionism by their government. The total exports from the innovator company and its costs of production are stable because, while exports towards other advanced countries diminish (because production by local advanced nations increases), exports towards low developed countries increase.

- Stage 3: Worldwide Imitation. Exports from the advanced country that introduced the innovation diminish because the other advanced nations develop a good production network making them auto-sufficient in the production and able to produce at lower costs. The other advanced nations become strong competitors of the innovator company, and start exporting the product to lower developed countries. The lower demand towards the innovative company is translated in a decrease of scale advantages and, consequently, in an increase of production costs.

- Stage 4: Reversal. The competitive advantage of the innovative country is nearly inexistenent because the costs of production are lower in the other advanced countries and the lower developed countries start being auto-sufficient in the production of the innovation, having the advantage over more advanced countries that production can be done at a lower labour costs (L. T. Wells, 1968). The country that introduced the innovation starts importing the product that it introduced.
Wells (1968) defines those stages as a cycle where the developed country that introduces a certain innovation, ends up importing its innovation.

**1.2.3 The internationalization models – foreign direct investments**

**1.2.3.1 Market imperfections theory**

The market imperfections theory was developed by Hymer in his Ph.D thesis (1960), which was then published only in 1976. The scholar identified the three main costs a firm has to face when adopting an FDI strategy, namely: the cost of communication and acquisition of information (which depends, for instance, on differences in the legal systems, in culture, or in the spoken language), the costs to deal with the host country, and the foreign exchange risk (A. Carrizo Moreira, 2009).

The theory states that the reasons why companies internationalize through FDIs are to be found in the market imperfections, as oligopolistic advantages. In fact, even though companies approaching a foreign market face higher costs and risks because of protectionistic barriers of entry or because of the incomplete knowledge about the market they are trying to enter, oligopolistic advantages balance those higher costs and risks encouraging companies to carry out foreign direct investments.
Three main cases in which international operations are foreseen to occur have been identified (A. Carrizo Moreira, 2009; Hymer, 1960):

- **In industries where companies of different nationality operate in the same market, or even sell to each other under imperfect competition.** A higher incentive to FDIs can be represented by the possibility to collude abroad, so that competitors are weakened and the company has the possibility to reach higher profits. The forms of relationship that the company might use could be several, varying from mergers to profit-sharing agreements. In this case, the company can compete with the home firms through the exploitation of its ownership advantage (which may consist in a financial advantage, marketing advantage, cost advantage or innovation).

- **In industries in which few firms have a competitive advantages over the competitors in producing and/or marketing their products.** It is the case, for instance, when the company possesses a patent which can protect it from its competitors. The chosen entry method is influenced by the company’s position at the moment of the decision and by the targeted country, and it might vary from a full control of production to licensing (for instance, if the company is short of capital or if the host country is hostile against foreigners, the best option might be having a lower degree of control). In the case of a higher oligopolistic competition, it could happen either that the home company presents an advantage in its nation, but has to compete in all the other markets it entered, or that it will compete in all the markets, including also the home one.

- Omitting market impurity or differences in the abilities among competitors, the enterprises might opt for FDIs aiming to reach diversification. For instance when the profits of one country and those of another are indirectly proportional correlated, the company might opt for a diversified portfolio with investments in every country, so that the risk of profit instability can be spread.

### 1.2.3.2 The eclectic paradigm

“The eclectic paradigm still remains a powerful and robust framework for examining contextual specific theories of foreign direct investment and international production” (J. H. Dunning, 2001).

Dunning’s theory (1988) analyses the patterns of production carried out through foreign direct investments and the determinants that bring company to opt for international
production instead of exports. International production depends on three main factors (J. H. Dunning, 2001; S. Hollensen, 2007):

- **Ownership advantages:** companies of a certain nationality might have a competitive advantage over the competitors of other nationalities because they possess certain assets, they can access them in an easy way, or they have higher capabilities to manage them. The ownership advantages that the company might have in producing abroad, so, is composed both by intangible assets as know how, and complementary assets as marketing and managerial skills.

- **Locational advantages:** the location of the production in a certain country needs to provide the company with an advantage with respect to the production in the home country. The firm’s assets might gain a value added through international production, otherwise the company chooses to export rather than setting up a foreign facility. Attracting factors that could enhance the value of the firm’s assets, for instance, are infrastructures.

- **Internalization advantages:** FDIs are more convenient than exports if internalizing the value adding activities provides the company with higher benefits than delocalizing them to third parties. This choice depends also on the intended level of delocation of those value-adding activities outside the national borders and on the willingness of the company to keep them inside its organization instead of ceding them to third parties.

Those factors are country-specific, and vary across industries and firms. If all of them coexist, the company has a net advantage in organizing international production rather than carrying out its operations externally.

Since to different levels of a country’s development correspond different OLI advantages (J. H. Dunning, 2001), the Investment Development Path has been drawn. The stages are the following (J. H. Dunning, R. Narula, 1996):

1. When the country has a low income per capita and inadequate infrastructures and government policies, the likelihood of outward FDIs is low and the assets of the country are insufficient to attract inward FDIs. In this stage, import-export relationships are preferred because of the lack of ownership advantages. The governments might try either to foster development creating new infrastructures, or to protect the local market through governmental policies.
2. In this stage, since the locational advantage increases thanks to improvements in the market and in infrastructural conditions, inward FDIs start arising, starting to substitute imports (mainly in sectors linked to natural resources or labour intensive primary commodities). The ownership advantages for local companies increase thanks to governmental support above all around primary industries. Production starts involving more knowledge-intensive goods. Outward FDIs start rising either to seek for opportunities in close markets, or for strategic asset seeking in developed countries.

3. In this phase inward FDIs start diminishing, while the growth of outward FDIs accelerates. The country is accumulating increasing technological capabilities through a more and more standardized production. The income per capita grows, as well as the demand of high quality goods, but the country starts losing its competitive advantage determined by the low labour cost. Local companies gain their ownership advantages and start competing with the foreign companies that set up in the previous stage and that are losing their ownership advantage. Inward FDIs mainly regard efficiency seeking or asset seeking opportunities.

The local ownership advantage is close to the developed countries’ level in all the sectors but the most technology-intensive ones. Outward FDIs are mainly directed to countries in the lowest stages of development as market seeking investments, but they can also be directed to the upper stages both as market seeking and asset seeking investments. Governments might try to both attract FDIs in those sectors that do not have a comparative ownership advantage yet, and encourage outward FDIs in those sectors where the local companies have a strong ownership advantage, but a low location advantage.

4. In this phase the country’s rate of outward direct investment is higher than the inward one. Production processes are perfected and capital intensive production techniques can be applied: home companies are able to compete with foreign firms that are operating there, but also penetrate foreign markets. Inward FDIs are led by asset-seeking intentions and come mainly from other countries in the fourth or fifth phase, even though they might come also from countries in lower stages.

Intra industry production is more developed than intra industry trade, and both are carried out mainly by multinationals.
5. In the case of advanced nations, both inward and outward FDIs are carried out. The majority of transactions between countries are made by multinationals that internalize their processes, and so conduct worldwide operations instead of conducting operations within regional markets. In this stage inward FDIs come both from lower stages for market seeking reasons or from the fifth and the fourth stage to rationalize their activities, while local companies tend secure strategic alliances or to conduct M&As to improve their ownership advantage.

1.2.3.3 The transaction cost analysis model

This theory is based on the concept of transaction cost that was first introduced by Ronald Coase (1937), who found out that “A firm will tend to expand until the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of exchange on the open market or the costs of organizing in another firm” (R. Coase, 1937).

The concept of transaction cost – that was further developed by other economists among which Oliver Williamson (R. Coase, 1998) – can be defined as the cost that companies have to face for managing their transactions and protect themselves from their partners’ opportunistic behaviours. Those costs arise because companies operate in a non-perfect competition market and, consequently, their operations are not market-driven. An example of a transaction cost is the cost of negotiating, writing, concluding a contract with a partner, as well as monitor that the agreement is respected by the counterpart (S. Hollensen, 2007; S. O. Monye; O. Williamson, 1985).

The transaction cost analysis model supports the thesis that the company choses its governance structure trying to minimize its transaction cost (N. K. Malhotra, J. Agarwal, F. M. Ulgado, 2003; O. Williamson, 1985), i.e. it decides to internalize its activities and vertically develop if the transaction cost of externalization overpasses the cost of internalizing – and vice versa (S. Hollensen, 2007).

When a company opts for externalization the market transactions are carried out by external partners and their cost is determined by market mechanisms, but when the transaction costs are higher than the cost of internalization, the company opts for the latter, meaning that its structure is re-organized so that the considered transactions can be carried out by the company itself (O. Williamson, 1975).
In an internationalization context, internalization and externalization are broader concepts than in the original model, and they allow to foresee which will be the entry mode that a company will choose between FDIs and exports in order to approach a foreign market. In the transaction cost model seen through internationalization lens, the choice of internalizing is broadened into the choice of internalizing the processes for internationalization (for instance setting up a subsidiary in a foreign country), while the choice of externalizing means creating a relationship with a third party charged of managing the reach of the final customer (e.g. export intermediary). Buckley and Casson (1976) suggest that internalising activities in foreign markets originates multinational enterprises, and that market imperfections are incentives to internalise markets.

The choice whether internalizing or externalizing depends on transaction costs, which can be defined as the sum between ex ante costs and ex post costs, and which arise because of a friction between the seller (i.e. the producer in a certain country), and the buyer situated in another country. Ex-ante costs are both search costs (all the costs needed to find and choose the potential partner – the less familiar the market, the higher the search costs) and contracting costs (i.e. the costs to close an agreement with the buyer). Ex-post costs are both monitoring costs to ensure that the agreement is respected, and enforcement costs, that are incurred in the case one trading partner does not respect the agreement and must be sanctioned (S. Hollensen, 2007).

*Exhibit 4: Graphical demonstration of the transaction cost theory*

Source: personal re-elaboration inspired by Hollensen, 2007.
If the transaction cost of externalizing summed to the production cost in the home market is higher than the cost of controlling the whole process through internalization summed to the production cost in the foreign market, the company should internalize, i.e. it should prefer FDIs than exports, and vice versa (S. Hollensen, 2007; O. Williamson, 1985).

A critic to this theory comes from Ouchy (1980), who sustains that there are also intermediary forms of governance besides hierarchy and externalization, as partnerships or clans.

### 1.2.4 The internationalization models - the establishment chain

#### 1.2.4.1 The Uppsala Model

The Uppsala model was developed starting from the study on the internationalization of Swedish firms conducted by Johanson and Wiedersheim-Paul (1975). The scholars noticed that companies based in small domestic markets begin their internationalization process even when they are small-sized, and gradually develop their operations in foreign markets. The linkage between three important variables has been highlighted: the attitude and experience in conducting international activities and the actual behaviour of the company. In fact, the company’s experience in foreign activities has an impact on the company’s attitude towards internationalization, which influences the actual behaviour undertaken by the company.

The theory suggests that companies tend to first develop in their domestic market, and then gradually expand to foreign markets (J. Johanson, F. Wiedersheim-Paul, 1975). The path of a company deciding to go international is developed in four different stages, called the “Establishment chain”:

1. no regular export activities
2. export via independent representatives (agents)
3. sales subsidiaries
4. production/manufacturing

The passage from one stage to the other implies a higher level of internationalization and requires a higher degree of market commitment, the latter characteristic referring both to the amount of resources committed (i.e. the investment done in the market) and to the degree of commitment, which is represented by the cost-opportunity of investing those resources in
an alternative way (Hollensen, 2007). Moreover, from one stage to the other also the market experience and information accumulated by the company increases. To describe the factors impeding or hindering the flow of information between the firm and the market, the model refers to the concept of psychic distance – which includes differences in language, culture, political system, education, industrial development, etc. – and which depends on geographic distance (J. Johanson, F. Wiedersheim-Paul, 1975).

The assumption at the basis of this reasoning is that the main obstacle to internationalization is represented by the lack of knowledge (which is intensified by a higher psychic distance) and by the lack of resources. These factors incrementally reduce their braking force the more the company gains insights and deeper knowledge on the foreign markets. A consequent deduction is that companies start approaching the neighbouring foreign markets or foreign markets bearing similarities to the home market’s business practices first (J. Johanson, F. Wiedersheim-Paul, 1975).

The evolution of the stages of relationships according to the company’s knowledge about the foreign market and the degree of commitment can be summarized as follow:

*Exhibit 5: The establishment chain*
Exceptions to the following of this path can happen, for instance, if the entered foreign market is too small to justify the investment of resources or if the company has deep experience in other foreign markets and, so, some stages can be skipped. Moreover, psychic distance is not the only factor considered in international decisions: market size and opportunities are also important. However, whether the establishment of sales subsidiaries and production facilities are expected to be linked to market size and opportunities due to the high commitment of resource that is required, the establishment of agencies is supposed to be more related to psychic distance than to the market size. To conclude, a correlation between psychic distance and production establishment is difficult to determine since the phenomenon is influenced also by other forces, namely transport costs and tariff/non-tariff barriers (J. Johanson, F. Wiedersheim-Paul, 1975).

1.2.5 The internationalization models – the network perspective

1.2.5.1 The network approach

The network approach to internationalization derives from a further development of the Uppsala model and is based on the pillar that “Markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns” and internationalization consists in “A multilateral network development process”, through which firms try to strengthen their position inside the network. The focal finding of this theory is that the internationalization process followed by a firm depends of its network of relationships: a company will tend to enter foreign markets either where a partner has already developed a strong position, or where even if a partner is not existing a priori there is the possibility for the company to establish the right relationships and build its network (J. Johanson, J.-E. Vahlne, 2009).

The business network model of the internationalization process as reformulated by Johanson and Vahlne in 2009 is composed by state variables and change variables that are relevant for both the parties of a relationship, and that have an influence one on the other.
The identified state variables are knowledge, network position and recognition of opportunities. Since knowledge is considered to be the key condition for the international development of a firm – and since the assimilation of knowledge is linked to experience – *insidership* in the right networks is an essential factor to carry out a successful internationalization strategy (J. Johanson, J.-E. Vahlne, 2009). Usually firms are part of business networks composed by other firms which, in turn, have relationships with other companies (J. Johanson, J.-E. Vahlne, 2009; J.C. Anderson, H. Håkansson, J. Johanson, 1994; K. S. Cook, R.M. Emerson, 1978). When companies are part of a network, they benefit of a more extended knowledge base having access not only to their partners' knowledge, but also to the partners of their partners' knowledge (J. Johanson, J.-E. Vahlne, 2009; B. Kogut, 2000). Functioning relationships can be considered as a real resource for the company (Dyer, Singh, 1998; J. Johanson, J.-E. Vahlne, 2009): they increase efficiency in both production and transactions through creating the potential to join activities and share resources (H. Håkansson, I. J. Snehota, 2000), allowing reciprocal learning (M. Forsgren, 2002), fostering the exchange of knowledge and improving both trust and commitment (E. Anderson, B. Weitz, 1992; D. Blankenburg Holm, K. Eriksson, J. Johanson, 1999; J. Johanson, J.-E. Vahlne, 2009). On the contrary, not being part of the right network makes the *liability of outsidership* arise: being an outsider makes it more difficult to enter a foreign market (O. Annushkina, 2016) because of a *lack of business market knowledge* (K. Eriksson, J. Johanson, A. Majkgård, D. D. Sharma, 1997), which is defined as a lack of knowledge about the business environment and the firms composing the network (J. Johanson, J.-E. Vahlne, 2009). Moreover, being a foreigner makes it even more difficult to enter a foreign market because of the higher psychic distance, which determines a *lack of*

When a company enters a foreign market network, it has to build its position inside the network (B., Axelsson, J. Johanson, 1992), but the higher the psychic distance, the more difficult to become an insider (J. Johanson, J.-E. Vahlne, 2009). To conclude, the ability to discover new opportunities is influenced by the antecedent knowledge that a firm possesses: the probability to find new opportunities is higher in already explored sectors, meaning that the company should not centralize its research of new opportunities, which should be left to the local subsidiaries possessing more detailed knowledge about the market (J. Johanson, J.-E. Vahlne, 2009; M. Bjerre, D. D. Sharma, 2003; S. Shane, 2000).

The identified change variables, instead, are learning, trust and commitment building. These variables are cumulative; the intensity to which they change depends on the already existing level of knowledge, trust and commitment; and they are influenced by current daily activities and operations. The emotional dimension of relationships is an essential element included in the network model (J. Johanson, J.-E. Vahlne, 2009; 2006). Trust is fundamental in the learning process and in the creation of new knowledge because it emboldens the availability to share of information and the creation of common expectations (J. Johanson, J.-E. Vahlne, 2009; Madhok, 1995). The change variable concerning the decision whether and to what extent committing to a relationship or to more relationships within the network determines the choice of the entry modes, the investment that the company is available to carry out, and the level of dependence from the partners. In fact, in the selection of the foreign markets to target, companies try to minimize the risks they could incur, so they try to enter first the markets that are close in terms of psychical characteristics, and then, progressively, the higher the degree of knowledge while time passes by, the greater both the commitment and the geographical distance from the home market (V. Danciu, 2012).

State and change variables influence one to the other. For instance, correspondingly to a higher degree of knowledge, the trustworthiness of the other party and thus the decision whether to commit and to which extent can be positively or negatively affected; in the same way, the firm’s position inside the network is a state variable that might be the result of learning, trust and commitment building, and that could have an influence on the paths of internationalization that the company will choose (J. Johanson, J.-E. Vahlne, 2009).
In addition, Johanson and Mattsson (1988) individuated four different specific cases of internationalization, which depend both on the degree of internationalization of the firm (representing the extent to which a company is part of different national networks), and on the degree of internationalization of the market (i.e. of the production net).

The early starter is a company operating in a market where the players in general do not have relevant international relationships. Accordingly, also the degree of internationalization of the firm is low and, as a consequence, its degree of knowledge about the foreign markets. The company can use agents in order to improve its market knowledge and build the basis for a higher degree of commitment.

The lonely international is a company whose effort towards internationalization was not accompanied by the same effort by its market environment, which results scarcely internationalized. This company possesses deep knowledge about the foreign markets and has a well-developed business network which can be used also to establish new relationships in the market.

The late starter is a company operating in an international business environment, which serves as a driver to push the company to increase its knowledge about foreign markets and establish the network of relationships needed in order to remain competitive in the market. However, being late in approaching a market where existing networks have already been established might be difficult.

The international among others is an internationalization case where both the firm and the market are highly internationalized. The level of international knowledge is high, and the developed network allows to easily approach other foreign markets (S. Hollensen, 2007; S. Chetty, Blankenburg Holm, D., 2000).
Another way of dealing with the firm’s commitment in international operations is to link the level of internationalization to the firm’s corporate development. Typically, the form of international transaction chosen, i.e. the firm’s commitment in the relationship, and the geographic diversification is linked to the time horizon in which the relationship is being developed (V. Danciu, 2012). More precisely, three stages of corporate development in the internationalization process can be identified (J.-P. Lemaire, 2013; V. Danciu, 2012; L. Paliu-Popa, 2008):

- First landing (or initial internationalization): the company keeps carrying on mainly local activities and starts to approach foreign markets relying on the capabilities and competencies that provide it with a competitive advantage in the domestic market (as technological, marketing or financial advantages).
- Go native (or local development): the company starts developing multi-local activities that are carried out through delocalized structures and connections. The strategy of the company and the way of operating are adapted to the characteristics of each market, and the competitive advantage is gained through developing market-specific competencies and capabilities: the company is now to be defined as a multinational.
- Globalization (or multinationalisation): the company carries out above all global activities applying a global strategy, developing global competitive advantages and exploiting multinational structures.
1.3 The Italian entrepreneurial fabric

1.3.1 General overview

In 2015 the ISTAT annual Report underlined how the Italian production system is mainly characterized by SMEs. Particularly, 95% of the total Italian enterprises is represented by microenterprises, and only 0.1% of Italian enterprises employs more than 250 people (ISTAT, 2015), as reported in the following graph.

Exhibit 8: The Italian entrepreneurial tissue – the size of Italian enterprises

Microenterprises contribute to the realization of 30,6% of the comprehensive Italian value added, small and medium enterprises to 38,4%, and big sized ones to 31% (ISTAT 2011).

The Italian international production is still lower than the European average, even though exports are strong elements of the Italian global competition (ISTAT, 2015).

1.3.2 The Italian “Quarto capitalismo”

Globally, in the last decades, the increase in the manufacturing sector has been determined only for one-third by the creation of new companies: the remaining derives from the increasing of the size of already existing companies (R. Rajan, L. Zingales, 1998).

This is also the Italian case, and it implies that, even though the Italian entrepreneurial fabric has always been characterized by small sized enterprises, it is more and more important to
consider the intermediary sized enterprises, which are a phenomenon whose origins date back to the 1970s and that is currently increasing because of the progressive transformation of the Italian industry encouraged by global competition and declining performances of the major national groups (Mediobanca – MBRES website).

G. Turani (1996) coined the term “quarto capitalismo”, literally translated as the “fourth capitalism”, in order to describe the newly developing phase of the Italian entrepreneurship consisting in an increase of the number of intermediary-sized companies that compose the country’s entrepreneurial fabric. This phenomenon had a stronger diffusion in the northern part of Italy: between 1988 and 2003, 65% of new born companies of the quarto capitalismo were located in North Italy and, more precisely, in the axis Milan-Venice (the most involved provinces are: Milan, Bergamo, Brescia, Vicenza, Padua, Treviso and Verona) (G. Turani, 2007).

These intermediary sized companies, also called “multinazionali tascabili” (pocket-sized multinationals), are bigger than SMEs, but smaller than big sized enterprises (G. Turani, 1996). According to the Mediobanca-Unioncamera definition, the quarto capitalismo category includes two big groups of commercial companies:

- medium enterprises, employing between 50 and 499 employees and producing a turnover from 15 to 330 million euros;
- medium-big companies, employing more than 500 people, and whose turnover is lower than 3 billion euros (F. Coltorti, 2011).

In 2007, according to a Mediobanca-Unioncamera research, the companies composing the quarto capitalismo were 5,200, of which 4,600 were medium-sized, while the other 600 were medium-big companies (F. Coltorti, 2011). During the same year, 33% of the Italian manufacturing added value was produced by those companies belonging to the quarto capitalismo category (G. Turani, 2007). This figure shows the importance of multinazionali tascabili to Italy since the percentage of the added value produced by these 5,200 companies is really close to the percentage of the added value produced by the more copious microenterprises and to the one produced by the big groups.

The category of companies part of quarto capitalismo is, so, a fully-fledged important actor in the Italian economic development. Those companies are flexible and dynamic: their production system is based on the lean production principle: the global value chain tends to
be fragmented, i.e. production processes are more and more *de-verticalized* and the different phases of the global value chain tend to be spread inside a certain network of enterprises. However, companies belonging to quarto capitalismo identify in product differentiation the leverage of their competitiveness. Since differentiation is most of the times due to brand image, companies of quarto capitalismo demonstrated they prefer to control the phases of the value chain till the reach of the final user. For this reason, they might make direct investments, conclude long-term and exclusive agreements with distributors or integrate all the phases till the customer service inside the company. In a Mediobanca-Unioncamera research, D. Mauriello ranks the most used entry modes as follows: 65,6% of the companies enters the target market through direct exports, 12% of the companies have their own sales network, 9.1% take advantage of foreign importers, and 0.9% enter foreign markets through trading companies. In other words, this model of business shows a tendency towards guarding historical networks of relationships (which provide external economies of scale, efficiency and innovation), but at the same time looking for new opportunities of establishing international relationships. The strategic element which makes the companies of quarto capitalismo be successful in a global scale is the firm’s ability to both create broad “long-networks” and focus on customer service to attract customers (D. Schilirò, 2011).

Internationalization processes of multinazionali tascabili concern several production and business phases, from the management of suppliers to distribution channels and R&D (D. Schilirò, 2011), and their international involvement is huge, both in terms of foreign trade and in terms of international production (Colli, 2005). However, a survey run by Mediobanca-Unioncamere revealed that the majority of medium-sized enterprises is not committed to international production operations, preferring to produce in Italy their flagship products and then export them (Gagliardi, 2006). This statement is supported by the results of an Unioncamera research, which underlined that in 2014 only 21.3% of medium sized Italian companies invested into foreign markets (of which 6,4% through acquisition of foreign companies and 14,9% establishing facilities abroad). While the decision to invest into foreign market was mainly driven by the possibility to better serve the market, to get an easy access to raw materials and to reduce costs, the remaining 78,7% of medium sized enterprises decided to not invest in foreign markets but just carry out foreign trade operations because they consider the Made in Italy as a competitive advantage, because of the linkages with local suppliers and labour, or because of their too small size (D. Mauriello, 2015).
Those companies operate above all the following sectors: apparel, textile, jewellery, household goods, and machineries, and they represent the worldwide beloved Made in Italy producers: on average their exports count for more than 60% of their turnover (A. Penati, 2009). The exports of multinazionali tascabili have a value added that is higher than the exports of Italian big groups. Between 1998 and 2007 their turnover increased at a higher rate than the one of big groups: the turnover of medium sized companies of quarto capitalismo grew at a 4,9% growth rate, the medium-big ones at a 5,8% rate, while big groups’ rate amounted just to 3,9% (A. Calabrò, 2009).

In a study developed in 2008 for Mediobanca, Fulvio Coltorti underlined that quarto capitalismo companies’ lean production is supported through a lean finance. Medium enterprises tend to have a higher percentage of current assets than fixed assets with respect to big Italian groups, having proportionally lower investments in factories or head and business offices.

In spite of their low capital investment, those companies have great success in international markets because they focus on quality of labour, making an intense use of continuing vocational training and, as a consequence, encouraging innovation (D. Schilirò, M. Musca, 2010). Besides, they intensively invest in quality, customization, brand identity and customer service, which are intangible factors having a more and more relevant importance (A. Calabrò, 2009; D. Schilirò, M. Musca, 2010). In fact, those elements are critical to differentiate the company from its competitors, giving to the company the right strength to internationalize. The motto of these companies is represented by the “2is”: innovation and internationalization (Q. Curzio, 2008). Multinazionali tascabili’s internationalization process is qualitatively different than the one of SMEs’ networks and than the one of big groups: companies belonging to “quarto capitalismo” do not compete in price, but in quality, and for this reason they need to be innovative. However, the innovation that characterizes these enterprises is neither science-based innovation (the one deriving from R&D), nor engineering-based innovation (the one not based on R&D, but on design and introduction of new technologies). The innovation model adopted by multinazionali tascabili is described as emphatic because it revolves around the understanding of customer needs (even before they arise) and the simultaneous ability to provide creative solutions that go beyond their explicit requests. The model is a hybrid model unifying science-based and engineering-based innovation.
More precisely, it is based on three pillars (D. Schilirò, 2011; A. Bonaccorsi, 2008):

1. expansion of the product’s functions (technical, cultural, aesthetical, symbolic and other functions) so that it can be attractive also for other markets,
2. integration between product and process innovation, not mere adoption of externally developed technologies,
3. R&D activities carried out close to the production and not constantly, but only when needed.

1.4 Argentina and Brazil

In order to contextualize the analysis that will be carried out in the next chapters, it is important to introduce some general information about the countries on which the case study is focused: Argentina and Brazil.

Argentina, whose capital is Buenos Aires, and Brazil, whose capital is Brasilia, are two Federal Republic situated in Latin-America (Agenzia ICE). Together with Paraguay and Uruguay, Argentina and Brazil are both founding members of MERCOSUR (Mercado Común del Sur), a regional integration process established in 1991, which was successively joined also by Venezuela and Bolivia. The main objective of MERCOSUR is to generate a common zone where the state members can develop international trade opportunities through integrating among themselves. Besides, both the countries are part of the World Trade Organization since January 1st 1995 (WTO website).

The characteristics of those two countries, which in spite of their geographical proximity not always coincide, will be presented in this subchapter.

1.4.1 Economic overview

1.4.1.1 Argentina

In the period from 2003 and 2011, Argentina grew at annual rates varying from 7 to 8%, till 2012, when the GDP’s growth rate dropped to 1,9%, and to 0,5% in 2014. During the same year, basing on INDEC (Instituto Nacional de Estadística y Censos) disclosed information inflation amounted to 23,9%, but private institutes argued that the real rate reached 40% (Info Mercati Esteri, 2015).
In 2014 the trade balance was positive, with Argentinian exports amounting to 71,935 million US dollars and imports for 65,249 million US dollars. Concerning to Argentinian imports, the 22% comes from Brazil, which is classified as the main partner, while Italy is ranked at the 7th place, supplying to Argentina 2.5% of its imports. Having a positive trade balance is particularly important to Argentina: it represents the only way for the country to obtain foreign currencies since it does not have access to the international capital market (Info Mercati Esteri, 2015).

1.4.1.2 Brazil

Brazil is the barycentre of Latin American politics. After a period of terrific growth, Brazilian economy is in a stagnation phase since 2014 with a 0.2% GDP growth rate in the same year. During the same year, Brazilian trade balance has shown to be negative, with exports amounting to 169,524 million euros, and imports amounting to 172,506 million euros. In 2013, less than 3% of Brazilian imports were originated in Italy, which is ranked as the 8th main partner regarding to imports.

Concerning to foreign direct investments, in 2014 inward FDIs diminished by 5% comparing to the previous year. FDIs are mainly flowing into the services sector, which attracts 37% of the investments, followed by the manufacturing sector (23%). Italy is ranked at the 13th position as investor in Brazil.

1.4.2 The countries’ approach to foreign trade and FDIs in the last fifty years

Since the 1950s both Brazilian and Argentinian economy developed according to an Import Substitution Industrialization strategy, characterized by high trade barriers to limit imports and boost internal production (G. Casaburi, 1998; R. Gouvea, 2004). This attracted inward FDIs in both the countries, but while MNCs operating in Brazil fostered its exports, those operating in Argentina meant to produce in order to satisfy the local market (D. Chudnovsky, Andrés López, 2008; R. Gouvea, 2004).

The growth of Brazil was encouraged by foreign direct investments, above all originating from the US after the Second World War, later joined by Germany, France, Italy and Japan. Since then, the Brazilian government tried to encourage – but at the same time control – FDIs, which are a good strategy to increase the country’s competitiveness through job creation and the absorption of new technologies, managerial capabilities and strategies.
During the 1990s the Collor government launched a market-oriented reform which drove the country to be ranked fifth largest receiver of FDIs in the late 1990s and measures to incentivize multinationals to invest in Brazil have been introduced in the last two decades (R. Gouvea, 2004). During the 1990s Brazil introduced also some changes in its trade policies reducing trade barriers along its borders (R. Gouvea, 2004): “In roughly five years, tariffs were slashed, nontariff barriers were removed and Mercosur became a reality” (M. Mesquita Moreira, 2009). The deriving import competition accelerated manufacturing growth, increasing the country’s willingness to reduce protectionism also towards other countries. However, the negotiations with the Eurozone and Mercosur are not concluded yet and protectionism is still rather high (M. Mesquita Moreira, 2009). Duties on imported products are particularly heavy in the case of consumer goods, alimentary goods and industrial goods. Concerning the latter group of goods, every six months a list of technological products that are not produced by the Brazilian economy is drawn and, to these products, the facilitation “ex-tarifário” is applied, allowing to import them benefiting from a tax reduction from 14 to 5% (Consolato Generale d’Italia a Rio de Janeiro).

In Argentina it is tough to determine if its strategy of development has been more export-oriented or investment oriented (G. Casaburi, 1998). The country was characterized by seesawing flows of FDIs, mainly caused by the succession of governments supporting contradictory strategies (from the late 1960s to mid 1970s, the government tried to reduce MNCs’ activities; in 1976 pro-market reforms were introduced, even if they were not effective in attracting FDIs because of the stagnating and volatile macroeconomic conditions, but during the 1990s the trend overturned and the country became one of the main FDIs receivers among the developing countries) (D. Chudnovsky, Andrés López, 2008). At the end of the 1980s, economy was characterized by hyperinflation, and free-market reforms including measures like privatization and unilateral trade liberalization were introduced: average tariffs were reduced and nontariff barriers were nearly eliminated. In 1991, the Convertibility Act was introduced consequently to another inflationary wave. Fiscal policy became more severe and the Argentinian Peso was anchored to the dollar. The more stable situation attracted new FDIs and lead to the economic boom between 1991 and 1994. In January 1995 the Mercosur’s Common External Tariff (CET) was issued and applied by Argentina, implying the increase of certain tariffs applied by the country (G. Casaburi, 1998).

Besides other reasons, the protracted political instability contributed to economic problems and distortions that caused the economic and social crisis between 1999 and 2001. Since
1999 the country applies an import license regime where certain products require a non-automatic import license (Licencias No Automáticas de Importación) asking the approval by the Argentinian Ministry of Economy and Production and the release of “Certificados de Importación” in order to enter the country. Following to the 2008 global crisis, Argentinian protectionism increased again: imports restrictions were launched under the shape of technical and bureaucratic procedures that make imports tougher. Namely, the increase of the number of products requiring non-automatic import licenses in 2011, or the introduction, in 2012, of the obligation for the importers to redact the “Declaración Jurada Anticipada de Importación”, consisting in a detailed declaration of the products that are going to be imported that has to be presented to the “Administración Federal de Ingresos Públicos” (Bendini, R., 2012; export.gov website; Pezzulo G., ICE, 2012).

1.4.3 Comparative analysis of Argentinian and Brazilian markets

1.4.3.1 Argentinian and Brazilian Barriers

The challenges and obstacles faced while doing business in a specific country can be several. A research developed by Info Mercati Esteri has individuated the most common ones (which are listed in the table below) and determined what is the impact of each of them in both Brazil and Argentina for the year 2015/2016.

*Source: personal re-elaboration Info Mercati Esteri, 2016*
In Argentina inflation and foreign currency regulations stand out as the most significant barriers, representing respectively 18.30\% and 17\% of the encountered obstacles while operating in the country. Moreover, difficulties in the access to financing represent 12.60\% of Argentinian barriers. In common with Brazil, high tax rates and corruption are other heavy barriers – whose impact amounts approximately to 11\% in Argentina, and respectively to 15.40\% and 12.20\% in Brazil. Relevant to the latter country is also the impact of restrictive labour regulations (13.50\%), inadequate level of infrastructures (12.20\%) and high levels of bureaucracy (11.50\%) (Info Mercati Esteri, 2016).

1.4.3.2 The Enabling Trade Index

After having mentioned the main barriers encountered when dealing with Argentina and Brazil, it is interesting to analyse how those countries are able to be attractive as commercial partners. In the context of the World Economic Forum’s Enabling Trade program, the Enabling Trade Index (ETI) has been introduced to assess through the analysis of four different sub-indexes “The extent to which economies have in place institutions, policies, infrastructures and services facilitating the free flow of goods over borders” (M. Drzeniek Hanouz, T. Geiger, S. Doherty, 2014). Every sub-index represents an enabling trade dimension, and is in turn divided into pillars, which are composed by specific indicators, as follows (M. Drzeniek Hanouz, T. Geiger, S. Doherty, 2014):

1. Market access. It considers both the aspects of domestic market access concerning the weight and complexity of the country’s trade tariffs (pillar 1), and the foreign market access which depends on the barriers that the country’s exporters face to enter foreign markets (pillar 2);

2. Border administration. It measures the efficiency and transparency of border administrations (pillar 3) considering the costs of importing and exporting, but also the quality and completeness of the services offered by customs, as well as the availability of information offered by border agencies and the level of corruption.

3. Infrastructure. It measures the availability and quality of both transport infrastructure in the home country (pillar 4), and transport service, which regards the presence of shipping companies in the country and their efficiency (pillar 5). The sub-index includes also the availability and use of information and communication technologies (ICTs) in the country (pillar 6).

4. Operating environment. It measures the operating environment (pillar 7) of those companies whose business is to trade or transport merchandise. It is composed by
17 indicators, among which the degree of property rights protection, the fairness of public institutions, the openness to foreign investments and labour, the security and so on.

The four pillars are represented by the average of the indicators of which they are composed, whose value is converted in a range from 1 to 7. Finally, a rank of the countries according to their degree of enabling trade can be done. Argentina is classified as the 95th enabling trade economy (with an ETI amounting to 3.7); Brazilian performance is comparatively slightly better, but being classified at 86th position (with an ETI amounting to 3.8), the country still occupies a low place in the ETI.

*Exhibit 10: Enabling trade index (ETI) in Argentina, Brazil and Italy*

Looking at the pillars, the domestic market access is low for both the countries, and the Brazilian index is comparatively lower than the Argentinian one (respectively 4 and 4.4) mainly because of the high tariffs that the former country requires to be accessed, even though it applies a simple tariff structure. While Brazil has a quite low access to foreign markets, Argentina benefits of a good foreign market access, even though the efficiency of border administration is quite low in the latter country, due to the fact that both import and export procedures are too articulated and time consuming. In both the countries transport infrastructure is quite inefficient, while the availability and use of ICTs is high (and this represents the Brazilian advantage against the other South American countries). However, in Brazil the level of corruption is high, and the level of security low, as well as the fairness of government regulations. Argentina, instead, has an inefficient operating environment,
providing scarce property rights protection and access to financing. Moreover, the country applies restrictive rules concerning FDIs, making it difficult for the country to develop foreign trade (World Economic Forum, 2014).
2. RESEARCH METHODOLOGY

2.1 Introduction

The goal of this thesis is to determine which is the process of internalization followed by an Italian company part of the quarto capitalismo in order to expand its business activities in Argentina and Brazil.

The first question to address consists in the rationales for the choice of internationalizing and, above all, for choosing Argentina and Brazil instead of other countries. The costs and benefits deriving from this choice should be identified and compared.

Moreover, particularly interesting to question is also one of the first – and probably most impacting – decisions that a firm has to face when it decides to internationalize: the entry mode. The chosen entry mode is one of the ways through which it is possible to weaken the identified barriers. In order to assess the choice whether to opt for international production or for the less committing international trade, the barriers and the strengths offered by the two host countries to foreign economic actors have to be analysed.

While directing the analysis of these broad topics of study, some hints to the focal points of the most related internationalization models will be quoted in order to verify whether these models could be applied to the specific case of Facco S.p.A.

The aim of this chapter is to explaining the reasons why a case-study approach has been implemented, how the analysis has been developed, the tools that have been used in order to gather the information and to ensure the consistency and reliability of the data that have been gathered.

2.2 Research approach and strategy

After having generally drawn the research questions in the previous sub-chapter, it is now possible to discuss and determine which research methodology to choose.
2.2.1 Quantitative or qualitative approach?

The choice has been towards preferring a qualitative research rather than a quantitative one. In fact, even though the latter kind of study has the advantage of leading to objective results, the process of qualitative research allows to conduct a deeper and more specific analysis that enables to take into consideration also the contextual dimension in which the phenomenon is developed.

2.2.2 The case study approach

More precisely, among the qualitative research methods, in this thesis a case study approach has been chosen. As literature suggests (R. K. Yin, 2004) this method is appropriate to investigate particular situations, namely:

- The research question investigates a particular case aiming to get either a descriptive answer (what happened) or an explanatory answer (how or why something happen).
- The author aims to get an in-depth understanding of a particular situation: the case study approach allows to get first-hand information and make direct observations.

To build a case study there are three main steps to follow (R. K. Yin, 2004). The aim of this subchapter is to briefly describe these steps as suggested by the literature while integrating them with the explanation of the path that have actually been undertaken in order to build the case study. According to the model recommended by Yin (2004), the steps are:

1. Literature review and development of one (or more) research question(s) in order to define the case and organize it, so that it is possible to proceed with the data collection.

The explicit research questions that will be addressed in this thesis are:

- RQ1: What are the rationales for internationalization?
- RQ2: What are the main challenges to enter Argentina and Brazil?
- RQ3: What are the entry modes which have been chosen to enter Argentina and Brazil and how were they developed?
For selecting the case to be developed a pre-screening of candidate companies have been conducted. The most important characteristics the chosen company needed to fulfil in order to be elected were the following ones:

- it had to be an Italian company;
- the size of the company had be deemed as part of the quarto capitalismo category;
- it had to have economic relationships with Argentina and Brazil, either in terms of foreign production or foreign trade;
- it had to be possible to carry out the study, meaning that people working inside the company and having the requested knowledge to answer the questions asked to them had to be achievable, available to undergo repeated interviews and ready to share their experience.

The case that is going to be developed in the next chapter has a protagonist: Facco S.p.A., which has been selected because it satisfies all the conditions above:

- it is an Italian company, based in Marsango di Campo San Martino (Padua);
- it is a fully-fledged multinazionale tascabile employing 900 people worldwide and having produced a consolidate turnover amounting approximately to 150 million in 2014;
- it exports towards Argentina and it acquired a production facility in Brazil;
- the company has demonstrated to be enthusiastic to help me in the development of my project offering me precious information and continuous support.

Since the aim of this paragraph is merely to prove that Facco S.p.A. satisfies all the criteria required to be the subject of this case study – and not to present the company – further details about Facco S.p.A. will be reported in a dedicate section below.

2. Choice whether to develop a single case study, which allows to deeply focus on the case, or a multiple case study, which might help to strengthen the findings of the research.

Selecting a single case study might be a significant choice if the case is extreme or unique, and if data can be easily accessed.
According to P. Baxter and S. Jack’s classification (2008), in this thesis a “single holistic case study with embedded sub-units” has been chosen: the same issue is questioned in the comprehensive case study (the internationalization process Facco S.p.A adopted to enter Argentina and Brazil), but two sub-units have been identified in the two countries analysed. This approach is justified by the fact that the strategies undertaken by the company differ according to the analysed country, and so it is interesting to study the phenomenon considering the influence of the single country’s conditions on the different internationalization approaches.

3. Decision whether to use a theory development when selecting the case, drawing the data selection process and organizing the data analysis strategy. In this thesis, the decision to partly use a theory development has been taken: when describing the entry modes that the company adopted in Argentina and Brazil, and in other analysis, references to the existing literature will be done. To be able to get the specific information allowing to link the case to the literature, the theoretical basis built during the literature review phase were used as a guideline to determine the questions to ask during the interviews held.

2.3 The subject of the case study: Facco S.p.A.

Facco S.p.A. is a joint-stock company which was founded by the Knight of the Order of Merit for Labour Luigi Facco in 1957. The group can be considered as a family business since the control of the company has been passed to the son, Massimo Finco who is the current president and CEO, and the founders’ grandchildren start being integrated in the company. The company produces avant-garde poultry equipment, and it was pioneer in conceiving a type of poultry farming that reconceptualises the role of eggs production in a Food Safety framework.

Facco S.p.A. is the second producer of poultry equipment worldwide, as well as the first among its competitors in terms of environmental standards compatibility. These results could be obtained also thanks to the company’s commitment in studying and designing high quality industrial poultry plants which meet top level standards of health and hygiene. To ensure that these quality standards are met, the majority of Facco’s products are produced in Italy through entrusting production to Italian spin-off companies.
The company is a multinazionale tascabile that operates in more than 70 countries through internationalization paths that are country-specific, and that might vary from mere exports, to agents, affiliates and liaison offices, till arriving to more committing modes as offices and production facilities set up in certain foreign countries.

2.4 Data collection

It is suggested to collect information from variegate sources of data, so that data credibility can be strengthened (P. Baxter, S. Jack, 2008; R. K. Yin, 2004). For this reason, since for the development of this case study the most meaningful mean to gather information consists in interviews, to increase data credibility, more interviews have been carried out with three different people working in Facco S.p.A. In total there have been six interviews through Skype. Interviewing twice every interviewee allowed to assess the reliability of the information: it has been possible to verify that the data gathered during the previous session were not misinterpreted. Moreover, this double-session interviews let room to clarify possible doubts and to further investigate the questions and curiosities that arose between an interview and the other.

A further proof to ensure the reliability of the information disclosed by the company consists in the fact that the questions that would have been asked in the interview have been sent in advance, so that the interviewees could be prepared to answer.

Besides, some general pieces of information (both quantitative and qualitative) about the company and the two countries have been gathered through second-hand personal research. More than once the results of this indirect research confirmed what had been said by the interviewees.

Finally, data from these multiple sources have then been integrated in a comprehensive way in order to compose the basis for a consistent and reliable analysis.

2.4.1 The selection of the interviewees

In order to gather the right information, the candidates to be interviewed were submitted to a selection, according to the principle “the right question to the right person”. 
In a preliminary discussion with Dr Elisa Finco, who is the responsible of the company’s business in South America, the project of this analysis has been presented and the topic of the research has been specified. With the precious help of Dr E. Finco the right people to talk with have been identified, namely: her in order to analyse the strategy adopted to enter the countries, the rationales behind the choice of entering Argentina and Brazil and the entry mode; Dr Francesca Novella, the chief financial officer in order to analyse the performance linked to the business activities carried out in Argentina and Brazil, and Dr Leandro Yoshikawa, the associate in the production plant in Brazil to discuss about the country-specific details.

2.4.2 The interviews

The first interview has been carried out with the kind collaboration of Dr E. Finco. The questions that better fit to her position, and that were consequently addressed to her, concern general information about the market and about the company. More precisely, the interview began asking key information about the company, as the industry in which it operates, its organization and structure, the number of employees and the turnover in order to draw with a higher precision the general framework in which the analysis is conducted. In the successive phase, the focus has been moved on the comprehensive internationalization decision, asking the reasons leading the company to internationalize and the modes of entry that have been used in the different countries where the company operates. This allowed to reach a general understanding of the company’s modus operandi in internationalization matters, as well as its degree of internationalization. Thereafter, in the following phase, the analysis has been restricted to the comprehensive area that will be analysed in this case study: South America. More precisely, information concerning when was South America entered for the first time and with which methods have been asked. The rationales behind the choice to enter this zone and the main challenges encountered were interesting questions as well. To conclude, it has also been asked in which forms they are present in Latin America now. These questions allowed to contextualize the general environment in which the two countries that are the subject of this thesis are placed. The next phase aimed to further narrow down the field of study by focusing on Argentina and Brazil. In this field, the first questions concerned general information as the date of entry and the entry mode adopted in the two countries, as well as the rationales behind both the choice to enter Brazil and Argentina and the adopted entry mode. In this way it has been possible to calibrate the following questions according to the country-specific conditions.
The second interview with Dr Elisa Finco, was held after some days from the first, so that I could formulate the right questions according to the pieces of information gathered during the first interview. A comparative approach to study the methods and the strategies that have been carried out in the two countries has been adopted in order to underline the differences and the similarities that might exist in the two sub-cases. Questions aiming to inquire the rationales behind the choice of entering the Argentinian and Brazilian market, as well as the adopted strategies to enter them have been asked again in order to verify the answers given during the first session and to try to gather deeper insights. Examples of the questions that have been asked concern, for instance, the reasons why one entry method has been developed instead of another, which are the barriers that have been encountered when entering the two markets, what are the advantages of operating there, and so on. As mentioned above, a theory development has been sporadically used to get some hints to design the questions to be asked. It is the case, for instance, of questions inspired by some statements in the main internationalization models – just to mention some of them, it has been asked the importance of network relationships in the international expansion of the company (inspired by the network approach), or if there are competitors in the market (market imperfection theory), or the countries’ technological environment and the relationships that have been developed between the production plant in Brazil and Argentinian imports (product life cycle).

The following interview has been developed thanks to the kind collaboration of Dr Francesca Novella, the company’s chief financial officer, and the assistance of Dr Elisa Finco. In this case, the questions assumed a more financial shape and were of two kinds: some were centred on purely financial pieces of information and others on topics that had already been covered by the first interview with Dr Finco, but narrated through financial lens. The former kind of questions concerned, for instance, the percentage of the revenues that is produced by the operations in Brazil and Argentina. The latter kind of questions regarded, again, which were the rationales for entering Argentina and Brazil and the financial motivations leading to choose one entry method instead of another. Even though this could seem like a repetition, I believe it is both interesting and necessary to analyse the same phenomenon from different perspectives. In fact, with this approach, it is possible to gather different kinds of information, so that when unifying all the answers into a unique framework, the cohesive findings result more complete and deeper. Moreover, as suggested by the literature (P. Baxter, S. Jack, 2008; R. K. Yin, 2004) in order to be sure to have consistent and trustable information which are not biased because of subjective elements in the interpretation of
reality, listening to different points of view with regard to the same subject is essential. Moreover, practical questions about the company’s size and production structure in Italy have been asked, as well as the company’s market share in Brazil and Argentina and the reasons that could explain the company’s competitive advantage against the competitors.

Successively, an interview was held with the kind availability of Dr Leandro Yoshikawa, the CEO of Artabas, to whom country-specific questions focused on Brazil and on the Brazilian production facility were asked. More precisely, after a first general set of questions trying to assess the rationales behind the choice of being acquired, other operating questions were asked, for instance concerning to the integration process between Artabas Ltda and Facco S.p.A., the changes that the acquisition implied and the company’s *modus operandi* before and after the operation. Moreover, the benefits deriving from the acquisition have been asked, inquiring also the evolution of Artabas’ international activities thanks to the acquisition.

In the second interview with Dr Yoshikawa, other interesting aspects that have been investigated are the impacts of cultural differences – both in terms of nationality and in terms of corporate culture – in running a business together. After several other questions related to the new entity that has been composed through the acquisition, having the possibility to interview a Brazilian person was an opportunity to gather in-depth information about the Brazilian market and to understand from a closer stand point what are the impacts of the Brazilian crisis and which are the measures that could be taken in order to not be ousted.

A transcript of the interviews can be found in the Appendix section, even though only the transcript of the interview with Dr Yoshikawa is in English since the other interviews were conducted in Italian.

**2.4.3 Further considerations about the interviews**

In spite of my scarce experience as interviewer, the availability, patience and kindness of the interviewees allowed to get all the data that were needed in order to carry out the case-analysis. In fact, having oral interviews and, as a consequence, direct contact with the interviewees made it possible to further investigate and to acquire deep information even though the formulation of the posed questions and the structure of the interview might have disclosed my beginner-level experience as interviewer.
Another advantage of conducting oral interviews is that, even though questions have been prepared before the interview, the development of the discussion has been calibrated according to the interlocutor, leaving room for further follow-ups and changes of direction in the case when some answers by the company made other interesting points arise.

2.5 Presentation of the findings

In some cases, it might be preferable to expose the evidences in an objective and impersonal way before providing the personal interpretation of the findings in order to not mix evidence and interpretation. However, in other cases presenting the findings while discussing their implications might give a greater harmony to the study allowing to avoid to be repetitive and annoy the reader. As suggested by Yin in 2004, the practice of unifying the moment of the presentation of the findings with the moment of their interpretation can be used “When doing a unique case study or a revelatory case study because descriptive insights may be more important than knowing the strength of the evidence for such insights”.

I believe that, in the case of this thesis, presenting the findings in a different section than their interpretation could result too repetitive. Moreover, it is more consistent to gradually interpret the evidences that have been found in order to not confuse the reader: providing all the findings in a row would be non-meaningful for the reader since the findings are several and many of them are linked one with the other. As a consequence, it is preferable to explain the findings step by step, and so the findings will be presented in the next chapter together with their analysis.
2.6 Conceptual map of the research strategy

A conceptual map of the whole process to compose this thesis following the case study approach is presented in the following graph:

Exhibit 11: Conceptual map of the thesis development

Source: personal elaboration
3. ANALYSIS

This chapter will first present the company contextualizing its characteristics in the model of multinazionali tascabili. Secondly, the company’s global approach to internationalization will be investigated, and thirdly the focus of the analysis will be narrowed to the South American regions and, particularly, to Argentina and Brazil. To conclude, the impacts of the Brazilian crisis on the company and the strategies that have been implemented to face it will be mentioned.

3.1 Facco S.p.A. and its positioning inside the multinazionali tascabili category

Employing 900 employees and producing a consolidate turnover amounting to 150 million euros in 2014, Facco S.p.A. can be classified as one of the around 600 companies belonging to the “medium-big companies” group that composes the quarto capitalismo category (F. Coltorti, 2011). As literature about the Italian quarto capitalismo reveals in advance, the company is deeply involved in international operations and is trying to further expand its business all-over the globe. Similarly, as reported by Mauriello’s research (2015), the trend of choosing exports rather than other entry modes to approach foreign markets, which is fully-fledged proper of multinazionali tascabili, is verified also in the case of Facco S.p.A., whose turnover depends on exports for about 90%. In accordance with the survey run by Mediobanca-Unioncamere, and in spite of the current Facco’s strategy of “doing local for local” when possible, the company prefers to produce its products in Italy and then export them. In fact, some spare parts such as lights, metal sheets, cables or other components that match certain qualitative standards and respect certain price limits might be bought in the importing country but, in general, the corporate decision has been to carry out the technological and engineering activities in Italy. One of the reasons is that in its home country the company has its business network, and 90% of the production is carried out by a local spin-off company which are located in the vicinity of Facco. Some of these spin-off companies are part of Facco group, while some others can be considered as part of the group even if legally they are not. In fact, these companies were born and grew together with the company, which often provided them machineries or other resources in order to
optimize the production of Facco products. The decision to produce in Italy and not abroad is driven by many factors, one of them is exactly linked to the closeness to other entities that contribute to the production process offering a level of quality, flexibility and price that cannot be found outside the Italian border (as reported by Dr Finco). It is, for instance, the case of Tecnolaser S.r.l., which is an automatic factory used to laser-cut metal sheets. Besides these reasons, producing in Italy means being inserted in an entrepreneurial tissue that is abundant in spin-off firms possessing vast know-how and which can ensure that high qualitative standards are met. In this way, the closeness to third-crucial actors, represents the possibility for the company to entrust third suppliers in the case in which there is an extraordinary demand to fulfil and the company has not enough resources or time in order to do it. If the production were entrusted to third suppliers in other countries, the same standards could not be reached because there is not the same level of know-how compared to Italy. In the case of the production facility in Brazil, for example, it is not possible to make use of spin-offs and the whole production must be internalized because the other Brazilian companies do not have the capabilities and the knowledge for contributing in the required way to the production process. The importance of the network to the company is so demonstrated, as well as the company’s fit to the tendency of multinazionali tascabili to de-verticalize production processes (D. Schilirò, 2011). Moreover, another reason why the production has not been delocalized in other countries (exception made for Brazil of which we will talk below), is that the Made in Italy is an important characteristic that is able to distinguish the product against the ones proposed by competitors. These rationales for keeping the production in Italy are confirming the Unioncamera research that stated that the main reasons why multinazionali tascabili export rather than investing abroad are represented both by the fear of losing the Made in Italy advantage against competitors, and by the presence of a good network of co-operator in the company’s area (D. Mauriello, 2015).

The only exception to the preference of the company to produce in its home market is represented by the acquisition of the Brazilian facility. Also in this case, however the the consistency with Unioncamera’s research is confirmed: the study found out that the reasons why multinazionali tascabili might decide to make investments abroad depend above all on the possibility to better serve the market and reduce costs (D. Mauriello, 2015). As we will discuss later in the dedicated section, the decision to enter Brazil through acquisition was mainly led by the prohibitive taxes and tariffs that the Brazilian government asks to foreign
companies to import their products in the country. So, producing in Brazil was a mean for the company to ensure its operations within the country.

Besides technological and engineering intensive activities, also the company’s R&D and decision making are centralized in Italy, and this conforms to the literature about quarto capitalismo as well: R&D is located close to the production facilities and all the activities that concur to the company’s competitive advantage against competitors are kept in the heart of the company. In fact, the key factor to the success of Facco’s business is the efficient and highly industrialized manufacturing process allowing to produce high quality products. In order to differentiate from its competitors, the company invests in innovation, and having the R&D close to the production centres means that the product and the production process can be developed in a consistent way, as if they were two interconnected elements of the same set. The development of the production machineries, so, comes together with the development of the product. Moreover, the attractiveness of Facco’s products and its differentiation against competitors have been increased also by an innovative extension of the product’s function: the product that is offered in the market is not merely going to satisfy the need of the customers to purchase poultry equipment, rather it includes some innovative characteristics that have to deal with sensitive themes as food safety, sustainability and environmental protection. Facco is nowadays the most environmentally compatible among the manufacturers belonging to its industry, and the products it offers are perfected in order to ensure that high food security standards are reached. Those intrinsic characteristics and innovations that go beyond the traditional function of the product itself are essential elements to reap a competitive advantage. In those elements we identify, again, the compliance of the company’s business model to the general framework that is recently being drawn to describe mutinazionali tascabili: Facco adopts the emphatic innovation model as described by Schilirò (2011) and Bonaccorsi (2008).

We can conclude, so, that Facco S.p.A. operates accordingly to the “2is” rule (innovation and internationalization) proposed by Quadrio Curzio (2008) to define the distinguishing characteristics that determine the multinazionali tascabili’s modus operandi.
3.2 Facco’s internationalization on a global scale

In general, the internationalization strategy adopted by the company is not global, or rather it is regional: the decision making process is centred in the Italian headquarter and the decisions that are developed are usually country-specific. The company has decided to not carry out a unique global strategy and to differentiate its strategy zone by zone in order to reach a higher flexibility in dealing with the country-specific characteristics, that might require one internationalization approach instead of another.

3.2.1. The choice of internationalizing

The company started carrying out its first international operations at the end of the 1950s, and it now exports more than 90% of its revenues. The reasons why the company decided to start its internationalization path is that the home market was too narrow to allow to reach the degree of expansion and profitability aimed by Facco’s management.

The first countries to be approached were Arabian countries like Libya, Morocco and Algeria, that were at first approached through exports. The more the demand in those countries grew, the more the country was encouraged to set up there its subsidiaries.

In general, the corporate internationalization strategy consists in exporting through direct export until the moment when the demand for the product in the foreign market is high enough to set up a subsidiary in the country.

Facco possesses now seven subsidiaries all-over the world. The company owns six foreign mini-subsidiaries in the well-established markets where it has always been selling. These entities are defined as a subsidiary since they are legally independent business units even though part of the group Facco (referring to subchapter 1.1.3 about foreign direct investmets). Each mini-subsidiary employs a certain amount of salespeople who are charged of selling the product in their specific market, as well as of serving the post-sale needs, and the sale of spare parts. The mini-subsidiaries are currently:

- Facco KK in Japan, employing three salespeople;
- Facco USA in the United States, employing six salespeople;
- Facco RU in the Russian Federation, employing five salespeople;
- Facco China;
- Facco Algeria;
- Facco Maroc in Morocco.

The management of each of these mini-subsidiary is entrusted to country-specific area managers that are working in the Italian headquarter and spend at least 90 days in the country to which he/she is assigned. The salespeople of a certain mini-subsidiary are accountable to the area manager who is responsible for their country.

Brazil is a particular case of a market that was directly entered through acquisition: it had never been approached by the company till the moment it was entered through the acquisition of an already existing company that presented characteristics that were similar to the ones of Facco (the acquired company bases its competitive advantage on the production of high quality poultry equipment and is successfully operating in its market). The seventh company’s subsidiary is, so, represented by Artabas Artefatos de Arame Bastos Ltda, which is a production facility counting about 250 employees.

In other non-established markets, the company carries out its international operations through exporting its products from Italy. Moreover, the possibility to carry out export activities from the Brazilian production facility to other South American countries is a current challenge.

### 3.3 Facco’s approach to South America

South America was entered in 2006 through the first exports from Italy to Colombia, Chile and Argentina. The company built its contacts with the costumers in these countries through a Facco employee who operated *in loco* to explore the market and promote the product. Throughout the time, the company started expanding also towards Mexico and Central America reaching its customers through exports. Brazil was entered in 2013 through the acquisition of the majority of Artabas Artefatos de Arame Bastos Ltda.

The Argentinian market, represents only a marginal share of the company’s revenues, contributing to 1-2% of the global revenue. The business in Brazil, instead, contributes to the global revenue for an amount of about 8%, and this explains the different levels of the company’s commitment in the two markets, as will be explored in the following sub-chapters.
3.4 Facco in Argentina

Entering Argentina has been a purely market seeking strategy: the reason why the country was entered is because it offered some possibilities for the company to sell its product there.

3.4.1 The entry modes: the rationales for the choice and the barriers to overcome

Argentina has been entered through exports from Italy since the very beginning. The tariffs to enter Argentina are high, but not prohibitive: they allow the company to be competitive even through importing the product from Italy. However, as anticipated in the last section of the literature review dedicated to the presentation of a general overview of the country’s foreign policy, import restrictions are present anyways, even though in the shape of bureaucratic and technical requirements that make imports be tougher (Bendini, R., 2012; export.gov website; Pezzulo G., ICE, 2012). This obstacle is confirmed also by Dr Elisa Finco, who argues that the government is trying limit deficit evolutions of the trade balance through restricting the flows of foreign currency that exits the country or, in other words, the imports from abroad. Practically, restrictions concern above all products in competition with the locally produced ones: if the product is not available in the Argentinian market, it is possible for the importers to ask to the government the permission to import them. On the basis of how this restriction is designed, it could apparently seem that it might not represent an insurmountable obstacle to the company’s business in Argentina because the Argentinian market only produces parts of the final product, and not the ended industrial plant. As a consequence, Facco’s products can enter Argentina if importers require the permission (which can be conceded by the government according to some criteria that, however, are not so clear and transparent). However, if this restriction is analysed in a deeper way, it is clear how it still negatively influences Facco’s business in Argentina: besides the delays in the exchanges due to the fact of being obliged to wait for the permission to be obtained, once the permission is released, it cannot be modified in none of its elements, not even if changes to the contract occur. This restriction exacerbates the consequences of shipping an order with missing or wrong parts (due, for instance, to production or time constraints, to delays in the delivery of a certain part by a certain supplier, or just by mistake). In fact, once the shipment has been sent to Argentina, in order to send the following shipment to fix the mistake, another permission to import must be asked. To worsen the situation, it is more difficult to obtain a permission limited to import just one part
because, as discussed above, if the company has to ship only cables or metal sheets, the permission could be denied because those products are already produced in the Argentinian market: Facco products are allowed to enter Argentina only inasmuch as they are part of a poultry system.

Exhibit 12: Barriers to enter Argentina

- Import restrictions.
- Strong bureaucracy making the import process tough.
- Scarce transparency by the government.
- Higher weight of shipping mistakes on the company's performance and ability to deliver a satisfying order to the customer.

Source: personal elaboration.

3.4.2 Internationalization to Argentina, how is it carried out?

In Argentina Facco S.p.A. conducts direct export operations. Usually the company prefers to deal directly with the customer, so it either carries out its sales by itself or it makes use of an agent, but keeping the responsibility to manage the transaction, negotiate with the customer and conclude the deal (this classification has been determined in conformity with the definition of the entry modes provided by Hollensen, 2007).

In some exceptional cases, though, the product cannot be sold directly to the consumer: a third party needs to be employed because only companies which are registered as an official importer can require the import permission to the government: usually, there are some standards to be satisfied in order to be classified as an official importer, and most of Argentinian small customers do not meet them. However, the majority of Facco customers are bigger aviculturists that can be served without passing through an intermediary because they can usually require the import permission by themselves.
Transportation from Italy to Argentina is carried out by sea. The company books the container for a certain day. The container is sent to the company, where it stays for maximum 24 hours, during which it is filled up with the products to be sold, and then sent to the harbour.

3.4.3 Internationalization models: the Uppsala model and the network approach in the Argentinian case

If we narrow the scope of the study till watching at the internationalization path followed by the company to enter only Argentina, and not to the general internationalization process carried out by the company, we can notice how the path that has been undertaken up until now complies to what foreseen by the establishment chain introduced by the Uppsala model (paragraph 1.2.4.1).

In fact, the company started with shy and sporadic exports towards Argentina and the market was approached from scratch: the company did not have any knowledge about it, nor any a priori contact with possible customers. At the beginning, exports to Argentina happened in a passive way and without any resource commitment: a veterinary who operated in Argentina started proposing and selling Facco’s products to his customers, providing Facco with its first customers in Argentina.

Successively, when Dr Elisa Finco entered the company, a higher level of market knowledge was developed because the operations linked to exporting from Italy to Argentina started being intensively carried out by a member of Facco. Therefore, a slightly higher amount of resources was committed, corresponding to the investments made to participate to fairs and conventions in order to attract new customers. Facco is, so, situated in the second phase of the establishment chain, implying a higher commitment due to a greater knowledge of the market, and the use of an agent if the company’s solo-activities to find new customers are not enough. In this context, the company demonstrates that the second stage of the establishment chain is respected, even though there is the tendency towards preferring to avoid independent representatives, as much as possible. From the company’s standpoint, the rationales for this decision are several. Firstly: the product’s profit margin. The margin that can be applied on poultry equipment is very low (it can vary from 1 to 5%): if third parties are involved, the sales price must be increased by a certain mark-up corresponding to the commission that has to be payed to the agent. This entails the risk that Facco’s products are not competitive in the market anymore. Secondly, using a third party to get to the customer implies that the company’s level of knowledge about the market and control on
the process is weakened. Facco prefers to have a direct contact with the customer in order to have a greater control, and if import operations are entrusted to third parties, the company cannot accumulate new knowledge on the market. Facco’s *modus operandi* consist in cooperating with certain figures that signal to the company potential customers, which will be then contacted directly by the company. This is common to all multinazionali tascabili, which, do prefer to have the control of all the phases of the value chain till the reach of the final user (Schilirò, 2011).

In the case of Facco, the actual application of the theoretical statements provided by the establishment chain has been verified for the first two phases, even though the company’s compliance to the characteristics of the second phase of the establishment chain are more a matter of necessity than a corporate choice.

However, it is doubtful that the company will proceed towards the last stage of the establishment chain. To verify if this is a peculiarity of Facco or if it is a common trend for the whole category of multinazionali tascabili, further empirical studies are suggested. In fact, Facco is not fully representative of this theory’s development since the company could be categorized among the exceptions to the establishment chain mentioned by Johanson and Wiedersheim-Paul. In fact, the Argentinian poultry equipment market is too small to foresee that the company will progress in the establishment chain path: the market size and opportunities do not justify the greater investment that is required in order to set up sales subsidiaries or production facilities in the country.

However, the tendency of multinazionali tascabili is to export more than 60% of their turnover (A. Penati, 2009), meaning that exportations are the main business of multinazionali tascabili. Moreover, in general the preference to produce in Italy and then export their products with an added value given by the Made in Italy has been highlighted (Gagliardi, 2006). So, apparently, it is unlikely that multinazionali tascabili will be engaged in the last phase of the establishment chain, consisting in foreign production. This is a general mismatch that can be identified between the Uppsala model and the multinazionali tascabili’s internationalization path. Again, further research is suggested because this result is achieved through comparing different existing literature, that make arise some research questions that, however, can be answered only through focused empirical research. Furthermore, it is needed to verify if this tendency of multinazionali tascabili to not produce abroad is determined by critical factors that distinguish this group of companies’
internationalization strategies – as the preference to sell a Made in Italy product – or by circumstantial factors – linked for instance to the impacts of the recent economic crisis or to the fact that the majority of multinazionali tascabili is still in a previous phase of the establishment chain, and for this reason there is not a huge evidence about their investments abroad (that still amounted to 21.3% in 2014 – according to Mauriello, 2015).

The network approach to internationalization, instead, is verified in the case of the company’s expansion to Argentina. In fact, as pinpointed by Dr Elisa Finco, being part of the right network is essential to be able to get to the customers. In its relationships within the Argentinian market not only it is important for the company to be an insider, but it is also important to defeat the liability of foreigness (with referral to the network approach – paragraph 1.2.5.1). In order to enter in contact with local customers, local people serving as connectors are needed. Usually those key people are met in the fairs, and they could be every figure having a good position both within the poultry equipment network and within the Argentinian environment. An example to quote is represented by veterinaries or producers of other products, machineries or equipment that are used by the target that could represent a set of potential customers to Facco.

3.5 Facco in Brazil

Entering Brazil was a market seeking choice, but contrarily from the Argentinian case, the choice was led also by other reasons, as the fact that, at the moment of the entry, in spite of the high levels of protectionism, Brazil was a promising country that was growing at a huge rate. Brazil was approached through acquiring Artabas Artefatos de Arame Bastos L.tda, a Brazilian family business that was founded in 1967 and that carried out the same business as Facco producing high quality poultry equipment. Contrarily to Facco, the business model of the Brazilian facility is rather horizontally designed: all the production phases are carried out internally by Artabas. The reason why the company does not entrust spin-off producers is that in Brazil the weight of the taxes to buy different spare parts is too high (confirming the research carried out by Info-Mercati Esteri, classifying tax rates as the main barrier in doing business in Brazil – referring to subchapter 1.4.3).
3.5.1 The acquisition

The negotiations for the acquisition of Artabas started in 2012 and were concluded one year later, in Jun 2013, with the following verdict: Facco S.p.A. did not acquire 100% of Artabas (the company possesses the majority, and has two members out of three in the board of directors), and the family who founded Artabas was not ruled out. The family is still present in the company: the Brazilian associate and CEO of Artabas, Leandro Yoshikawa, is the grandchild of the Artabas’ founder.

When the company was acquired it was growing and performing really well. Artabas’ management decided that being acquired would have been a good decision in order to foster its growth inasmuch as a higher degree of technological development and innovation was required to be more competitive in market. Another motive justifying the choice of Artabas is more personal and concern the desire of the family owners to have a lower workload. At the same time, though, the family did not want to be excluded by their business, and this is the reason why they were not prone to accept a complete takeover.

The acquisition has been well-accepted also by the employees, who recognize that having been acquired is beneficial for Artabas – and probably this general consensus and approval is due to the fact that the changes that the acquisition implied were not dramatic.

3.5.2 The entry mode: the rationales for the choice, the barriers to overcome and the deriving advantages

The decision to acquire a company in Brazil depends above all on two reasons.

First of all, it has been a matter of survival: producing in a Brazilian facility was the only way to be able to sell in the Brazilian market. In fact, producing in Italy and then export to Brazil is prohibitive because of the extreme protectionism characterizing the Brazilian market. Local production allows to avoid to pay the high taxes required by the Brazilian government to import products in Brazil. In the case of Facco S.p.A. the taxes to produce their product in Italy and import it into Brazil could amount up to 60% of the invoice value, and in their specific case (the minimum price of the product amounts to 100,000 euros) an increase of the price by 60% would not have been sustained by customers. These barriers did not allow the product arriving from Italy to be competitive because, even though it had the added value of being Made in Italy and in spite of the higher quality of the product, the price would have
been excessively high. Other options besides the acquisition have been considered in order to try to escape this 60% extra-cost. For instance, the Brazilian government allows to reduce the import tariff from 60 to 24% in the case in which the raw materials are imported in Brazil in order to transform them in the country and then export them. However, this solution was not optimal because 70% of Facco’s product consists of raw materials, so even if the tariff rate could have been lowered, the amount of the tariff to be payed would have been too high to allow the company to be competitive anyways. Another solution, so, could have been the one of buying Brazilian raw materials, but another problem which does not allow the company to be competitive in the country arises: raw material producers operate in a kind of monopoly and, being aware of the cost for outsiders to import raw materials in Brazil, they tend to charge their price of a mark-up that drives the price to be just a little bit lower than the price of importing the raw materials from Italy to Brazil. So, even purchasing raw materials directly in Brazil, the company would have been disadvantaged from the beginning of the value chain. Moreover, since the product is not labour intensive, the advantages deriving from low labour costs cannot be fully captured.

Finally, as confirmed by Dr Yoshikawa, other barriers to enter the Brazilian market can be found in the difficulty to communicate since it is difficult that locals speak other languages than Brazilian Portuguese, and inflation that, after some years of stability, following to the crisis reached rates higher than 10%.

*Exhibit 13: Barriers to enter the Brazilian market*

- High tariffs to import products from Italy to Brazil (up to 60%).
- High cost of importing raw materials from Italy and work them in Brazil: the product is abundant in raw materials, and taxes to import them amount to 24%.
- Monopolistic competition among Brazilian raw material suppliers, who increase the price asked to foreigners.
- No advantages deriving from lower labour cost.
- Language: only few people speak English.
- Inflation.

Source: personal elaboration.
Secondly, the choice has been strategically relevant since, at the moment of the acquisition, Artabas was one of the three main poultry equipment producers in Brazil, and acquiring it represented a huge leverage for the company's business activities in several ways. Firstly, the company was able to enter the Brazilian market in a competitive way, not being hindered by too high tariffs. Secondly, the acquisition of an already working business provided the company with a great customer base, ensuring immediate returns on the investment – this has been an incentive to acquire Artabas, confirming Markusen’s belief that companies are sceptical in building a foreign production facility without knowing if the sales will be high or low (1995). Thirdly keeping the management of Artabas in the company allowed to gain a profound expertise and knowledge about the local market since the entrance, as suggested by Hollensen (2007). Fourthly, the acquired company had an efficient network from which Facco can take advantages (as suppliers and distributors), as well as a strong brand well known in the Brazilian area for its high quality production. Lastly, a production facility in Brazil ensures an efficient and priority access to the other countries part of the MERCOSUR.

Moreover, the choice was also lead by the attempt of the company to gain predominant market shares against competitors in the whole Latin America. At the moment of the acquisition, the South American market was dominated by a Spanish company, Zucami, and their leadership was determined by the offer of a simpler product than the one produced by Facco: Zucami supplied a basic product that, accordingly to the characteristics of the local demand, was not providing additional features (as ventilation or turnkey products). Facco saw in Artabas the possibility to enter the market and compete against Zucami through selling a similar product in terms of technological advancement.

However, one year after the acquisition of Artabas, Zucami was acquired by the biggest competitor in the world: Big Dutchman. Even though this move might have damaged Facco’s operations in South America because of the combination between customer loyalty on Zucami’s product and Big Dutchman’s savoir faire, the market is still equally shared mainly among Big Dutchman, Salmet and Facco.
Choosing to enter a foreign market through acquisition instead of carrying out a greenfield investment might create some difficulties concerning the coordination between the local and the foreign team or the fact that the facility’s structure and design respond to the need of the acquired company and is not tailor-built on the basis of the acquirer company’s requirements and standards (Hollensen, 2007). These problems arose also in the acquisition of Artabas even though, as stated by the Brazilian CEO, the two companies have similar corporate values – inasmuch as they both rely on selling good quality products and attribute a high value to the family, which in both the cases is involved in the company. Some solutions to these problems were efficiently implemented, while the two company are still working to fix certain other problems, as it will be discussed in this sub-chapter.

The assimilation of Facco into the acquired company has not been too aggressive, and the pre-acquisition *modus operandi* adopted by Artabas is respected by Facco, which is not trying to impose disruptive changes in the Brazilian facility. In effect, the management of Artabas after the acquisition is nearly unchanged compared to the system adopted before: the management of Artabas is entrusted to the Brazilian associate, Dr Leandro Yoshikawa,
and Facco does not interfere. The choice of not being too intrusive and aggressive in imposing Facco’s management style depends above all on the fact that Facco recognizes that the Brazilian management has the right capabilities, knowledge and approach in order to conduct the business. Moreover, Facco is aware of the fact that Artabas’ management possesses the knowledge that is needed to run the business in Brazil, and because of several factors as cultural differences, the best decision is to not impose Facco’s management system, which can be not optimal in a Brazilian business. For instance, one of the main differences in the management system of the two companies is that Facco’s structure is divided into specific functions, while Artabas’ employees are more multitasking: the only employees that are allocated to a specific function are those who are entrusted to carry out certain projects or engineers. If Facco tried to impose its system inside Artabas, probably most of the benefits of acquiring an already established facility (as acquiring market knowledge and experience together with the business) would vanish. Facco S.p.A. trusts Artabas’ management and let it free to decide, aware of the fact that the decisions are made for the best.

Regarding delicate issues that have to do, for instance, with decisions implying a high level of resources usage, costs or severe changes, the two companies have to decide together.

The only requirement by Facco is to receive periodic reports providing key information (as the evolution of the revenues, the orders received from the customers or the cash flows) that allow to monitor and control the general evolution of the business. However, it has been a long process to make the habit of reporting appear on Artabas’ corporate culture. This shortage is justified by the Brazilian CEO as a psychological refusal: in Dr Yoshikawa’s words, being obliged to report to Facco was seen by the Brazilians as “Raining on a wet floor”, meaning that they felt frustrated in having to write and report what they already knew. Through being patient and trying to constantly communicate in order to start making a common culture arise, this problem is close to be overcome: Brazilians understood that the aim of Facco was not being despotic, but just to be informed since they are not constantly present in Brazil and they need some tools to monitor how the company does perform. Moreover, this psychological refusal to report has been strengthened by the fact that before the acquisition Artabas did not use to write reports: a change in the Brazilian management system was needed, and it took time because they had to change their accounting system and to adopt new and different ways of controlling. The integration is being improved every day more, as all the three interviewees confirmed.
The next big goal regarding to the integration of the two companies is to be able to reach some synergies also in the production. In Artabas there are two engineering departments: one dealing with Facco products, the other with Artabas products. Integrating and unifying them into a unique department would be advantageous: firstly, it would be possible to reach economies of scope through producing the two ranges of products using the same knowhow, in order to minimize spare capacity; secondly, it would be possible to foster mutual learning because since Facco and Artabas products have some different characteristics, an overall view, control and mastery of both of them within the same department could lead to improvements in both the products.

Another obstacle that arose was determined by the cultural differences existing between Brazilian and Italians: as confirmed by both Dr Yoshikawa and Dr Novella, Italian and Brazilian cultures can be defined as similar only if they are superficially observed. Cultural similarities are essential when two business units have to be integrated. For instance, both the management style and the way to approach the market have their roots on country-specific and cultural issues. More precisely, being Italy a small country, the companies operating in its entrepreneurial tissue had to develop their activities with an international focus in order to enlarge their end markets. As a consequence, the managerial style is more characterized by an international way of reasoning and orientation. On the contrary, Brazil has always been a closed market and, as referred by Dr Yoshikawa, the majority of the companies established in Brazil sell only to Brazil because of two reasons: Brazil is a big market by itself, so it offers good end market possibilities and Brazilian companies do not need to go abroad as much as the Italian ones. Furthermore, traditionally Brazil is a highly protected market and Brazilian regulations are really strict and do not allow companies to be competitive out of Brazil. Because of these reasons, the Brazilian way of doing business does not present an international mind-set, and Facco had to educate the management of the Brazilian branch to increase its international attitude. In exchange, Dr Yoshikawa believes that dealing with Brazil, that is a difficult market to understand, Facco developed a more open-minded approach that was beneficial in all the international operations carried out by the company.

The tendency of not compromising Artabas’ identity is shown also by the following event: when Facco acquired the company, some changes in the production facility were needed because Artabas’ level of technological development was calibrated to the one present in the Brazilian market and complied with what Brazilian customers required, but it was not
meeting Facco’s technological requirements and level of development. Facco contributed to the company’s technologization through transmitting the Italian values and know how, as well as bringing in the subsidiary part of the Italian technology to bridge the gaps that were present in the Brazilian production process. There have been no direct investments by Facco to improve the Brazilian production facility: as referred by Dr Yoshikawa, “Facco helped Artabas through human resources”, while the money invested to improve production is the residual amount that was left after having payed-off the acquired shares to the family members. The technological improvements have been extremely beneficial for both the companies: Artabas’ revenues in 2012 amounted to 25 million Brazilian Reals and, thanks to the introduction of a semi-automatic production process, the revenues in 2014 increased to about 75 million Reals.

In spite of the intervention to improve Artabas’ production process Facco tried to not modify the Brazilian product: the Brazilian facility was helped to develop more advanced levels of technology, but keeps producing its products. In Brazil, Artabas produces its original range of products that have been improved thanks to Facco’s intervention, and one Facco product, the one that was considered the most appealing to the Brazilian market – even though the Brazilian production of this product amounts to only 70% of the product: 30% of production has to be imported from Italy because in Brazil there are not the technologically advanced machineries needed for this production. Moreover, since in Brazil only a specific Facco product is produced, if a customer requires another product of the range produced by Facco, it has to be sent from Italy. However, Artabas is not completely autonomous in the production of the Italian product: an engineer and a technician must be present in the Brazilian facility to manage and control the production. It has been a challenge to identify those two people: not only Facco wanted someone who presented the required technical experience needed to carry out the task, but above all the candidates had to belong to the company in order to transmit Facco’s corporate values to the Brazilian branch.

In order to allow Artabas to preserve its identity, Artabas products and Facco products are represented in the market by two different brands. Artabas products are sold under the brand Artabas and the Facco product is proposed to the market under the brand name Facco. Moreover, even though Artabas is charged to sell also Facco in the Brazilian market, the products are not proposed to the market by the same salesperson: Artabas and Facco have their own distinguished sellers. In short, the two brands are competing in the Brazilian market. The choice has been strategical: from one side Artabas is not overwhelmed by
Facco, and from the other side, the whole group can benefit from having a wider range of products and, consequently, being able to capture a broader variety of target markets. In fact, the level of technological advancement of the two products is different: omitting the level of quality, which is high in both the brands, these products are designed to satisfy different technological requirements by the customers. This differentiation is due to the technological development of the country where the product has been designed: Brazilian market is less technologically developed than the European one. As a consequence, Brazilian customers have less severe requirements in terms of technological level embodied in the product, and the product which is offered in the Brazilian market can be less technologically advanced. For instance, while the European standard is to have environmentally controlled poultry farms, in Brazil poultry farms are still developed in an open-air style. Through keeping the Artabas brand, Facco is able to satisfy both the demand of the customers requiring a technologically advanced product (through selling Facco), and the demand of those customers that conform to the average Brazilian standards (through selling Artabas, which still provides higher technological standards than the products of the other Brazilian competitors thanks to the implementations carried out by Facco).

Moreover, the choice to keep carrying out two parallel brands that target two different demands is strategically relevant both to not be excluded by the market now and, in view of future developments, to be ready to capture the future arising demand of more technological products. Since the Brazilian poultry equipment sector is underdeveloped, introducing a product that responds to needs that customers do not perceive yet could be risky because the technological improvements imply a higher price, and if the customer does not perceive to need a more advanced product, he/she will not be available to pay more to get it. Keeping the two brands together is also a mean to educate the customers and initiate a transformation on the general level of advancement in the Brazilian poultry equipment sector. This move allows to raise the awareness that products that are more advanced exist while being able to keep serving the customers not requiring such an advancement – but at the same time being ready to offer a more advanced product as soon as it is required. Within the country the demand is still divided: some customers want to buy Artabas, but the ones who can afford to buy Facco will buy Facco. This is not only deriving from the implemented technical characteristics that the product Facco can provide, but also from the belief that being a product with Italian roots, the quality is higher.
Moreover, another aspect to highlight is that the decision of which product to buy depends also on the customer’s sensitiveness on themes concerning the animal’s wellness. For instance, one of the differences in the technological features that are offered by the two kinds of plants consists in the space that is reserved to each animal inside the plant or in ventilation systems. In advanced countries people are sensitive to ethical themes and, as a consequence, governments launched legislations to protect and enhance animal rights through setting base conditions that have to be respected by poultry equipment. Less developed countries still do not deal with these ethical issues so intensively: aviculturists have to face lower levels of restrictions about the plant they can build and, as a consequence, the less sensitive ones do not perceive the need to buy products that are built according to European standards that respect animal rights. In short, governmental legislations and customers’ ethics have an influence on the kind of product that will be chosen by the customer. The analysis of this case-specific situation underlines how the level of advancement of a certain country, its legislations and the locals’ sensitiveness to ethical issues can be a critical factor to determine if, in a specific market, a product produced according to another country’s standards will be successful or not.

*Exhibit 15: Problems deriving from the acquisition*

- Integration of the two companies.
- Transmission of Facco's corporate culture, but at the same time not impacting Artabas’ identity.
- Local mindset of Brazilian management.
- Different technological standards: improvements were needed on the Brazilian facility, but 30% of the Facco product still have to be produced in Italy and then imported.
- Non-autonomous production of the Facco product in Brazil: monitoring is needed.
- Problems to make Artabas being used to report to Facco and change in Artabas’ controlling and accounting system.

Source: personal elaboration.
3.5.4 Internationalization models: network approach and eclectic paradigm in the acquisition of the Brazilian facility

Some references and linkages to the main internationalization models can be conducted basing on the pinpointed advantages which encouraged Facco S.p.A. to choose acquisition among the other entry modes.

As defined by Johanson and Vahlne (2009), internationalization is a way to strengthen a company’s position inside a network, and this results true in the case of Facco S.p.A. if we consider its network of competitors: entering the Brazilian market through acquisition was a clear attempt to gain a better position against the rivals and to capture a higher share of the market. To achieve this, Facco enlarged its network of relationships, till getting to know Artabas and including it in its network. One of the main findings provided by the network approach affirms that the internationalization process followed by a firm depends on its network of relationships, since a company will tend to expand into foreign markets where the individuated partners have a strong position (Johanson, Vahlne, 2009). This is verified also in the case of Facco, which individuated in Artabas the right partner to expand both in Brazil and Latin America thanks to the good position of the acquired company in the Brazilian market. In fact, as affirmed by the company, the choice of acquiring Artabas in Brazil and, for instance, not another company in another country part of the MERCOSUR, is not determined by other reasons besides the strong position that Artabas had in the market or, in other words, in the right network (Johanson, Vahlne, 2009).

Moreover, the importance of the being an insider and the weight of the liability of foreignness can be confirmed by the company’s experience of expanding to Brazil. In fact, the decision of acquiring Artabas was made by chance: the two companies entered in contact in one fair and they started to build a relationship. The reasons why Artabas approached Facco are several, but one of them is that the company was well known in South America thanks to its previous experiences not only in South America, but also worldwide. Through being an insider in the poultry equipment sector, Facco was able to connect to the right network to enter Brazil. Artabas was the most appropriate connection to approach the Brazilian market since it allows the company to overcome the liability of foreignness deriving by Facco’s lack of experience in Brazil, and this is demonstrated by the choice of Facco to keep the management of Artabas inside the company (referral to subchapter 1.2.5.1 – The network approach).
Analysing the acquisition according to Dunning's eclectic paradigm, the OLI framework suggests that there were all the premises for Facco to opt for international production rather than exports: all the three elements of analysis (ownership, location and internalization advantage) show that for the company it would have been convenient carrying out the acquisition. In fact, the ownership advantage is given by the fact that being an Italian company brings an intrinsic advantage to Facco: buyers do prefer European products, which are associated to a high level of quality and trustworthiness. Moreover, through the acquisition, Facco brought in Artabas the Italian know how and more advanced technology, providing the Brazilian production facility with a higher level of competitiveness in the market. The location advantage, as deeply explored before, consists in the fact that locating the production in Brazil rather than in Italy allowed to sell in the country, while exporting from Italy would have been prohibitive. Concerning to the internalization advantage, for the company it was more convenient to internalize its value-added activities rather than externalizing them because the Brazilian entrepreneurial tissue is not composed by spin-off activities that are able to meet the qualitative and technological standards required by Facco. Acquiring a company in Brazil, helping it to improve its technology and making it be able to produce one specific Facco product was the key to be able to supply products at the same level than the ones coming from Italy.

However, when it comes to question the stage approach suggested by the Uppsala model (referring to the sub-chapter 1.2.4.1), it is evident how, in the case of the company, the proposed path explained by the establishment chain has not been followed. In fact, before entering Brazil, the company never had other relationships with the Brazilian market, meaning that the first three phases of the establishment chain have been skipped by the company, which entered the market directly with the acquisition of the production facility. The establishment chain path is justified by the fact that a higher degree of commitment is undertaken by the company proportionally to the increasing of market knowledge. Psychic distance is identified as an obstacle braking the transmission of information, and so the accumulation of knowledge. In the case of the relationship between Italy and Brazil, the psychic distance is relevant, as well as the geographical distance. Furthermore, since the company had a scarce knowledge about the Brazilian market, according to the theory we would expect that the company would not have entered the market through an entry mode implying such a level of commitment. The Uppsala model, so, is not so significant to explain the company’s entrance to Brazil. This could depend on the fact that the model is not designed in a way that considers also other ways to gain market insights than the direct
experience of the company: through an acquisition, and above all if the management of the acquired company remains in the company also after the acquisition, the market knowledge is acquired together with the business. The study of Facco’s internationalization approach to enter Brazil demonstrated that the gradual development of knowledge as the factor encouraging companies to invest through more committing entry modes can be substituted by the possibility to the company to access an already established knowledge base, which pushes the company to intensively commit from the beginning. However, the basic assumption according to which the knowledge about the market is the key to convince a company to expand abroad seems to be verified. However, further empirical research would be needed to confirm this finding, which is based on a mere analysis of one company’s behaviour.

3.5.5 Facco S.p.A. and the exports from Brazil to the other South American countries

One of the greatest benefits deriving from the acquisition of Artabas is represented by the possibility to export from Brazil to other South American countries part of MERCOSUR without being submitted to the trade barriers encountered by imports from Europe. This strategy of international expansion is being developed right now by the company, encouraged also by the currently stagnating Brazilian market. Exports from Brazil are now convenient thanks to the fluctuations of the exchange rate US dollar/Brazilian Real, due to the depreciation of Brazilian Real.

When Artabas was acquired, it already exported towards Argentina, Bolivia, Panama, Paraguay, Venezuela, Angola, Congo and sold some spare parts to USA. However exports consisted in no more than 5% of the revenues. Since the acquisition, the list of the customers importing from Brazil is more and more international: Colombia, and Uruguay have been entered, and negotiations are going on to approach also Mexico. For the moment, 20% of Artabas’ turnover is produced through exports. The acquisition provided Artabas with a greater advantage outside Brazilian borders thanks to the fact that Facco is well known worldwide and, probably, thanks to Artabas’ indoctrination towards a more international mind-set – which has already been discussed above.

The Facco product which is produced in Brazil is not planned in order to reach Europe: this choice would not create a competitive advantage because transportation costs from Brazil to Europe are extremely high. Moreover, keeping in mind that the company’s product is
composed by intensive use of raw materials and scarce use of labour, producing in countries where labour costs are low is not creating a substantial competitive advantage. Furthermore, in South America the cost of raw materials is quite high, implying that the production in Brazil do not provide the company with a competitive advantage towards other zones than the other South American ones. The advantage in producing in Brazil is not a cost advantage, but a location advantage: through producing there, the company can be competitive in Brazil. Facco product produced in Brazil is supposed to be competitive in the whole South America thanks to the reduction of the tariff barriers that would be otherwise encountered when trying to reach the market from Europe. However, difficulties to sell abroad the Facco product produced in Brazil rose also towards the other countries part of MERCOSUR because of the high costs of raw materials which might not balance the savings that can be done in terms of reduced trade barriers. Furthermore, the product is Facco, but it is labelled Made in Brazil, and this is an obstacle because customers associate this fact with a lower quality, even though Facco declares that the quality is exactly the same as the product produced in Italy. The Made in Italy labelling, provides the company with a competitive advantage: some customers do prefer to pay a little more the Facco product as long as it is Made in Italy instead of buying the same product Made in Brazil. Moreover, several hindrances to export from Brazil depend on the protectionist nature of the country: to be able to sell abroad, third parties that are more specialized should be hired. In fact, there are some gaps in the Brazilian law that could be exploited in order to reduce the cost of taxes and duties depending on export activities, but these procedures can be carried out only by specialists.

As confirmed by a local, Dr Yoshikawa, other difficulties encountered in exporting from Brazil consist in too high levels of bureaucracy and corruption, as well as not well developed infrastructures, implying expensive road freights and including mediocre harbours.

3.5.6 Facco S.p.A. and the Brazilian crisis

Even though the governmental crisis that is currently going on in Brazil is not a specific crisis of the poultry industry, its repercussions are perceived also in Facco’s sector. In fact, banks tend to not grant financings anymore, and this represents a huge problem for the company, since its product requires a great investment by the customers. Since aviculturists cannot obtain loans, the company is facing a decrease in the Brazilian demand, which is supported only by those customers that can afford to invest in new poultry equipment because either they are well established aviculturists, or they saved some money in the past and they are
available to invest it now. However, the majority of the customers is not buying anymore pending the financing is granted again.

To give an idea about the impact of the crisis on Artabas’ sales, before the acquisition, in 2012, the company’s revenue amounted to 25 million Brazilian Reals. The following year, just the fact of joining the forces increased the sales: when the acquisition took place, the revenue grew to 40 million Brazilian Reals, and in 2014 to 75 million Brazilian Reals. However, in 2015 the revenue fell to 63 million Brazilian Reals and the forecast for 2016 is a further decrease of about 25-30%.

Facco’s support in Artabas has proved to be essential in order to help the Brazilian company not being excluded from the market because of the crisis. Facco provides Artabas with an aid to reduce the effects of the crisis from several sides. In fact, Artabas is now part of a strongest business structure that sells all-over the world, this means that the structure is able to dilute the risks linked to negative externalities that a specific country might present: it is likely that an economic downturn in Brazil is developing together with a favourable economic situation in another country, which at the corporate global level means that negative situations through which the company could incur in certain countries are balanced by positive states of other ones.

The company’s strategy to survive the crisis is based on three main “anti-crisis measures”. Firstly, Artabas is trying to cut the costs as much as possible, with a predominance in production costs reduction – the crisis obliged Artabas to fire around 80 people in 2015. Secondly, the company aims to build new possibilities to trade with foreign countries: in Brazil the demand is weakened by the crisis, so to enlarge the end market the company should target other South American countries towards which the company can export without impeding trade barriers. Moreover, the company currently has the advantage of having an exchange rate making imports from Brazil become more appealing for foreign importers. The intervention of Facco, in this context, proved to be helpful to contrast the effects of the crisis inasmuch as the company contributed to Artabas internationalization, as already discussed above. Thirdly, the company must invest in increasing its capability to offer a distinctive product, providing solutions that are not available in the market. Facco proved to be helpful to the implementation of Artabas’ anti-crisis strategy through providing the Brazilian facility with the tools to comply to this third measures, i.e. technological improvements and huge attention to the customer care, which combined together increase
customer attractiveness. In fact, in spite of the crisis and the consequent decrease in the revenues, the company gained market share compared to the competitors in Brazil. The company was able to survive and perform better than the competitors because of two main reasons: firstly, Artabas is well known in the market for the quality that is incorporated in its products, and secondly, the company deeply focuses on developing a strong relationship with the customers. This provides a greater advantage than competing in price: Brazilian competitors offered lower priced products, but since they did not provide the same level of quality, Facco captured part of their market share. As Facco’s CFO argued, customer care and quality are essential because if a customer is satisfied, the customer will come back to buy again, bringing also other customers.

*Exhibit 16: The company’s anti-crisis measures*

- Cost reductions.
- Developing a network of exports.
- Distinctive offer (technological advancements and customer care).

Source: personal elaboration.
4. CONCLUSIONS

According to the analysis carried out in the previous pages, we can confirm that the company chosen for the case study is perfectly fitting to the definition of multinazionali tascabili. This ensures that the research has been truly focused on this part of the Italian entrepreneurial tissue – that has not been explored enough by the literature yet.

The thesis allowed to underline that the major barriers to enter Argentina are non-tariff barriers represented by extreme levels of bureaucracy and governmental requirements that slow the process of importing in the country. In Brazil the main problems to enter the market are represented by prohibitive tariff barriers. The reason why the chosen entry mode has been different in the two countries is merely represented by the fact that in Argentina the demand is not large enough to justify a higher commitment by the company. The reason why Brazil was entered through acquisition is the great opportunity that the acquisition promised.

It has been shown that acquiring a company in a foreign market can act as a substitute of the level of knowledge about the market, allowing to overpass the liability of foreignness, above all if the management of the acquired company is not asked to abandon the company.

It has been demonstrated, also, that the first two phases of the establishment chain have been respected by Facco S.p.A., but some doubts about the reaching of the last phase concerning international production have been risen. It seems this is not only a Facco characteristics, but also a trend representing the majority of multinazionali tascabili’ modus operandi. In fact, it has been mentioned also that the Made in Italy is a precious advantage that can make the difference between which product is acquired by the customer (as it happened also in the case of Facco and its Made in Brazil product).

Limitations

The limitations that can be identified in this thesis are several. To list some of them, the first limitation to be mentioned is that the analysis is based on interviews. The pieces of information that have been gathered have been analysed and re-elaborated in good faith in
order to conduct the research. However, even though the trustworthiness of the interviewees
is beyond doubt confirmed, and in spite of the measures undertaken in order to ensure a
higher reliability of information and the reduction of potential misunderstandings, there is still
room for information biases that could drive to distorted conclusions. For instance, the
interviewee could unconsciously release wrong information if his/her interpretation of reality
is not correct or he/she could decide to not disclose certain pieces of information and just
give some hints that mislead the interviewer towards a different interpretation of the findings.

At the same way, because of the qualitative nature of the analysis, the data on which the
research is based are subjective and cannot be scientifically proven.

The main limitation in this thesis is represented by the fact that, in order to have deep insights
of the phenomenon, it has been chosen to develop a case study approach based on the
direct experience of one single company. The pros of conducting a qualitative research
analysing the strategical background of one single company allows to get to know precise
details about the phenomena, answering to questions like “Why did the company enter a
foreign market? Why choosing one entry mode instead of another? What are the barriers
encountered? How were those barriers overpassed? How are the internationalization
models adapted to the company’s path?”. However, this approach is not able to identify
whether there is a certain prevailing trend generally followed by the majority of multinazionali
tascabili approaching Argentina and Brazil. In fact, it is not possible to derive general
conclusions from the answers that have been given to the questions addressed by this
thesis. These answers are subjective and company-specific, and this implies that they
cannot be the basis of universal findings that can describe a general phenomenon. What
this method can provide is the possibility to go deep in the analysis and find out some points
that are interesting because, for instance, they contradict previous trends or represent a new
way of approaching a certain issue. If these points are individuated, they should be further
developed and studied through empirical research in order to determine if it is possible to
draw some general implications from them.

Further research

This approach represents an effort aiming to inspire further studies in the scarcely analysed
internationalization of multinazionali tascabili: identifying potential discrepancies between
the strategy applied by the company and the paths suggested by the literature could highlight some points to be further studied through empirical research that could allow to set up the bases for the development of a general framework describing the phenomenon.

In general, the whole category of multinazionali tascabili should be furtherly analysed, but a point that could be more intensively studied is the trend of multinazionali tascabili to reach the last phase of the establishment chain.

Managerial implications

In a cross-border acquisition of an already established business, if the management of the acquired business is kept inside the company, it is better to not try to impose the holding’s management system in order to not limit the benefits of carrying on a brownfield acquisition: if the company was performing well before the acquisition it means that its managerial system worked well. The acquirers should not underestimate the possibility that their own business model could not be appropriate in other entities, above all if those entities are not operating in the same country and, as a consequence, do not share the same culture. A gradual integration should be carried out in order to create synergies between the entities, but in general, local management suggestions should have a huge impact in the decision making since they have a well-developed market knowledge and experience. Moreover, not imposing too aggressively on the acquired company can foster both cooperation of local employees and acceptance of the foreign entity that is relieving the acquired.

At the same way, preserving the identity of the acquired company can be a successful factor in the cases where the two companies produce to satisfy different market targets. In this way, even though the products of the acquirer and those of the acquired are competing one with the other, the company will finally get a greater market share on the sector, supplying the demand of both the customers of the acquired and of the acquiring companies. Moreover, the competition that is going to be created inside the company is challenging and might help to increase the overall performance of the company: even though part of the same group, the employees of the acquired and the employees of the acquiring company will intrinsically perceive to be competing one with the others, encouraging them to perform better. This sort of competition is globally beneficial because it is inside the same corporation, so if the
customer buys the product of the acquired instead of the one of the acquirer, the sale is carried out by the same company anyways.

When choosing to delocalize production in a foreign country, whatever the reason, the impact of Made in Italy as competitive advantage does not have to be underestimated. This factor should be taken into consideration in the decision whether to commit with an investment as broad as establishing a production facility abroad. In fact, it can be that the demand for the company’s products is fostered by the Made in Italy characteristics, so when managers try to foresee the amount of sales that will be possible to conclude thanks to the fact that the product can be offered in the foreign market at a lower price (because the company has lower costs to import the good in the foreign country or because production costs are inferior, or for many other reasons), they do not have to forget to try to foresee whether there will be a decrease of the demand because the product is no more Made in Italy. To evaluate the actual convenience of investing abroad, it is important to try to compare the potential losses due to the diminishment of the demand and the potential benefits of offering a cheaper product.
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MERCOSUR: http://www.mercosur.int

MBRES – Mediobanca Ricerche e Studi: http://www.mbres.it/it/

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Può descrivere la struttura aziendale in generale e poi specificando come siete presenti in Argentina e Brasile?

La Facco S.p.A. è un gruppo che è composto da mini-filiali estere con rivenditori, ognuna delle quali ha la propria indipendenza in quanto sono diverse società (per esempio Facco USA, Facco Japan). Negli Stati Uniti la Facco S.p.A. ha sei rivenditori locali, in Russia cinque, in Giappone tre. Questi rivenditori fanno parte di società locali e girano per tutto il paese. In Argentina non sono presenti filiali con rivenditori, mentre in Brasile è presente una fabbrica nella quale lavorano 250 persone. In America Latina non c’è alcuna base con rivenditori diretti e con entità sociale, se non la Brasiliana.

La strategia d’impresa è piuttosto globale o regionale? Come sono coordinate le varie entità appartenenti all’azienda? Ed il processo di decision-making?

La strategia di impresa è regionale: tutte le decisioni vengono prese nell’head-quarter italiano e sono specifiche per regione. Non è presente una strategia globale che sia unica in tutto il mondo, questo permette l’adattamento alle peculiarità di ogni zona approcciata: con l’esperienza si è visto che non tutte le zone possono essere attaccate alla stessa maniera. Anche nel caso delle mini-filiali con rivenditori, la decisione finale viene presa nell’area manager: i rivenditori si rifanno a un’area manager italiano. Ogni area manager italiano gestisce queste mini-filiali: l’area manager che si occupa della Russia ha sotto di sé i rivenditori russi e gestisce la filiale. L’area manager è di solito italiano e passa almeno 90 giorni sul mercato di cui si occupa. Le decisioni, comunque vengono prese in Italia.

Qual è il grado di internazionalizzazione dell’azienda? E come è strutturata l’azienda a livello internazionale?

L’impresa esporta più del 90% del suo fatturato. Facco Spa ha uffici in varie zone con un magazzino e, in alcuni paesi dove le vendite sono consistenti, si può fare stock sia di prodotti inviati dall’Italia, sia di prodotti locali. C’è un cervello locale che suggerisce se è più
conveniente importare alcune parti dall'Italia o se acquistare parti locali (è il caso, per esempio di cavi elettrici) confrontando sia la qualità che il prezzo locale con gli standard italiani.

- **Dove vengono svolte le attività produttive dell’azienda?**

La sede produttiva principale è a Marsango, in provincia di Padova (Italia), e ce ne è un’altra in Brasile.

- **Come avete penetrato il mercato Brasiliano?**

L’insediamento in Brasile è avvenuto tramite l’acquisizione di Artabas Artefatos de Arame Bastos Ltda, una ditta già esistente sul mercato e produttrice di un prodotto simile classificata come la la numero uno in Brasile. L’azienda non è stata acquisita al 100%. La Facco S.p.A. detiene la maggioranza, ed è ancora presente il socio fondatore di Artabas, il cui figlio è colui che gestisce l’attività in Brasile. Le contrattazioni per l’acquisizione sono iniziate nel 2012 e si sono concluse nel 2013. In questa sede produttiva, Facco S.p.A. ha deciso di insediarsi apportando la più evoluta tecnologia italiana per coprire le lacune nella produzione brasiliana, ma comunque cercando di non modificare il prodotto brasiliano. La decisione è stata quella di mantenere due linee di business differente, tanto che nel mercato il prodotto è venduto con il nome di Artabas. Artabas continua a produrre il proprio prodotto parzialmente migliorato dalla tecnologia apportata da Facco S.p.A. e, in più, un prodotto Facco è prodotto da Artabas interamente. La produzione locale di questo prodotto ammonta a circa il 70%, il restante 30% deve essere mandato dall’Italia perché non ci sono macchinari sufficienti.

- **Perché avete deciso di acquisire una società in Brasile comportando per voi lo stabilimento di una sede produttiva nel paese?**

Il motivo per cui si è deciso di produrre localmente invece di importare dall’Italia è prevalentemente la chiusura del mercato brasiliano: su tutti i prodotti importati, il Brasile applica numerose tasse (ad esempio 15% per entrare nel MERCOSUR, 10% di tassa marittima, ecc.) fino ad arrivare ad un 60% di tasse sul valore della fattura. Questo è proibitivo per l’acquirente: il prezzo del prodotto ammonta ad un minimo di 100.000 euro, e il consumatore non è disposto a pagare un 60% in più solo per avere un prodotto europeo. La preferenza cade dunque in un prodotto locale, nonostante la tecnologia brasiliana sia
abbastanza arretrata e gli standard qualitativi locali siano più bassi rispetto a quelli europei (proprio a causa del fatto che il Brasile è un mercato chiuso e, quindi, non c’è concorrenza e tantomeno una spinta a modernizzarsi).

In Brasile è possibile non pagare questo 60% di tasse nel caso in cui l’importazione venga effettuata ai fini di lavorare il prodotto importato in Brasile per poi esporarlo. In questo caso, la tassa ammonta a un 24%. Il problema è che il costo del prodotto di Facco S.p.A. è per il 70% composto dal costo della materia prima, dunque importare la materia prima pagandoci un 24%, non risulta più conveniente rendendo il mercato brasiliano non più competitivo. Una soluzione, dunque, sarebbe l’approvvigionamento di materie prime locali (parliamo, per esempio, di acciaio e ferro). Tuttavia, i produttori di queste materie prime hanno una sorta di monopolio e sono consapevoli di quanto costi ad un’entità non locale l’importazione delle materie prime in Brasile, quindi fissano un prezzo maggiorato che è solo leggermente più basso del prezzo delle materie prime importate dall’Italia. Nonostante il Real brasiliano sia recentemente crollato rendendo più conveniente acquistare dal Brasile, il costo dell’acquisto di materie prime brasiliane risulta sempre troppo elevato, rendendo l’azienda poco competitiva già dall’acquisto.

- Che modo di internazionalizzazione avete usato per penetrare l’Argentina? Che differenza c’è stata con l’approccio verso il Brasile e perché?

Nel caso dell’Argentina, invece, le tasse non sono tanto alte quanto in Brasile, quindi il metodo usato per approcciare il mercato consiste nelle esportazioni dall’Italia (le prime avvenute nel 2006). Il problema in Argentina è che le importazioni sono chiuse. Infatti, i clienti Argentini non possono pagare in dollari per ragioni di bilancia commerciale: hanno più dollaro in uscita che dollaro in entrata, quindi il governo ha bloccato le importazioni per non far scappare la moneta al di fuori dell’Argentina. Questo blocco alle importazioni riguarda prevalentemente i prodotti presenti sul mercato argentino: se il prodotto è presente in Argentina, gli acquirenti lo devono acquistare in Argentina, ma se il prodotto non è presente nel mercato, essi possono richiedere un permesso per importare. A favore della Facco S.p.A. è il fatto che nel mercato argentino non è presente il prodotto completo: è presente la produzione di gabbiette, ma non vengono prodotti localmente impianti industriali, quindi il prodotto può entrare se l’acquirente richiede il permesso. La richiesta viene studiata dal governo argentino, il quale la può approvare o meno, anche se non è ben chiaro su che basi. Nel permesso sono specificati gli elementi chiave, come il totale a pagare. Tuttavia,
una volta ottenuto il permesso, nulla può più essere modificato: gli acquirenti ottengono il permesso di pagare una certa cifra all’Italia, la quale non può subire modifiche nemmeno a fronte di variazioni contrattuali. Inoltre, nel caso di Facco S.p.A., il trasporto viene effettuato per via marittima: l’azienda prenota il container per una determinata data nella quale il prodotto viene prelevato per essere trasportato al porto. Il container resta in azienda per un massimo di 24 ore, ma se per caso vengono fatti dei mancanti perché uno dei fornitori non è pronto, il container deve essere comunque chiuso ed inviato. Se si chiude un container con dei pezzi mancanti, a differenza degli altri paesi dove può essere fatto un invio posticipato a carico della Facco S.p.A., nel caso dell’Argentina i prodotti mancanti non possono più essere inviati perché serve un permesso per ogni prodotto che entra il mercato argentino (il quale è molto più difficile da ottenere per un singolo prodotto che per un sistema: se, a causa di una dimenticanza, dei cavi non sono stati inviati, è improbabile che venga dato un permesso per importare solamente questi cavi. Lo stesso può valere per i pannelli. L’entrata di queste parti è concessa solo perché esse compongono un sistema avicolo, ma non sarebbe concessa se dovessero essere importate da sole perché, per queste, esiste un produttore locale).

Il trasporto dall’Europa all’America Latina viene effettuato via mare. L’ufficio spedizioni contratta le navi, compone le packing-list e carica i container.

- **Come importate i vostri prodotti in Argentina?**

In Argentina, la Facco S.p.A. si avvale di un addetto che svolge un servizio di importazione per conto del cliente: la domanda di importazione può essere fatta solo da chi è registrato come importatore ufficiale e, spesso, le aziende argentine del settore non soddisfano le caratteristiche per essere registrate. L’importatore locale importa il prodotto e glielo rivende. Questi, però, sono i piccoli acquirenti: i grandi non hanno bisogno dell’intermediario di importazione.

- **Perché il Brasile? Come influisce la crisi sul vostro operato?**

Al momento dell’entrata, il Brasile cresceva al 6%, mentre ora è a crescita molto bassa. Anche all’epoca, però, visto l’alto protezionismo, il Brasile conveniva per il mercato locale, ma non per le esportazioni.
Oggi il Brasile presenta una situazione di crisi nel mercato interno, non tanto per quanto riguarda il settore in cui Facco S.p.A. opera, ma per colpa di una crisi governativa, a causa della quale le banche tendono a non concedere più finanziamenti. Questo è un problema per l’azienda perché l’acquisto del prodotto richiede un investimento voluminoso da parte degli avicoltori, che non possono più ottenere credito. Come risultato, ci sono meno avicoltori nel mercato brasiliano disposti a investire ora: la maggior parte aspetta che il finanziamento sia di nuovo concesso. Gli unici investitori brasiliani sono, in questo momento, quelli che previdentemente hanno accantonato dei risparmi che possono essere investiti ora.

- **Esportate dall'impianto Brasiliano? Se sì, verso dove?**

Essendo il mercato interno un po’ bloccato, l’azienda sta cercando di avviare un sistema di esportazioni dal Brasile. L’espansione tramite esportazioni dal Brasile è una strategia che sta prendendo piede ora: per il momento le esportazioni dal Brasile ammontano a circa il 20%. Quando Artabas è stata acquisita, la società esportava già verso il Venezuela ed aveva qualche sbocco a Cuba; da quando Facco S.p.A. ha acquisito la società, dei canali sono stati creati in Argentina, Bolivia, Colombia e Uruguay ed ora c’è in ballo un contatto con Messico e Centro America.

- **Quali sono i fattori di successo dell’esportazione dal Brasile?**

Lo sfruttamento della leva cambio (il tasso di cambio dollaro/Real brasiliano è passato da circa 2,5 a 4 in un anno) è un grande aiuto nel convincere alcuni paesi a importare dal Brasile. Inoltre, un altro vantaggio che l’azienda sfrutta nelle esportazioni dal Brasile è il fatto che gli scambi con altri paesi parte del MERCOSUR non sono tassati al 14% come le importazioni dall’Europa.

- **C’è competizione sul mercato argentino tra i prodotti che esportate dal Brasile e quelli che esportate dall’Italia?**

I prodotti esportati dal Brasile all’Argentina e quelli esportati dall’Italia all’Argentina sono in concorrenza tra loro: i prodotti brasiliani sono venduti con la marca Artabas, mentre quelli italiani sono marchiati Facco nonostante facciano parte della stessa impresa. Questa scelta mira a proteggere Artabas: Facco ha un nome ed è famosa in tutto il mondo, mentre Artabas no. Vendere assieme prodotti Facco e prodotti Artabas sarebbe significato ampliare il
catalogo, ma se i due prodotti fossero venduti da uno stesso venditore, che sia Facco o Artabas, il prodotto Finco prevarrebbe sul prodotto Artabas. Il target di mercato, però, è diverso.

Inoltre, la qualità del prodotto Artabas è differente da quella Facco. La gamma di prodotti è differente, Artabas fa molto uso di plastica, mentre Facco non ha nessun prodotto in plastica. La plastica va bene in posti con alta umidità, dove il ferro si ossiderebbe. Per contro, la plastica ha una durabilità globale inferiore ed è più soggetta all’insorgere di pidocchi.

- **Perché volevate entrare in Brasile nonostante tutte le difficoltà che esso comporta? Cosa vi ha spinti a decidere di acquisire Artabas?**

Il motivo dell’acquisizione di Artabas è che, in quel periodo, la numero uno in Sud America era una ditta spagnola Zucami, che riusciva a vendere con un solo venditore in tutto il territorio, Brasile incluso, ed in tutto il mondo esportando dalla Spagna. Poi, però è stata acquisita dalla Big Dutchman. Il motivo di questa leadership è che il loro tipo di impianto era molto semplice: non facevano chiavi in mano e non si occupavano di ventilazione e di altre determinanti del funzionamento dell’impianto. Loro avevano assemblato degli ingranaggi che funzionavano bene assieme e riuscivano a fornire un prodotto veloce e semplice da assemblare. Facco S.p.A. ha identificato in Artabas la propria Zucami: l’obiettivo era quello di espandersi e far concorrenza alla Zucami tramite la vendita di un prodotto in competizione.

- **Quali sono i vostri competitors nel mercato Sudamericano?**


Zucami vendeva anche in Argentina e Messico. I clienti erano fortemente fidelizzati e non avrebbero mai cambiato se non fosse che l’azienda è fallita ed è stata assente dal mercato per circa un anno. Ci si aspettava che la Facco S.p.A. potesse concorrere alla fetta di mercato così liberatasi, ma è stato assunto un venditore che non è riuscito a ottimizzare
l’opportunità creatasi. Nel mercato di Facco, per colpa della complessità del prodotto, la capacità del venditore assunto può essere determinata solo dopo circa un anno dall’assunzione. Nel frattempo hanno venduto moltissimo la Big Dutchman, che ha un ufficio in Argentina composto da cinque persone, ed un’altra tedesca: la Salmet, che vende quanto la prima ma solo attraverso un cileno che gira per l’America Latina, che fa capo al business area manager, che è un tedesco. Questo dimostra l’importanza dei segnalatori.

- **E voi vi avvalete di segnalatori o agenti per poter esportare in Argentina?**

La Facco S.p.A. preferisce sempre avere un contatto diretto con il cliente per avere la situazione sotto controllo. In centro America sono presenti dei rivenditori Facco, che intendono acquistare il prodotto per poi rivenderlo maggiorato di un markup. Nel mercato di Facco, però, i margini sono molto bassi ed anche un piccolo markup può generare il rischio di andare fuori prezzo. In alcuni prodotti, come la genetica, il markup può arrivare al 30%, altri prodotti come gli abbeveratoi possono avere un markup del 20%, ma nell’ambito di Facco, il markup può variare dall’1 al 5%. Però, l’utilizzo di un agente implica una ridotta conoscenza del mercato, che è in mano all’agente stesso. La Facco S.p.A. cerca di utilizzare l’agente, ma usando come segnalatore. Il cliente segnalato sarà poi contattato direttamente dall’azienda.

- **È importante nel vostro business avere un network di collaboratori locali?**

I segnalatori sono persone locali: c’è sempre bisogno di locali che facciano da contatto. Normalmente tutto inizia mediante le fiere, dove si ottiene il contatto di una persona chiave, che può essere un veterinario, come pure un rivenditore di Moba (che è una società produttrice di una macchina classificatrice per le uova), che conosce tutti i clienti, soprattutto i grandi.

- **Il prodotto deve essere adattato in base al mercato che viene penetrato?**

Per quanto riguarda il prodotto, esso resta unico sebbene debba essere modificata la soluzione. Per esempio cambia come viene costruito il capannone, la ventilazione. Cambia il sistema, ma non la gabbia di per sé. Il prodotto viene adattato a seconda del cliente e della zona geografica (condizioni climatiche).

La tipologia del prodotto è la stessa, ma nella realizzazione ne vengono cambiate le caratteristiche, come altezza e lunghezza, a seconda dello spazio a disposizione del cliente.
È difficile, dunque, poter standardizzare il prodotto. La produzione, comunque viene effettuata su commessa.

- **Avete la possibilità di beneficiare di economie di scala nella produzione?**

A gennaio di ogni anno vengono effettuate delle riunioni di budget dove ogni commerciale dichiara che prodotto venderà e fatturerà nell’anno corrente. In questo modo, l’ufficio acquisti si può programmare ed ottenere degli accordi con i fornitori, specialmente per l’acquisto di lamiera e di filo che sono i fattori principali. In questo modo, si possono ottenere delle economie, anche se il prodotto non si presta a economie di scala nella produzione.

- **Avete attività di R&D? Dove?**

La ricerca e sviluppo è concentrata in Italia: l’azienda cerca di mantenere il cervello in Italia e di portare fuori tutto ciò che si può, cercando di fare local for local. Per esempio, si ha una preferenza per acquistare localmente tutto ciò che è possibile acquistare locale, se è presente la struttura che permette di farlo. Per esempio, se ci fossero luci, ventilatori, cavi, pannelli di lamiera sono elementi che si possono acquistare localmente, mentre la parte tecnologica di metalmeccanica deve essere portata da casa. Una delle ragioni è la presenza della Tecnolaser S.r.l. nelle vicinanze della sede produttiva, che è una fabbrica automatizzata per il taglio laser delle varie lamiere che offre un livello di velocità e flessibilità ad un prezzo che difficilmente può essere trovato al di fuori dell’Italia. L’Italia è caratterizzata da un tessuto artigianale e produttivo con un vasto know-how e dalla possibilità di sfruttare l’indotto industriale, mentre nel caso dell’impianto produttivo in Brasile, tutto deve essere internalizzato perché non sono presenti altre società capaci di contribuire al processo produttivo. In Italia, se c’è una sovrapproduzione imprevista è possibile fare affidamento ad un terzista, ma in Brasile non c’è nessuno (o c’è qualcuno ma la qualità è inferiore).

- **Quali sono le ragioni che hanno portato la Facco S.p.A. in Argentina e Brasile? E perché avete deciso di utilizzare esportazioni nel primo caso e produzione locale nel secondo?**

La scelta di entrare Brasile e Argentina è puramente guidata dalla possibilità per l’impresa di trovare mercati dove il prodotto poteva essere venduto. La scelta del Brasile, inoltre, è stata determinata dal fatto che nel momento d’entrata, il Brasile era conosciuto per essere
un paese in crescita. Il Brasile è stato penetrato con questa strategia per necessità: per vendere era necessario avere una fabbrica brasiliana.

I mercati sono stati penetrati partendo da zero: non c’era nessuna conoscenza di clienti a priori. L’entrata in Brasile è avvenuta direttamente con l’acquisizione, senza prima avere nessun’altra relazione. Nel caso di Artabas, un’altra della ragioni dell’acquisizione, è stato passare “da zero” ad avere tutta una rete di clienti nel giro di un anno (il periodo di acquisizione): loro erano i numeri uno del mercato ed avevano già una buona rete di clienti. Nel caso dell’Argentina c’è stato un venditore: un veterinario che girava per il paese e ad un certo punto ha iniziato a vendere il loro prodotto. Questo veterinario ha portato alla Facco la cartella clienti argentina, ma da quando io sono subentrata, ci ho messo circa due anni a farmi conoscere.

- Avete dei rapporti con altri paesi sudamericani? Come li avete penetrati?

Nel caso dell’Ecuador, sono stati fatti già due viaggi, ma non viene messa l’energia necessaria perché il mercato è arretrato. In Colombia, Facco è molto conosciuta. Questo, però, ha richiesto un paio d’anni di impegno. Il Cile non ha alcun problema di importazione, come anche l’Ecuador.

- Quali sono le maggiori difficoltà incontrate in Brasile ed Argentina?

Le difficoltà in Brasile sono legate al fatto che le tasse d’importazione sono troppo elevate, mentre il per l’Argentina sono legate all’ottenimento del permesso di importazione da parte dei clienti, seguito dal fatto che, una volta inviata la merce, non si potevano più inviare ricambi e pezzi mancanti.

- Come definisce il mercato argentino e quello brasiliano in termini di sviluppo?

Il mercato argentino è molto più avanzato del brasiliano ed il prodotto offerto nel mercato argentino è tecnologicamente più avanzato. In Argentina sono più abituati all’uso di capannoni con ambiente controllato, mentre in Brasile sono ancora open air. Qualcosa di chiuso è stato venduto anche in Brasile, ma sono stati i primi ad introdurlì, mentre in Argentina ci sono già altri ad approcciare la vendita di capannoni con ambiente controllato.
- **Avete dei competitor in Argentina? Come vi posizionate rispetto a loro?**

In Argentina il mercato è in ripartito tra la Facco S.p.A. e le due tedesche Big Dutchman e Salmet, altri competitor sono presenti, ma meno considerati. Inoltre, è presente un’impresa brasiliana, la Kilbra, che esporta più del 50% della propria produzione. Artabas e Kilbra si giocano il mercato brasiliano, ma in America del Sud c’è la convinzione che i prodotti che arrivano dal Brasile abbiano una qualità inferiore, quindi a parità di prezzo viene scelto il prodotto europeo. Questa era una delle incertezze che la Facco S.p.A. ha dovuto affrontare quando si pensava di esportare tutto dal Brasile verso l’Argentina: il cliente non vede benissimo il prodotto brasiliano. Il Made in Italy è ancora un fattore importante, tanto che nonostante venga confermato dall’azienda che il capannone proveniente dall’Italia avrà esattamente la stessa qualità di quello proveniente dal Brasile, i clienti locali, nonostante le differenze di prezzo, preferiscono il made in Italy in quanto risultano scettici, sono convinti che il materiale sia diverso e che quindi il prodotto non possa raggiungere gli stessi standard qualitativi Italiani.

- **Quanto avete dovuto aspettare prima di vedere il ritorno nel vostro investimento verso Argentina e Brasile?**

Nel mercato argentino, l’investimento è quello di partecipare a delle fiere e convention per attirare i clienti. Il ritorno dell’investimento si ha dopo circa un anno.

Nel caso del Brasile, l’investimento ha dato ritorni immediati in quanto la società ha prodotto degli utili essendo già una società avviata.

- **Com’è possibile per l’azienda proteggere il proprio know how in Artabas?**

Non è possibile, per la Facco S.p.A, assicurarsi la protezione del proprio know-how: questo argomento è stato utilizzato nella contrattazione per l’acquisizione della Artabas in modo da abbassare il prezzo della società, in quanto i soci fondatori restano in azienda e la Facco S.p.A. porta tutto il know-how.

- **In che modo la Facco S.p.A. investe in Artabas?**

La Facco S.p.A. ha delle spese quotidiane per Artabas, ad esempio un ingegnere per adattare il prodotto è costantemente in Brasile. Inoltre, il capo tecnico si reca in Brasile per visualizzare i prodotti. Entrambi sono italiani, che lavoravano già in Facco e che sappiano...
cos’è Facco in modo da poterlo poi trasferire nella filiale. Per anni non è stato incaricato qualcuno di stabile a questo fine perché non era facile trovare la persona giusta.

- **Com’è l’integrazione con Artabas? Ci sono state delle difficoltà?**

Ci sono stati dei problemi legati allo scambio di informazioni: la Facco S.p.A. richiede di ricevere periodicamente i dati chiave, come il fatturato, gli ordini, il cash flow ed altri documenti, ma ci è voluto tempo perché questo diventasse una routine all’interno dell’azienda. Inoltre, nell’azienda tendono a prendere decisioni senza prima consultarsi con la Facco S.p.A., ma dato che lo fanno in buona fede e che lo fanno per il bene dell’azienda (che sta performando alla grande), si tende a chiudere un occhio. È una situazione delicata: la famiglia dei precedenti soci Artabas è ancora coinvolta in azienda. Il socio brasiliano, nipote del fondatore, è l’amministratore delegato di Artabas e la madre è una venditrice Artabas. È il CEO brasiliano a gestire l’attività in Brasile, completamente, e se lui dovesse andarsene, l’intera società ne risentirebbe.

**Transcript of the interview with Dr Francesca Novella**

- **Dimensione dell’impresa quando Argentina e Brasile sono stati approcciati ed ora?**

Quando l’azienda è entrata in Brasile ed Argentina era già una grande azienda. Prima di acquisire la società, la taglia di Facco era più piccola, ma sempre maggiore di una PMI.


- **La dimensione di Facco ha influito nella decisione di acquisire Artabas?**

Nell’acquisizione la taglia di Artabas ha avuto influenza: la complessità gestionale di acquisire una società fa sì che sia sempre meglio non acquisire una società piccolissima. Si preferisce acquisire una società in grado di generare utili e dare un apporto significativo al business.
Ora Facco sta facendo insourcing riportando parte della produzione all’interno, ma fino all’anno scorso il 90% della produzione era a chilometro zero in un indotto di fornitura che è cresciuto con l’azienda (e che è quindi parte integrante dell’azienda), ma è terza.

- **Qual è la percentuale di ownership di Artabas?**

Facco S.p.A. ha la maggioranza, in più ha due membri su tre nel consiglio di amministrazione, quindi è completamente controllata.

- **Da cosa scaturisce la decisione di acquisire l’azienda in Brasile?**

Due sono i motivi principali. In primo luogo, le barriere doganali in ingresso non permettevano all’azienda di vendere in Brasile e di essere competitiva con le realtà locali, che sono le padrone del mercato. In secondo luogo, il Brasile è stato visto come un potenziale modo per entrare il Sud America: con la possibilità di produrre il prodotto in Artabas come se fosse stato prodotto in Italia e di ridurre i costi di trasporto e i dazi nell’ambito delle convenzioni dei paesi del Sud America, quindi riuscendo a penetrare efficacemente altri mercati. Artabas è stata individuata ad una fiera: gli azionisti fondatori di Artabas hanno contattato Massimo Finco per stabilire un contatto per una possibile cessione. Il motivo della cessione era una mancanza di ricambio generazionale: i soci ritenevano che perché il figlio sopravvivesse nel mercato, un partner più solido, di dimensioni maggiori e che potesse portare delle innovazioni alla società fosse necessario.

Il target si è proposto, non è stato selezionato.

Per quanto riguarda la prossimità culturale, il Sudamerica sembra simile all’Italia, ma non lo è. A prima vista può sembrare un driver di internazionalizzazione, ma in realtà non lo è perché siamo molto diversi.

In Brasile le vendite erano bassissime: costituire una società da soli era impossibile.

- **Qual è la quota di mercato contro i competitors in Brasile e Argentina? Qual è il vantaggio che l’impresa ha nei confronti dei competitors?**

I competitor sul mercato erano tre e detenevano tutti circa un 33% delle quote e la Facco S.p.A. ha assorbito uno dei player del mercato. Ora a scapito dei competitors la quota è
cresciuta: Artabas ha acquisito una forza superiore e sembrerebbe che i competitors siano in contrazione, ed uno in difficoltà a causa della congiuntura economica del Paese.

Facco S.p.A., invece, riesce a crescere perché, come Facco, anche Artabas è conosciuta per la sua qualità e anche per le relazioni commerciali che ha saputo instaurare con i clienti. C’è quindi una forte attenzione al cliente, che viene molto seguito. Il cliente soddisfatto, poi, torna e porta nuovi clienti. Localmente, l’azienda è collocata nel distretto avicolo più grande del Brasile. Ci sono circa 20 milioni di galline ed il paese conta 20 mila abitanti. La produzione di uova è destinata a gran parte del sud est del Brasile. Gli altri competitor hanno avuto politiche di prezzo più basse, ma non hanno fornito la stessa qualità. Questo ha portato alla loro perdita di clienti.

- Avete anche un vantaggio geografico?

No tutti i competitor sono localizzati nella stessa zona: il vantaggio è derivato unicamente da una maggiore qualità e da un servizio al cliente aggiuntivo. In Sudamerica il prodotto era abbastanza antico. Il prodotto venduto ha delle evoluzioni in funzione dell’evoluzione sociale del Paese: più esso è evoluto, più è forte l’attenzione verso il benessere animale e verso le norme qualitative che determinano anche la qualità del prodotto finale. Mentre in Brasile le galline sono in impianti semplici e con condizioni igieniche non ottimali, in altri paesi che vengono serviti dall’azienda come il Giappone e l’America, gli impianti venduti sono impianti a terra, dove il benessere dell’animale è maggiore – questo dipende dagli standard qualitativi più elevati presenti negli altri Paesi.

L’azienda acquisita in Brasile, tramite l’acquisizione, ha potuto passare da un prodotto tipicamente convenzionale del mercato sudamericano ad un prodotto che si avvicina di più ai vecchi standard europei. L’evoluzione del prodotto verso gli standard europei sarà graduale, ma permetterà comunque di fornire qualcosa che i competitor non hanno. Gli standard europei sanciscono in merito ad uno spazio minimo garantito ad ogni animale: nella maggior parte dei paesi non sviluppati non esistono normative in merito ed il prodotto è diverso. Più il paese è arretrato, meno l’impianto è evoluto sia in termini di dimensioni che in termini di servizi aggiuntivi e gestione automatizzata dello stesso. Il tipo di impianto venduto è collegato in parte anche alla sensibilità della popolazione: ora negli USA tutte le catene di supermercati utilizzano solo derivati di uova allevate da galline a terra. Questo implica che tutti gli altri impianti vengano dismessi, ed ovviamente ciò dipende dalla sensibilità del consumatore.
In Brasile sono presenti due brand: Artabas ha il proprio brand ma produce e vende anche Facco.

Il prodotto Artabas ha delle caratteristiche tecniche diverse, questo non significa che la qualità sia minore. Ma le caratteristiche sono differenti, ad esempio, loro producono impianti piramidali dove i rifiuti prodotti cadono direttamente sul pavimento, mentre Facco fa prodotti verticali con dei tappeti che possono essere rimossi e puliti. Entrambi i prodotti sono di alta qualità, ma hanno due target diversi. Nel paese la domanda per il prodotto è comunque divisa: c’è chi vuole Facco e chi Artabas. C’è la credenza che il made in Italy abbia una qualità maggiore: chi può permetterselo o chi conosce l’azienda vuole il prodotto Facco.

Il mercato brasiliano si sta evolvendo verso standard più europei, ma c’è ancora chi continua ad acquistare prodotti Artabas perché non può permettersi quello Facco o perché magari è meno sensibile alle tematiche sugli animali. Per esempio, Artabas produce anche un impianto in plastica (per scelta) non prodotto da Facco, che risulta ancora avere una fascia di mercato.

**Evoluzione del fatturato dall’entrata in Brasile e Argentina**

Artabas è stata acquisita che faceva 25 milioni di Real ed è arrivata a farne 75. Il fatturato è quadruplicato raddoppiando la produzione e rinnovando la modalità di produzione portandola da completamente manuale a semiautomatica.

**Qual è la percentuale di fatturato che deriva rispettivamente da Argentina e Brasile?**

Sulla proiezione del 2016, il fatturato prodotto in Brasile (Artabas inclusa) è intorno all’8% del globale, il fatturato dell’Argentina invece rappresenta tra l’1 e il 2% della cifra d’affari globale.

**Artabas esporta anche in Europa?**

No. I costi di trasporto sono elevati perché il nolo marittimo ha costi elevati e non avrebbe senso. I prodotti Facco hanno tanta materia prima e poca manodopera, quindi il costo della manodopera incide poco e non sarebbe un vantaggio competitivo produrre in un paese con basso costo della manodopera. Inoltre, il Sudamerica è caratterizzato da alti costi delle materie prime.
Dal punto di vista finanziario perché è stato scelto di approcciare il mercato solo con esportazioni in Argentina? Perché non è conveniente la produzione locale o la costituzione di filiali? In un futuro pianificate di sviluppare impianti e/o filiali in Argentina?

Il mercato è molto recente ed in via di sviluppo. In termini di fatturato non è tra i primi mercati di Facco. Il Sudamerica è stato sviluppato prevalentemente grazie all’acquisizione di Artabas, prima non erano molto presenti. I principali mercati sono gli USA ed il Giappone, cioè paesi all’estremità opposta, nel senso che sono altamente sviluppati e la tipologia di impianti venduta è diversa: sono impianti completi, automatizzati e di alto standard qualitativo.

Il motivo per cui tra i tanti paesi sudamericani è stato scelto il Brasile per acquisire un impianto produttivo è che lì era presente una buona azienda produttiva da acquisire, sempre con lo scopo di entrare nel mercato sudamericano e di vendere nei mercati dove Facco non era presente. Sul target Sudamerica è stata selezionata la realtà che sembrava la più interessante e simile a Facco: un’azienda produttiva di successo. L’Argentina, oltre a non avere una buona azienda da essere acquisita, ha una situazione paese un po’ critica.

In generale, se un mercato non è presidiato, si decide o di costituire una società o di acquisirne una: a Facco è capitata l’occasione di acquisire la società.

Facco ha delle filiali nei mercati storici dove Facco ha sempre venduto (in Giappone e USA le filiali hanno 25 anni di anzianità), e servono per il post-vendita e la vendita di ricambi di mercati già maturi. In un mercato non maturo, la scelta può essere quella di acquisire una realtà (produttiva o non) che ha già un suo mercato, altrimenti una filiale commerciale in un mercato che non è avviato non sarebbe finanziariamente profittevole. Le filiali sono presenti in America, in Giappone, in Russia, in Marocco, in Algeria, in Cina (dove è stata costituita una WFOE perché non è stato trovato un target da acquisire). In Argentina, se un giorno ci sarà un mercato di taglia importante e se il mercato non venisse fornito dal Brasile, potrebbe essere costituita una filiale.
- Qual è il margine di guadagno sui prodotti in Argentina e Brasile?


- Quali sono le barriere incontrate nelle esportazioni?

Verso il Brasile, a parte i costi di trasporto i dazi doganali incidono per più di un 40% per gli impianti e per la materia prima si arrivava a importi dell'80-90% perché c'è un regime protezionistico del paese.

- Come decidete se il prodotto da importare in Argentina proverrà dalla fabbrica italiana o da quella brasiliana?

Il prodotto che dall'Italia si vende in Argentina è diverso dal prodotto che dal Brasile si vende in Argentina. Dal Brasile vendono il prodotto di plastica, mentre dall'Italia vendono il prodotto in acciaio. Inoltre, in Brasile è stato deciso di produrre uno dei prodotti Facco, quello che poteva sembrare il più adeguato alle condizioni del mercato sudamericano. Se il cliente desidera un prodotto Facco diverso, allora il prodotto viene importato dall'Italia.

- Il grado di sviluppo del paese influisce sul prodotto che viene domandato?

Lo sviluppo del paese influenza molto sul prodotto che viene domandato. Facco vende dove c'è la grande distribuzione perché dove non c'è la grande distribuzione non sono richieste uova con delle caratteristiche qualitative costanti. In Europa non è accettabile una cosa del genere. Quindi, il grado di sviluppo del Paese determina il grado di impianto che si vende, così come la possibilità che Facco sia presente o meno nel mercato. Per esempio, se c'è manodopera in abbondanza ed il costo del terreno è basso, impianti per l’allevamento intensivo non vengono venduti.

Se i paesi sono più arretrati si accontentano di avere un impianto più semplice.
Transcript of the interviews with Dr Leandro Yoshikawa

- Why did you decide to cooperate with another company?

Artabas is a family company carrying on the same kind of business as Facco. It has been started in 1967 by my grandfather, then my parents have been in charge for the company since 1974. I entered the company in 2007, and since then the company grew almost of the double of the size in 2010. We decided that we needed help to keep growing the company. We wanted to professionalize the company, but the market was asking also not only to be more professional, but also to increase the possibilities in the market (so being more competitive and possess more innovation, solutions and technology). For this reason, we decided to join another company. My parents were getting old, and I was taking care of a company composed by more or less 200 people: it was too much load in only one person and in the family that wanted to start resting a little. So, another reason was to release a little bit the family. Moreover, before opting for Facco, we were approached by another big of the market, made us think more about joining another company in order to get the goals I talked you about before.

- Why did you choose Facco S.p.A.?

The previous proposal came from a German company which wanted to buy the whole company and the family would have needed to go out from the business: the proposal was too aggressive. The decision of Facco was by chance: we met them in a fair, we were looking for a company that could have been a good option and Facco was really well known in the market, so we started the approach.

- Do you think the Italian culture is similar to the Brazilian one? If yes, did this characteristic influence your choice of having Facco as a partner?

In a way, Italian and Brazilian cultures have some similarities, but Italy is a country inside Europe, and compared to Brazil it has a very different size, so it has to adopt a more worldwide way of making work, selling, etc. Facco to be very strong in the business has to sell everywhere. Italy helps, so, the companies to be selling outside from Italy. Brazil is a very closed market: most of the companies that is established in Brazil sells basically to Brazil because it is a big market and the politics of how to make business is too costly. We are also selling outside, especially to other South American countries, especially because
our currency is becoming more interesting. Otherwise, Brazilian law do not allow Brazilian companies to be competitive out of Brazil. And also, what is interesting is that companies that are really competitive outside of Brazil, are not competitive anymore when they try to enter the Brazilian market through exporting their goods to Brazil. This is because Brazil is a closed and protected market. But this does not mean that there is a protection to the companies: there is a protection of the government. Companies pay a lot of taxes independently that their product is for outside or for inside.

The corporate culture of Facco is similar to ours: it is a family business selling the same products, in the same direction in terms of sales (i.e. trying to sell quality and with a good strength on the family side). Both Facco and Artabas have their family present in the business. These similarities helped for choosing them as partners: Facco decided to keep the family in the management of the business and not buy the whole company, so that part of the business and the shares could be left also to the family.

- **What were the obstacles?**

When we decided to professionalize we had already a lot of internal obstacles and discussions, so even though the other company has similarities (products, family running the business), there were some cultural differences. First of all, we are Brazilians and they are Italians, so the way of thinking is not the same. This could be an obstacle but not a problem. For instance we are together since 2013 (almost three years) and since then we are still managing and running the company here more or less in the same way as we used to do it before. Of course, we have to report to Facco and there are discussions concerning the way of managing Artabas in order to find a compromise and decide together a common direction that represents the business’ interest. Facco still does not have too demanding points of view: they are very open to the business. I believe that they are waiting to understand more the business because Brazil is not an easy business and it is very peculiar. So, one of the good things is that they are relying on us, and because of that we are having three good years: because of not too much imposing of what they use to do in “their” company, but a lot of understanding by their side.

- **How is the decision making process? Is it centralized in Italy or left to Brazil?**

Decisions are taken by Artabas. This depends by the fact that being a family company we are really present in the daily work, and this allows to see what happens into the company.
Regular decisions are taken here, in Brazil, because we need to be very quick, we cannot lose time in order to not lose a sale. So, the majority of the decisions are made here. Of course, then it comes the negotiation together: it is part of the contract that if the company wants to make an investment over a certain amount of money, we have to decide together the details and if doing it; we also have to decide together if we want to develop a new product. Daily decisions are made here, important decisions that could change the future are taken together.

- How has the integration been developed?

The major problem to us was starting to report to Facco problems or even good things that could arise in the company, because we already got to know those things. We have a saying here which is “Raining on a wet floor”, meaning that the floor is already wet, so why do I have to water it again? It is a sort of psychological thing that was not easy to overpass: you are reporting what we know. But yes, we know it, but Facco cannot know it because they are in Italy. This integration is getting more and more improved, and we see that this integration is important: without integration it is better to become again a solo company.

- Where there changes because of the integration? (as changes in production facilities, changes in the range of products, changes in the features of products, changes in the number of employees)

We had a lot of changes: we started doing reports, we changed of doing some controlling, we changed also the accounting system (and doing that we could see better what was going on in the company). Of course the change is not easy, but I see until now that the majority of the changes has been to the good. This depends also from the fact that we are also exchanging experiences in production and products. We are not organized as if we just imported here, selling and manufacturing something identical to the Italian product: we have our own products as well as our identity in the market. What we are doing is exchanging some items of the major products. We are keeping the hands, even though the things have changed into Facco’s feet. The shoulders are a mix of the two companies. This means that we are upgrading our products and it can be over our product itself or it can be a part of Facco product that we are putting in us.

So, we are making changes in our products, we are changing in production facilities, but we were already going to do it in our company, it was just a next step. But we are not changing
towards an adoption of their production line, we discussed and basically it is us at making the changes. We are doing it, but being together helps: we are getting help, of course, exchanging these experiences.

- **Do you receive any financing from Facco?**

This is the interesting part of the business: when Facco entered the business they bought part of the company paying the family. This money went to the family, but any extra money was put into the company. So, the money that Facco put into the company was the price of the part of the company it bought, but they did not put money to improve production or carry out other improvements. What they are doing is helping with human resources. Only making this joint already helped the company to sell more than before.

Of course, the scenario of that time helped as well, it was a sum of a lot of things, but they did not put financial inputs. They sent us a machine from Italy to here, and we paid for it, even if at a lower price – because it was an old machine that was working in their factory in Italy. We are still using that machine here, and it is helping us in production. So, there is their help, but not properly a financial. A little bit because we did not payed the machinery as if it was new (there is also a law not enabling us to get a machine for free even though it belongs to the same company in another country). They are helping us, but not to the extent that they invest in us to increase our productivity or purchase new machineries. The money for improving Artabas business derives from Artabas investments. We invested in new machines and we invested in new offices, but with the money of the Artabas business.

- **What about the revenues? Are they consolidated and then distributed between the two companies?**

Brazilian market is really close and well protected, that is why Facco could not enter Brazil successfully without the acquisition. When we concluded the agreement, we could sell in the first year of business already two Facco products, that we were buying, importing and selling. Also because of that, Artabas itself increased its revenues as well, so doing business together helps the two companies. Revenues increased both for Artabas and for Facco. The business here was to sell Artabas products with the support of Facco, not to sell Facco products. But only because of the joint, some customers wanted Facco products.
- Are your business model and Facco's one similar? What changes had to be implemented in order to develop an efficient collaboration?

The business model of Artabas and Facco are different: we are verticalized, we produce everything here in our factory, while Facco is more horizontal: it buys a lot. Here in Brazil to buy from third companies the taxes are too high, so it is difficult to keep buying from third companies. In Italy it is different: the more a company is pulverized, the better. Management is a bit similar, but not that much: we are smaller, we have more multitasking people, in Facco they are more specialized. For instance, we have one guy who is responsible for accounting, but he is responsible also for HR.

In Brazil we have specialized people regarding projects, engineering or something like that, and here we work separate. One of the tasks is to integrate and unite the two engineering departments. It is not an easy process. As we have our own product, we take our decisions mainly by ourselves, we sometimes ask for help. It is more a matter of collaboration than a matter of being interfering one with the other. Facco did not want to change our managerial system when they entered, they let us be like we were. It is another saying “If the teams are working good, why changing them dramatically?”. Changes can happen slowly; this is the decision we took together. If the change was too aggressive, I believe here we would not have supported it. The change of having another owner foreigner was already a big change, not only to us as a family, but also to the other employees.

- How did employees accept this change?

In a way people accepted because they see Italians from Facco coming and going, but their major daily job has not changed so much. This is why not changing much the way we used to work, even though carrying out some slow adjustments, was helpful: to make people accept better the operation. If the change was too dramatic, it would have been a problem: people are in their comfort zone, and the problems arise when you try to take these people out of the comfort zone. In a way, we let them in their comfort zone also after the introduction of Facco in the business. We have been changing a lot in our production, management, selling, and they are accepting it very good, also because the change was for the better. The changing of what we were doing, moreover, was not a change towards the way in which Facco does: it was an improvement of our way of working.
What benefits do you think Facco S.p.A. brought to Artabas? And what benefits do you think Artabas provided to Facco S.p.A.?

The benefit was for both. Revenues of both companies increased. Facco helped us to become more strong in the market and to become also more competitive, and also to be stronger outside of Brazil. That is because they were known better than us outside of Brazil. Besides, they helped us to understand better what we were doing, what we can do, and what we can do for the future. At the same time, I think we helped Facco to increase their sales, but we also helped them to be introduced in Brazil (which was a new market for them, they were almost unknown in Brazil), and to think in a different way. In fact, even if they were a multi-country company, their way of working was always very centralized in Italy (from production to decisions). In the last three years, they have been changing and they are decentralizing this way of work. As a consequence, they are having more success also in the USA, not because of us, but because they had to open their mind: to work with us, with the Brazilian market which is very difficult to understand, you have to open your mind very much.

How is the sales process?

We are the ones that are selling Facco products, but as we have our own products, the first year we started the business we sold a lot of Facco products being imported. Then, we were making nationalization of this specific product that we decided to sell in Brazil (not of the full range of Facco products). So, we were also changing our production line in order to be able to produce at least 70% of the Facco’s product. Doing this, we could give a better financing product to the market itself: they could go to the bank and finance the product (they have to be 60% Brazilian made, even if with a Facco design). We started this business, but at the end because of the exchange rate changes (three years ago 1 euro was 2.8 reals, today 1 euro is 4 reals) the imported products became impossible to buy. That’s why last year and this year we are selling almost zero of Facco products.

We are selling both Facco and Artabas in the Brazilian market, but for example if we go to Argentina, we have our sales department that is different from Facco’s. Outside of Brazil we are competitors. This is true also for the Facco product we produce in Brazil: in a way we cannot sell Facco products made in Brazil outside of Brazil because of an agreement. But we can sell spare parts. However, the invoice would be from Facco to, for instance, Argentina, but made in Brazil.
- How are you facing the crisis in Brazil? What impacts did it have on your business?

The crisis in Brazil has been very aggressive to most of the market, however agribusiness in a way is still “holding”. But has been not easy. Our turnover has decreased from 2014 to 2015 by 22% and we are expecting another decrease of 25-30% for this year. The main reason is the lack of credit in the market, basically no more financing programs from the government that was one of the engine to keep the market running.

Because of that we had to fire around 80 people from 320 employees that we had in 2014.

- How can your business survive and keep being competitive?

First, the government has to position where they are going to be, otherwise market will keep being unstable. Moreover, there should be a return to the financial programs because customers do not invest with their own money if they would have it.

So we are still working in reducing costs, especially on production and trying to give to the market better solutions that the conventional market would not give. Again, with the joint with Facco can help.

Other thing is to try to improve sales outside Brazil to keep business going.

- Did the cooperation with Facco S.p.A. help you to face the crisis giving you a greater strength against competitors? If yes, was this strength determined above all by factors as financial support, or by other factors deriving from joining the forces?

Yes, because is also helping to improve sales outside Brazil. Besides that, we could start offering other solutions that Facco already have and implement in Brazil. However some competitors are also from Europe or USA that have more or less the same strength, so post sales is also a great weapon because been in the country for almost 50 years help as well. Moreover, Facco could also help, if needed, financially.

- How would you define the Brazilian market? Is it a difficult market? What are the main challenges?
Brazilian market is very closed and “protected”. What I mean is bringing imported material is very costly, so normally you would need to produce in Brazil to be more competitive. However, even producing internally Brazilian costs are quite high. So producing is high-costly, but importing is a little bit more expensive, so if you need to sell in Brazilian market in general you must have to produce in Brazil.

Brazilian market is also in a way difficult because of language, normally nobody speaks another language but Portuguese.

The other thing is that you have to be present, Brazilian like person to person deals. Sometimes, good relationship is more valuable than only good products. They like to rely on people. So normally you must be a local person, or at least living here and being present.

Inflation is another challenge, we were having some years with more stability, but from last year with the crisis it returned to more than 10% a year.

- Did you have international relationships before operating together with Facco? If yes, towards which countries? Which percentage of the revenue was produced abroad?

Yes, but only sales that a specific market called us and then we sold. We were starting to implement sales representatives, but as I said to export from Brazil is a big challenge in comparison to an European company.

We had sold before to Argentina, Bolivia, Panama, Paraguay, Venezuela, Angola, Congo and some parts (not whole products) to USA. Exports consisted in no more than 5% of the revenues.

- Did your international operations increase since when you collaborate with Facco S.p.A.? If yes, how much? Do you think Facco’s contribution improved your capability to internationalize?

Yes it increased because of many factors. First was the exchange rate that became more attractive to us. In 2013 euro was R$ 2,60 than today is a bit more than R$ 4,00. Of course our cost increase together but not in the same proportion.
We used to have something no more than 5% of revenues outside Brazil, but for this year the prevision is around 20%.

Facco contribution of course helped because we started to become more international because most of the markets knows that Artabas belongs to Facco and have some products already mixed/implemented. So it helps.

Besides that, we hired a sales manager to focus in international market also developing sales representative in other countries.

- **How is the exporting process developed and how do you reach new customers?**

Like I said exporting is a challenge in Brazil, because as most of the companies and also government are focused in internal market, in many ways everything become a challenge. We are improving internally but we also needed to hire a third company more specialized in international market and business process.

We reach new customers showing our brand in fairs, shows, magazines and travelling developing sales representatives so they can offer our products.

- **What are the main difficulties encountered in exporting from Brazil towards your foreign partners?**

Like I said above, many factors. Brazil itself is not an export country (of course in some market yes, but is not generalized).

Encounter capable peoples is also a challenge.

Brazilian costs are high but there are “gaps” in our law that we can get more benefits to export, but this is not automatically: we need experts that would help to reduce costs for exporting, because regular work makes our cost become impossible to export. With that we can reduce taxes and duties. Bureaucracy is too high and makes everything difficult and this helps the corruption to act easily.

Cost of freight is also a problem, because Brazil is big and we basically have road freight that today is expensive. Our ports are also in not good conditions making things more difficult as well.
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