Entering The Brazilian Market: Political Risk Assessment And Entry Strategies

Introduction

Brazil is the largest country in South America and the fifth-largest country in the world. There are many things to see and do including the Amazon Rainforest, the Christ the Redeemer Statue and many soccer stadiums and exhibits. The reason I chose Brazil for my term project is primarily because it is my dream to travel here. The second reason being I have a close friend who is from Brazil. Brazil is a beautiful country full of rich culture and opportunities.

Brazil was discovered in 1500 by a fleet of Portuguese explorers on their way to India. Local to the country were the Tupinamba Indians who initially worked with the Portuguese however, this was not long lasting as the Portuguese enslaved the Indians. Brazil gained independence from the Portuguese in 1822. The country had over a half century of a populist and military controlled government until 1985. The military regime peacefully ceded and the country now has a federal presidential republic government. Brazil has a strong emerging market that is growing.

Brazil has the eighth largest economy in the world. Currently, Brazil's top exports are iron ore, crude oil, soybeans, sugar, and poultry. They export the most products to China, followed by the United States. Some of the top imports of Brazil are mineral fuels, vehicles, electrical machinery and equipment. When it comes to imports, the country imports the most products from China and the United States.

There are quite a few American companies that manufacture and sell their products in Brazil. One example is Coca Cola. One of Coke's bottling plants located in Brazil is the 15th largest the company has in the world. Ford is another American company that operates in Brazil. This subsidiary was founded in 1919. It is the second-largest subsidiary outside of the United States.

Theoretical Definitions

The definition of political risk has changed over time. Early definitions were often too narrow, negatively focused and muddled with governmental and political events that distracted from other important causes of political risk. Political risk is the actions by a country's government or society that originate within or outside of the country and adversely affect a group or a majority of foreign business operations and investments (Alon & Martin, 1998). This is a solid definition of political risk for several reasons. The first is because this definition defines the term in a broad environmental context. The second reason is this definition differentiates between macro and micro risks. The third reason is that this definition distinguishes between internal and external causes of political risk.

There are many different ways a company can enter a foreign market. Entry Strategies into foreign markets can serve as alternatives to exporting. These strategies differ based on many different factors like a country's economy, government and culture. However, with all foreign market entry, there are two decisions that must be made: location and mode of control (Buckley

& Casson, 1998).

A leadership style from a business perspective, is a leader or manager’s method of providing direction, implementing plans, and motivating people. Most studies examining leadership styles in Brazil relate leadership style to dependent variables of interest, such as employee performance and commitment (Batista, Lisboa, Augusto, & Almeida, 2016). When it comes to managerial incumbency in Brazil, factors such as loyalty, hard work, time management, quality, sociability and exposition are important factors of leadership.

Political Risk Assessment In Brazil

Even though Brazil has the eighth largest economy in the world, the country is still recovering from the worst recession they ever had in 2015. The country’s economic freedom index has improved over the recent years thanks to improvements in labor freedom and government spending. However, the country is still ranked 150th in the world. Brazil's government is overly centralized. There are too many private and public enterprises that are protected from competition in terms of their economic freedom.

Brazil is a mostly free country in relation to civil liberties and political rights. In terms of the Political Freedom Index, Brazil is a mostly free in a political sense, scoring a 75 out of 100. Brazil is a democracy and officials are elected by the public. However, there are factors such as corruption that occur within the political realm of Brazil. This corruption is not only bad for the government but it negatively affects the economy. Brazil’s current corruption perception index is 37 out of 100. One of Brazil’s largest corruption scandals involved a state oil company, Petrobras. The company wrote off $17 billion due to losses from overvalued assets (Costa, 2018). Many high-level business professionals and politicians were investigated. There are definitely improvements to be made to the level of corruption in Brazilian politics and business.

Brazil has steadily improved its macroeconomic stability since the adoption of inflation-targeting policies and fiscal responsibility laws (Ferreira, 2015). The amount of government spending in the country beats private consumption in the long-run even though positive government spending initially increases private consumption. Government expenditures have taken more than one third of Brazil’s Gross Domestic Product, hurting the development of private business sectors.

Brazil is a member of a trading bloc called Mercosur. Other members of Mercosur include Argentina, Paraguay and Uruguay. The purpose of this trade bloc is to encourage free trade and the movement of capital, goods and people. Within the bloc, member countries reduce tariffs. Trade within the region has increased significantly. Based on a theoretically founded gravity model, it seems that Brazil tends to trade most often within itself and with other Mercosur countries, rather than with the rest of the world (Siroe ?n & Yucer, 2012). Mercosur and the European Union have recently reached a trade agreement after 20 years of negotiations. The agreement is not in effect as of now however for Brazil, this agreement could mean many reforms and a more open economy for global trade.

Brazil is still recovering and changing in many different areas. Brazil is a free country but there are still issues with scandals and corruption. The country’s economy is steadily improving. Thanks to Mercosur, the country will have many more opportunities to trade with countries

outside of South America and improve their economy.

Entry Strategies Into The Brazilian Market

When it comes to entering the Brazilian business market, there are a few different strategies that are less risky than others. One good strategy to use is a joint venture. Wal-Mart utilized a joint venture with one of Brazil's large discount stores, Lojas Americanas. Lojas Americanas had a 40% stake in the Brazilian Walmart but, American Walmart executives managed the joint venture (Rocha & Dib, 2002). Walmart's penetration into Brazil was a large change for the country. During the 1980's there was high levels of turbulence in Brazil causing things such as a recession, hyperinflation and strict governmental policies. During the 1990s, the Brazilian environment changed in the form of economic stabilization and lower tariffs. This prompted lower entry barriers into the country, stimulating foreign countries to enter.

Franchising is a good option for both entrepreneurs in Brazil and those outside of Brazil who want to start a safe business. Brazil has a well-established franchise market. According to the Brazilian Association of Franchising, the franchise industry in Brazil is growing 10 to 13 percent per year (Geromel, 2012). Starting a franchise rather than a non-franchise business offers much less risk of failure. However, the process to start and close a franchise in Brazil is a long process with a large amount of lengthy paperwork. It is also much more expensive to start a business in Brazil than in many other countries. However, franchising offers a safer, less complicated option for entering the Brazilian business market.

Another option for entering into the Brazilian market is exporting. Currently, Brazil mainly imports chemical products, machinery and equipment, oil, automobiles and electronic material. The Brazilian market has changed over recent years. It used to be concentrated in the upper income sectors but it has expanded and changed. Therefore, foreign companies must no longer worry about the country being restrictive. It is now more diverse and opportunistic.

There are many options for entering into foreign countries to conduct business. Brazil has strengths and weaknesses in many different sectors of their government and economy. However, the best entry strategies into Brazil's market are joint ventures, franchising and exporting.

Leadership Styles In Brazil And The USA

Every country has different leadership styles and values in their business environment. In Brazil, many businesses tend to use a hierarchical structure. Many businesses have a head leader or manager. The communication structure in these types of businesses is downward. Information travels down the communication chain. Many employees of large organizations in Brazil prefer a paternalistic leader. There is definitely a separation between employees and upper level employees/managers however, this is what employees are used to in Brazil. According to the Global Learning and Observations to Benefit the Environment Program, the most popular leadership qualities in Brazil are encouragement and inspiration.

In the United States, leaders are usually empowering, directive and charismatic. Many businesses are team oriented rather than hierarchical. Leaders encourage collaboration among their employees. They work to be motivational and lead by example. Leaders focus on

empowering their employees and encouraging them to not only do their jobs but to do their jobs well and with passion.

If an American subsidiary where to start in Brazil there are a few things an American leader should keep in mind. First of all, Brazil has a highly collectivistic culture with high power distance (Senosiain, 2012). This means that American managers must treat their Brazilian employees differently than they would usually treat their American employees. They need to focus more on the group rather than individuals. American managers should have clear organization in their business that employees are aware of. When interacting with Brazilian employees it is important to keep the conversation professional. Brazilians are very family oriented. Family comes first. There may be times when, for example, a mother consistently comes late to work to drop off her children at school. American managers should respect this. Lastly, American managers should remember that Brazilians are not as focused on money as Americans are. Therefore, Americans should look at encouraging employees in other ways besides monetary awards.

Conclusion

Brazil is a beautiful country that is growing both internally and externally into the world market. With the eighth largest economy in the world, the country exports many different products. Even though the country's economy is improving, they still face many issues. These issues are due to a horrible recession in 2015 and the country's over centralized government. To combat these issues, Brazil has adopted inflation targeted policies and fiscal responsibility laws. The country is mostly free in relation to political rights and civil liberties. However, there is corruption in different sectors that negatively affects the economy and government. Brazil's trade industry is expanding and growing thanks to Mercosur. This trade bloc has helped the country trade more within South America. Mercosur is helping Brazil grow globally as well. A trade agreement was recently reached with the European Union.

When entering the Brazilian market, the best strategies for success are joint ventures, franchising and exporting. Joint ventures allow foreign business leaders to enter Brazil's business market with the help of someone who is already experienced in this market. Franchising is a safe way to start a business. Brazil already has a well-established franchise market. There are drawbacks to this option though, as it is an expensive and lengthy process. Finally, exporting is another option of breaking into the Brazilian business market. Brazil imports many different things. The Brazilian market has become more diverse and opportunistic over recent years. This is beneficial for companies trying to infiltrate the Brazilian market.

Brazil's businesses tend to have a hierarchical structure with a downward communication structure. Leaders of these businesses are often paternalistic. There is separation between employees and upper level managers however, these managers still try to inspire and encourage their employees. In America, leaders tend to be empowering and charismatic. They run their business in a team-oriented fashion. If someone was trying to start an American subsidiary in Brazil, they must consider the cultural differences in Brazil's business environment. There needs to be clear organization, and an understanding of Brazilian priorities as they are different from America's.

Overall, Brazil is a strong and growing country. The economy is improving which will lead to growth for the country. There are things that may hold Brazil back such as corruption and over-

centralization of the government. However, the country seems to be fighting these issues with different programs, policies and laws. If an American were to want to enter the Brazilian business market, they should consider running a franchise, joint venture or exporting into the country. It is important for Americans to recognize the cultural differences in Brazilian companies when running a business in Brazil. I think that it is very possible for an American to run a successful venture in Brazil, as long as consideration is taken about political risks, entry barriers and cultural differences.