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THE POSITION OF PORTUGAL TO LOGISTIC STRATEGY OF BRAZILIAN COMPANIES

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ABSTRACT

This article deals with internationalization analysis process of Brazilian companies in Portugal. Brazil is emerging to invest substantially abroad since the 2000s, including the prospect of logistics. Through three case studies with those companies, will seek to assess the geographical position of Portugal to the strategy of internationalization of Brazilian companies. After the introduction on the development of world economy, especially some developing countries, we'll describe the brazilian, the world's eighth largest economy in terms of Gross Domestic Product (GNP), as an investor abroad, something new under the number and volume of foreigh direct investment (FDI). After that, we present the theoretical framework of internationalization and logistics. Next will be discussed the location of Portugal as a host of foreign direct investment (FDI). Fifth, will be described in three cases: WEG SA, CSN / Lusosider, and Banco Itau. The Brazilian companies studied view Portugal as an important strategic center for the management of its business within the European Union - Mercosul, including the the logistical point of view. The results achieved are of great importance because Brazilian companies studied see Portugal as a strategic location. It is positioned in central regions such as northern Europe, USA, Brazil, Africa and Middle East / Russia / India.

Keywords: logistic – Portugal – Brazil – Foreigh Direct Investment - Location

1.INTRODUCTION

The new context which firms structure their logistics are placed on the era of globalization. She has several meanings. To Bhagwati (1), globalization is the "integration of national economies into the international economy through trade, foreign direct investment (FDI), short-term capital flow, international workers, people in general and technology flows." The big players in this phenomenon are the multinationals. According to data published by UNCTAD (2), there are 82,000 multinational enterprises (MNE), corresponding to 810,000 affiliates. The sum of investment by these companies represents 22% of global GDP, up from 5% in 1980.

This globalization process which the world economy is passing also brings profound effects on corporate strategy. The economic distance, for example, is rapidly decreasing because new information technologies. Thus the international competition is more rapid and intense. But at the same time, globalization opens new markets and opportunities. The shorter distance could make exporters reach the international market with greater efficiency. It may also allow importers to have access to cheaper products and services and consumers have better information when they choose a product or service.

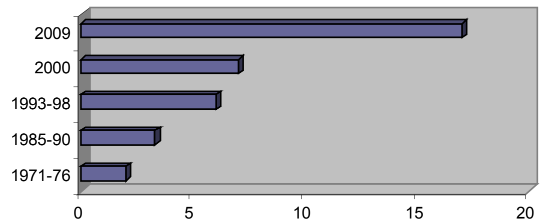
In this context, the ability to generate development depends on the ability of companies and countries to have access to these new technologies quickly and use them effectively. At the same time, the trade liberalization and the access to new technologies provides companies to obtain new opportunities and specialize more deeply in the processes and functions which have a greater competitive advantage, and thereafter increase the added value in specific functions of their products and services, competing more advantageous in the global market. The time to learn from the production of low-to high-tech sector as one tends to be shrinking by the dynamism that globalization poses, and therefore presents new challenges to logistics, and industrial location plays a major important.

Multinational corporations are one of the driving force of this process, and, therefore, increase the importance given by most countries in attracting foreign direct investment (FDI). In relation to the competition, they may be forced to concentrate on their core business and provide opportunities for external or local suppliers where investment operates. FDI is crucial for the targeting and attraction of international players, which enables the creation of global chains.

This environment relates to the rise of emerging countries importance. According to UNCTAD (3), the aggregate output in emerging economies reached an important milestone in 2006: more than half of gross domestic product (GDP), measured in purchasing power parity (PPP). The emerging countries are maximizing the global growth and cause a strong impact on inflation, interest rates, wages and corporate profits in the countries. FDI from emerging economies has grown considerably and now represents approximately 17% of the world outflows, as show the graph 1. FDI from emerging economies external IDE fluctuated from less than 4% to 18% higher.

Graph 1 - Emerging countries FDI in relation to the world, 1971-2009

Percentagem do total



Fonte: FMI e UNCTAD

2 BRAZIL AS INVESTOR ABROAD

Brazil is a large country with immense resources and, thus having a boosting internal market and wider potential. The macroeconomic instability make that FDI was relatively little in recent decades. The process, however, came out clearly and intensify since the 90s.

Initially, from the 1970's, companies that have embarked on the conquest of markets abroad, the vast majority were the public sector(Bank of Brazil, Petrobras ...) or large companies were fundamentally linked to the basic sectors (with great force in the domestic market due to the National Development Plans), such as Odebrecht and Andrade Gutierrez. In the following decade, the unstable macroeconomic performance, particularly inflation and foreign debt crisis, made the Brazilian economy stagnate, with the appetite to invest abroad was also weak, because of difficulties of companies performance in the domestic market.

The Real Plan (1994), in particular its effective fight against inflation, coupled with trade liberalization measures and attack the public deficit, began to create a favorable environment to the maintenance and conquest of new markets. For the first time in its history, the country, in 2006, invested more abroad than it received investments. In the context of the BRIC (Brazil, Russia, India and China), Cechella (4) also shows some forces of Brazil:

• Economic diversity: exporting iron ore from the jet; the first nation on the planet that has globalized the inside (the Lebanese colony larger than Lebanon, for example).

• Democracy (since 1822, with parliamentary elections), freedom of thought and action (creativity);

• Stability and respect for contracts, measures of the Central Bank to stabilize the currency -, since 1823 all bonds issued on behalf of the government were strictly paid.

3 THEORETICAL APPROACH

For the purposes of this study, is necessary to highlight some theoretical approaches that help to better understand the international investment phenomenon.

Dunning (5) proposed an integrated formulation of various determinants of FDI. His model of Dunning, also called the Eclectic Approach, shows that the determinants of MNE activities are based on three factors (Dunning, 6, 7, 8 and 9):

(1) the advantages of ownership (Ownership) MNE existing or potential;

(2) the advantages of localization (Localization) for some countries to provide complementary assets;

(3) the advantages of internalization (internalization), that is, the tendency of companies holding property of the specific advantages to combine it with external assets of the recipient country through FDI rather than through market mechanisms, or some form of non-corporate cooperation agreements. Thus, for Dunning, the investment strategies of MNE are the result of a combination of the advantages of ownership, location and ability to form partnerships with local companies.

In this context, we should consider the relationship between distance and size of the market, linked to economic geography: the volume of trade between two countries tend to increase your income increases, and decrease the distance between them increases, particularly because transport costs (10). Collins et al. (11) demonstrated that proximity to the European market is an important aspect in the decision between exporting or investing. Buckley and Casson (12) suggest the increase in FDI over trade when tariffs or transport costs are high. Cechella et al. (13) showed, by a gravitational model, that Brazil has a relative very good performance on international trade comparing to Germany basis. Porter (14) puts the factors by which firms tend to locate in clusters. These affect competition in three ways: first, by increasing the productivity of firms or sectors components; second, by strengthening the capacity for innovation and therefore productivity through innovation; and third, by encouraging the formation of new companies that strengthen innovation and expand the conglomerate.

Another current theoretical relevance in this study is called Uppsala School (Johanson and Wiedersheim-Paul, 15), whose contribution was a basis of this approach. This school shows that MNE don't start its business abroad through high investments, however, the MNE expands gradually through four stages: the first, the MNE produces and sells its products and services only in their country because the lacks of competitive advantage and has a tendency to be risk-averse. In the second stage, the company is beginning to move abroad, exporting to neighboring countries or for firms that who knows well through independent representatives (agents). The psychic distance between host and investor country - language, culture, political system, level of education and industrial development - strongly influence the decision of the MNE on exporting. At this stage, the potential market is less important than the psychic distance. In the third stage, the MNE has established value chains and organize a sales subsidiary abroad. The potential market can be a determining factor in choosing where to establish this subsidiary. In the last stage, the MNE installs or acquires a company abroad, influenced by factors such as psychic distance, tariffs, nontariff barriers, transportation costs, etc. Johanson and Wiedersheim-Paul also add that in companies with extensive experience in internationalization is not expected to use all four stages (as well as its duration is variable) and can break barriers, as found in its survey, which used data from four Swedish MNE: Sandvik, Atlas Copco, Facit and Volvo.

Penrose (16) and Caves (17) emphasized the determinants of FDI related to Industrial Organization Approach, among others, argue that the causes that lead the company to the IDE are the same as domestic expansion. These theories emphasize the advantages of company-specific rather than country-specific advantages as critical for companies to invest abroad.

In relation to logistics approach, we highlight the work of Dangelmaier (18), which states that logistics involves the integration of information, transportation, material handling and packaging and is positioned within the company as one of the skills that help the process value creation for the customer. Thus, the logistics operations become a key competence and, as they are fully integrated, can create strategic advantages for the company.
Acording to Ballou (19), the logistics service aims to provide goods and services in the right place at the exact time and the condition you want the lowest possible cost. The logistics function is to allow the stock and knowledge of a company has the advantages of ownership, time and place desired by the lowest total cost. This means that the stock value will only be effective when placed in the right place at the right time (Bowersox et al, 20).

4 BRAZILIAN AND EMERGNG COUNTRIES FOREIGN DIRECT INVESTMENT IN PORTUGAL

Brazilian business investment in portuguese market was higher than Portugal untill 1994 (in the reverse way, from the mid-nineties Portugal began the massive investments in Brazil,through companies like Portugal Telecom). As an example, the Pão de Açucar company was the first hypermarket in Portugal. The brazilian investments in Portugal grew in importance, especially in the 2000s, with increase o number, scope volume of investmentes. In 2009, year of strong economic crisis, we point the growth of Portugal as the location of Brazilian companies, to reach the fourth largest destination of such investments (tax havens are used as warehouses for investments in other countries as well as nations such as Netherlands).

According to the study A.T. Kearney in 2009, for example, despite virtually nonexistent until 2005, the value of the operations of mergers and acquisitions (M&A) between Portugal and emerging countries has grown exponentially - from 2% (60 million) to 21% (1100 million euros) between 2005 and 2008 - with is rapidly converging with the reality of other European markets (EU-15). Angola and Brazil have a continuous profile of investment in the portuguese market, representing over 60% of global M&A of emerging countries. For the first time, in 2010, brazilian investments in Portugal as origin country appears in seventh position.

5 CASE STUDIES

According Roesch (21), the case studies are characterized as a research strategy for allowing in-depth study of phenomena within their context, are adequate to analyze processes and dynamics (business) and explore phenomena based on multiple angles. This study was carried out through surveys and interviews with local businesses. The following are the results of research on three cases of Brazilian companies in Portugal.

5.1 Banco Itau Europa SA

Itaú Group is one of the largest and most profitable industrial and financial conglomerates of Brazil. In 2009, total assets amounted to 94.4 billion euros. It has about 60,000 employees in Brazil and abroad to serve over 21 million customers. The shares of Itaú Holding are traded on stock exchanges in Sao Paulo, Buenos Aires and New York. It is the only Latin American bank to make up the Dow Jones Sustainability World Index for seven consecutive years. In 2006 he was elected by Latin Finance and Management & Excellence the most sustainable and ethical bank in Latin America.

5.1.1 Presence in Portugal and Europe

Banco Itau-Europa in 2009 celebrated 15 years of activity and is a key element of the Itaú Group's international strategy, complementing the services provided by other units of the group mainly in Brazil, Argentina, Chile and Uruguay, to make available to the bank and its clients, for example, investment rating (investment grade) to foreign trade and investment both in Brazil and abroad by European companies and United States in Latin America.

Banco Itau-Europa is a database geared towards large companies, institutional investors and private banking , whose clients are European companies that invest in Brazil and Brazilian companies that invest in the European Union. The activity on the portuguese retail market is developed indirectly through participation in Banco BPI. The bank has offices in several European Union countries. It has capital of 567 million, the largest brazilian firm investor in Portugal.

5.1.2 Performance of Banco Itau-Europa in Portugal

Itaú-Europa bank had a gradual and constant growth in Portugal, to strengthen its role as a independent platform of international group in all areas where the bank has significant international operations. In 2006, for example, acquired though Bank of America the entire BankBoston International, based in Miami and BankBoston Trust Company Limited and this subsidiaries, based in Nassau, strengthening the bank Itaú Europa in the business of Private Banking and support to the businesses of Brazilian and American companies.

The following reasons were indicated by the charge of Itaú for its installation in Portugal:

. Creating and developing strategic alliances with financial institutions in Europe, U.S. and the Itaú Group;

. Knowledge of financing operations carried out by commercial bank and the strong flow of trade between Brazil and Europe, which accounts for more than a third of Brazil's foreign trade;

. The investment in Brazil originated by Iberian Peninsula, which has represented a very significant investment in Brazil since the mid-1990s;

. The cost of funds raised by the bank, which is similar to the other Portuguese banks;

. Financial strength and ability to develop value-added products to its customers;

. Benefit of the strong penetrating power of the Itaú Group in its markets of operation.

5.2 CSN / Lusosider S / A

Companhia Siderurgica Nacional (CSN) began your operations in 1946 as the first producer of flat steel in Brazil, representing a milestone in the industrialization of the country. Privatized in 1993. is one of the largest and most competitive integrated steel complex in Latin America. The annual production capacity is 5.8 million tons and has around eight thousand employees. Concentrates its activities in steel, mining and infrastructure. It offers lines of flat steel with high added value and is the leader of the Brazilian steel industry.

CSN is present in several segments, among which stand out the auto motive, construction, packaging and *white goods* supplied to customers in Brazil and abroad. He has extensive experience in the steel sector.

The company went through four stages of internationalization. The first time as a state-owned , implanted under the view of the import substitution model. Therefore, installed in 1946 to meet the needs of the market; The second stage is characterized by the beginning of its international operations in 1977. The initiative for the export of steel was mainly the excess production that the market did not absorb. This position was maintained until its privatization in 1993. The exports during this period was according to fluctuations in prices and demands of the brazilian market. There wasn't concern in gaining a leading position in exports and sustain international strategic relations. With privatization in 1993 begins the third phase, which can be characterized by restructuring and strategic repositioning of the company.

The fourth stage began in 2001 with the deployment of a U.S. subsidiary. The choice for the U.S. market for its early internationalization may be explained by high consumption potential of this market, protectionism and market is still fragmented.

5.2.1 Lusosider: early experience in Portugal

Privatized steel company in the sector in Portugal in 1996, the CSN did a joint-venture with Corus Staal BV, since 2003, whose business is the refining of crude steel from Brazil. It is the sole producer of certain types of flat steel in Portugal.

Integrated into the comprehensive plan for internationalization of CSN for Europe and Africa, which today is one of the factors for survival in the steel sector. Portugal is thus viewed as a strategic long-term location and the majority of its customers is in Iberia. The Lusosider experience in Portugal can be view as the follow:

- Factors driving force

. Importance of the same language and cultural similarity, ease of company management;

. Portugal as a local and integrated strategic business;

- Factors to be improved

. High degree of hierarchy and formality, which may hinder the cooperative efforts and possible partnerships;

. Lack of culture results and sense of urgency;

. Rule changes in the EU;

. Lack of technical staff;

. Exchange of employees between Portugal and Brazil.

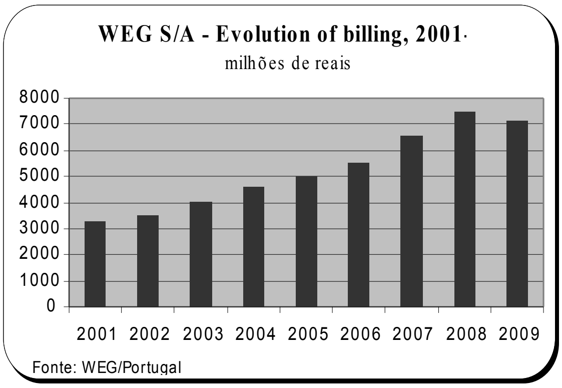
However, these factors are not influencing the company's performance in a decisive way, as the company has created an advantage in the matrix and takes advantage of the ease of communication and understanding provided by a common language.

5.3 WEG SA

Weg SA is a Brazilian owned company, born in 1961 and headquartered in Jaragua do Sul, Santa Catarina state, which operates with electrical components. It is the leading company in Latin America and is among the world's largest manufacturer of electric motors industry. Produces electric motors for low and medium voltage variation of electronic velocity, soft starters, industrial equipment from low voltage power and distribution transformers, generators, paints, varnishes and resins industry. It is the ninth largest Brazilian multinational and is present in over 100 countries on five continents. Use the principles of Total Quality Management and aims to be the largest manufacturer of industrial electric motors in the world (at present is the second). As part of this goal, he settled in Portugal in the town of Maia, in May 2002, through the acquisition of Universal Motors Efacec.

5.3.1 Internationalization and the main reasons for direct investment in Portugal

With ownership of more than 80% of the Brazilian market of electric motors, the company began its internationalization through the Americas in Argentina (2000 acquisition), and Mexico (2000, greenfield), with a view to a broader market of NAFTA. Those countries were chosen in view of cultural similarities with Brazil, which provide easy technology transfer. In 2002, he left for the first plant outside of the Americas, Portugal was choose a platform for the internationalization of the company in Europe. Currently, she has two more factories in Argentina, two in Mexico, one in China in order to serve its customers and take advantage of Asia local comparative advantages, as well as a factory under construction in India. It has subsidiaries and sales support offices in over 100 countries. The external sector (including exports from Brazil) is 40% of company sales. The graph 2 shows the evolution of the billing company, and the internal market a major driver in the 2000s.



5.3.2 The choice of Portugal

Within the strategic plan outlined by the matrix company, the main motivations for choosing to invest in a Portugal factory were: logistics, in order to reduce delivery times, complementary line of engines (in this unit, the company complements and adds a new product line); gaining importance in the European market, the second largest market for their products, contribute to brand image, becoming a local manufacturer and its competitors in Europe, and the linguistic and cultural affinity, which facilitates communication and technology transfer. In the words of its chairman, Decio da Silva, "We chose Portugal as a gateway to Europe, mainly for cultural and linguistic issue. The production of engines has many important technical aspects, and good communication is key to technology transfer and thus for a quality product. " Thus, Portugal was chosen as a platform for internationalization in Europe, with exports of high technology products, in addition to the ongoing process of research and development of new products, contributing to the qualitative improvement of the industrial portuguese park.

5.3.3 Experience in the Portuguese market

The experience of WEG SA is positive. As strengths of Portugal as the host country of brazilian FDI are: the good acceptance of Brazilian products and the wage level witch is lower than the other European Union countries (excluding the countries of the east). In this item, as well as energy, stands out not be as important as skilled labor, due to the fact that the company produce high added value. As points that should be improved are the labor law, which is costly, bureaucratic and protectionist; the lack of technical personnel, workers produtivity and the difficulty of obtaining work visas. The results from Portugal, are relative very important, representing 8% of the company's global billing.

Those three study cases see Portugal as a strategic location, but they point that this country is a strategic spacial location (Dentinho, 22), because is positioned in central regions such as northern Europe, USA, Brazil, Africa and Middle East / Russia / India.

6 COMPARISON BETWEEN THE THREE EXPERIMENTS

Table 1 below is intended to systematize the results, through a comparative framework, the three study cases.

Indicator	*WEG*	*CSN/LUSOSIDER*	*ITAÚ*
Theoretical influence	Brand, technology, management, logistics, market potential, culture and language	Management, market potential, transport, culture and language	Brand, technology, management, location, culture
Enter form	Aquisition	*Joint-venture*	Greenfield
Start of firm internacionalization	Argentina	USA	Argentina
Internationalization advantages	Logistics, complementarity in production, brand image, the EU market	Gaining scale, lower transportation costs, long-term relationship	Network usage, brand, complementary services
Benefits to the host country	High added value products, R & D	Export, many direct and indirect jobs	Sophisticated services
Determinants of Portugal location	Human resources, logistics and language	Production costs, logistics and language	Location
Positive factors in the portuguese market	Wage level, cost of capital, logistics, product acceptance	Environmental awareness, market potential and management	Cost of capital, wages, acceptance services
Importance Portugal	Strong	Strong	Strong
Importância ibérica	Medium	Strong	Strong

7 CONCLUSION

Companies find themselves forced by the integration of the world economy to expand within the global market, with more streamlined production processes and maximize their resources. They are coordinating their activities within strategies that consider important for your business. Logically, the location question is a key factor. The so-called emerging countries, especially Brazil, whose companies with braziian are objects of this study, fit this scenario. After a restructuring of the Brazilian economy in 1990s, culminating with the economic stability, Brazilian companies are investing in foreign markets with a very systematic approach, and there are big brazilian firm players in various sectors of the global economy.

Theories of foreign direct investment and logistics allow validating the experiences of internationalization, especially in the three cases studied. Such companies see Portugal as a strategic center in Europe for the management of their businesses.

In the three cases studies, the logistics was essential for business strategy of internationalization through

Portugal, by motives as stay closer to their customers locally or Iberian, also in a more expanded sense of being in a Portugal spacial center, because this country is between Northern Europe, USA, Brazil, Africa and Middle East.

These theories are obviously relevant to the case studies as the relations between Portugal and Brazil, in both directions. The common language, important for the three study cases, are associated with lower costs of communication (such as currency reduces transaction costs), the formation of wider natural markets (Portugal in European Union and Brazil in Mercosur), and the fact that the language be more beneficial for a country as the greater the number of countries and populations that use it, and then facilitates the exchange of business and the disposal of production and knowledge.

Portugal, in the European market, and Brazil in South America, can logically mutually benefit from this synergy. These relationships can create many benefits, reducing business risk through greater understanding of the market and estimulate the cooperative work

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