Foreign Direct Investment as a Form of Internationalization of Companies: the Case of Brazil and its Agribusiness Sector

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Declaration

I, (Jessica Romano Yo) declare that this work is submitted for assessment on my own and expressed in my own words. Any use made within it, of works of other authors in any form is properly acknowledged at their point of views. A list of reference employed is included.

Date ....

Signature.....................

Executive Summary

Foreign Direct Investment (FDI) is one of the entry strategies used by companies to enter international markets and it has been implemented successfully many times. To be more specific, FDI happens when a company invests directly in a foreign country with the aim of fabricating or marketing a product or service. Even though this entry strategy has the highest costs and risks, as well as the longest time horizon, it gives companies the highest implementation control, allowing them to keep their know-how and experience, when entering a foreign market.

The purpose of this research paper was to analyze why and when FDI is used as a form of internationalization, meaning to find out what the reasons and conditions are for FDI to occur. Therefore, a qualitative desk research was conducted, in which conceptual theories of the process of internationalization and entry strategies from Michael Porter and other authors were firstly investigated, followed by an in-depth study on FDI. Secondly, with the aim of exploring how these theories can be specifically applied when evaluating the characteristics of countries and industries that attract FDI, the analysis of the reasons for the outstanding FDI inflows in Brazil was done, seeing that the country was the fourth in the world to receive largest amount of FDI in 2012 (Bertrand & Kothe, 2012, p. 1). Particularly, focusing on the agribusiness industry (agricultural and livestock), which counts for more than 20% of the Brazilian Gross Domestic Product (GDP). Additionally, FDI in this sector has been strongly rising over the last eight years from 1 to 10 billon US$, due to its market growth and potential (KPMG, 2012, p. 9), as well as the large availability of natural resources.

Based on all the findings from the conceptual theories analysis along with the features that measure the level of attractiveness of the Brazilian agribusiness sector for FDI, a model was developed to illustrate the decision making process for FDI. Primarily, the model created clarifies the elements that define an entry strategy by classifying them into two factors, internal and external. The internal factors analyze the company´s element by pointing out which aspects should be taken into consideration when a company is intending to go abroad. By using the Brazilian agribusiness sector example, the external factors represent the indicators that should be studied to measure the level of attractiveness of this country and its industry and business segments to appeal FDI. Furthermore, model designed determines that one, two or all these factors together can lead to motives for internationalization, and in combination they bring us to the pinnacle

point to choose the entry mode. The outcome of the model suggests that three conditions must exist for FDI to occur: companies must have an advanced level of international experience, Brazil must be attractive, and its agribusiness sector must be global and competitive.

Moreover, the research proved that some of the external factors could be further explored, by taking a specific business segment within the Brazilian agribusiness sector; thus, the model developed was applied into the GSI Group, Grain System Inc., which entered the Brazilian storage grain system segment, by fully acquiring the Agromarau Company. This model analyzed the internal and external factors that led the GSI Group to opt for FDI and conclude that the aforementioned three conditions for FDI to occur were indeed present before and during this acquisition. Also, the motive for internationalization should be proactive, meaning that the company must be willing to enter new markets, instead of having the need to do so.

Finally, with the goal of evaluating the effectiveness of the model developed, a qualitative field research was conducted, in which a questionnaire was administered to six stakeholders due to their knowledge and experiences on FDI. The outcome provided insight, allowing a substantial conclusion of when and why is FDI used as a form of internationalization. Therefore, improvements in the resulting model were made by adding several more indicators in the internal and external factors that were considered to be important, dividing the industry element into two spheres: industry and business segment, since it was more successful to measure separately their levels of attractiveness for FDI and this model could be applied to any company, country and its industries and business segments.

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List of Abbreviations

BCB	Brazilian Central Bank
BRIC	Brazil, Russia, India and China
CIA	Central Intelligence Agency
CNA	Confederation of Agriculture and Livestock of Brazil
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSI	Grain System Incorporated
HBS	Harvard Business School
IED	Investimento Estrangeiro Direto (FDI)
M&As	Mergers and acquisitions
Mercosur	Common Market of the Southern Cone
OECD	The Organisation for Economic Co-operation and Development
WTO	World Trade Organization

1. Introduction

It is widely known that many companies have been opting to use Foreign Direct Investment (FDI) as one of the entry strategies when entering foreign markets. This form of internationalization has several advantages for the organization such as full control of strategy implementation. On the other hand, it is a type of entry strategy that typically requires an in-depth planning phase, capital, international knowledge and experience from a company. Along with that, the chosen foreign country should provide favorable conditions for investments. Hence, the aim of this dissertation is to investigate why and when is FDI used for investments, the reasons that lead companies to go abroad, the characteristics companies should have and the factors that make a country attractive for FDI.

With the purpose of responding to these questions, the analysis of Brazil as an attractive hub for investments in its agribusiness industry was done. The concept of attractiveness was divided into the current reasons that are making Brazil the world´s fourth destination for FDI (Bertrand & Kothe, 2012, p. 1), which have allowed the rise of the nation´s competiveness compared to other business hubs, since ¨The concept of competitiveness (…) is also one of the central determinants of the returns to investment, which is one of the central factors explaining an economy's growth potential¨ (World Economic Forum, 2014, p. 4).

In this dissertation, agribusiness refers to the agricultural and livestock sector, which in Brazil accounts for more than 20% of the country´s Gross Domestic Product (GDP), not to mention that FDI in this industry has been strongly increasing over eight years from 1 billon to 10 billon US$, due to its market growth and potential (KPMG, 2012, p. 9). According to Michael E. Porter, ¨a-leading authority on competitive strategy¨ (HBS, 2008), some of his models can be used to measure the attractiveness of a country and its business segments. Therefore, this paper aims to study if and how Porter´s models can be particularly applied when evaluating attractiveness for FDI. Firstly, explaining the internationalization process of companies, its motives and forms, followed by conceptual theories that contribute in defining an entry strategy. Secondly, narrowing down the definition of FDI, its pros and cons, as well as how is it applied under Brazilian law. In the next chapter all the reasons for high FDI inflows in Brazil and the potentials of its agribusiness industry are stated in comparison to Porter´s models for attractiveness.

Based on all conceptual theories and findings further on in this dissertation, the need arose to develop a FDI model that would point out the reasons and conditions to occur FDI. In order to explore the efficiency of the model created, a specific business segment of the agribusiness industry had to be taken into consideration. Thus, the model designed was applied into the GSI Group, Grain System Inc., which entered the Brazilian market through FDI. After analyzing a real case, it was found to be interesting to reach substantial conclusions through this paper by conducting a qualitative research with stakeholders active in the area. The outcome provided insight that contributed to develop a more completed model, which could be applied to any company, country and its industries and business segments.

1.1 Research rationale

Within the internationalization process, companies always aim to make profit by selecting the best entry strategy in the most advantageous countries for their businesses. FDI is the risky and costly method to enter a foreign country and before its occurrence, several factors must be analyzed and certain conditions must exist in the internal and external environment. Therefore, this research must be conducted to expose what the key drivers are for a company to choose FDI as an entry mode, amongst all the other forms of internationalization. The research will be based on the case study of Brazil and its agribusiness sector with the aim of proving conceptual theories of FDI with a country and an industry that has been attracting high FDI inflows.

1.2 Research questions

With the goal of providing a clear structure, this research is based on the following questions (Research ¨R¨ and sub questions ¨S¨).

R: When and why is FDI used for investments?

S1: Why do companies choose FDI as an entry mode?
S2: What types of companies invest through FDI?
S3: What characteristics should a country and its industries have to attract FDI?
S4: When and why is FDI used for investments in the Brazilian agribusiness sector?
S5: Why is Brazil an attractive country for FDI?
S6: What types of companies invest through FDI in the Brazilian agribusiness industry?

2. Methodology

This chapter describes how the research was conducted and its scope, by providing a complete sketch of research methods and practices to examine the gathered information.

2.1 The Johnson Model

The methodology approach of the Johnson model relies on the ¨planning small-scale research¨ by Daphne Johnson. The purpose of this method is to show “stages of activity which must be worked through in carrying out and completing an investigation” (Johnson, 1997, p. 172). The Johnson model develops through out the following stages.

1. Establishing the focus of the study
2. Identifying the specific objectives of the study
3. Selecting the research method
4. Arranging research access
5. Developing the research instrument
6. Collecting the data
7. Pulling out of the investigative phase
8. Ordering of the data
9. Analyzing the data
10. Writing it up
11. Enabling dissemination

(Johnson, 1994,p. 172)

1. Establishing the focus of the study

The focus of the study arises through the author´s, Ms. Yo, interests in international businesses, after minoring in export management, a course offered within the Academy of European Studies & Communication Management at The Hague University of Applied Sciences. One of the elements explored were the forms of internationalization of companies, in which she found the need to delve deeper into a particular form, the FDI. Moreover, the choice of the case study, Brazil and its agribusiness industry, to analyze this entry strategy was based on her background and the potential of this country and its sector for FDI.

2. Identifying the specific objectives of the study

The aim of this dissertation is to acquire expertise on the reasons and conditions that make companies choose to use FDI when entering a foreign market. In this research paper, the conceptual theories of FDI and attractiveness of countries and industries were explored.

3. Selecting the research method

The selection of the research method is seen as a ¨crucial element¨ in the research process (Johnson, 1994,p. 172). Therefore, the qualitative research method was chosen as “Qualitative analysis transforms data into findings¨ (Patton, 2002, p. 432), in order to provide the reader with the most relevant, useful and helpful information. The method was carried out through intense desk research that later was carefully analyzed and developed into grounded theory and tested through interviews. Implying that ¨the grounded theorist first summarizes observations into conceptual categories, and tests the coherence of these categories directly in the research setting with more observations¨ (Schutt, 2012, p. 343).

4. Arranging research access

The desk research was partially done in Sao Paulo, Brazil, the author´s, Ms. Yo, native country, where the accessibility of information was facilitated due to being immersed in the environment of the country´s case study. As well as in the Hague, the Netherlands, where the she benefitted from the availability of material in the library of The Hague University of Applied Sciences. Additionally, some information for this study was gathered in the event ¨Agribusiness Potentialities and Opportunities in Brazil¨ organized by The Confederation of Agriculture and Livestock of Brazil (CNA) that took place in Shanghai, China.

5. Developing the research instrument

The initial desk research had the aim of providing the reader with a completed overview by delivering conceptual theories of forms of internationalization, FDI and its process. Furthermore, the analyzes of the attractiveness of Brazil and its agribusiness sector for FDI had the purpose to relate the conceptual theories mentioned by applying them into practice based on the reasons and conditions that have been affecting the high FDI inflows in this country. The findings of this comparison led the creation of a model that illustrates when and why companies choose to use FDI as entry strategy. Following, the need to evaluate this model arose and therefore, a field research was conducted, to provide deepened conclusions on the model´s effectiveness. Both desk and field research were conducted within the qualitative aspects of analysis.

6. Collecting the data

The desk research data was collected via reports of organizations, governmental and research institutions. As well as from the material provided in the previously mentioned event organized by CNA. The field research data was acquired through interviews in which stakeholders responded a questionnaire based on their knowledge and experience on the dimensions of the dissertation´s topic. The questionnaire had multiple-choices, false/true and open questions. The interviews were carried out through emails due to the locations of the respondents. Overall, it was possible to handle the data´s collection and inquiry in an interactive manner.

7. Pulling out of the investigative phase

Taking into consideration that the most significant part of my dissertation is when the author, Ms. Yo, was "investing most in the study, by way of time and personal involvement" (Johnson, 1994, p. 177), the field research of this research paper was the most insightful, since it was probably the most time-consuming part and its valuable contribution for the outcome of this paper. Moreover, by considering Johnson´s advice to try to avoid the "open-ended period of data collection" (Johnson, 1994, p. 178), she provided information and findings that are to current events.

8. Ordering of the data

The collected data from the desk research was explored and saved and therefore the author, Ms. Yo, was "prepared to be accountable for the investigations" (Johnson, 1994, p. 179). Likewise, the data acquired from the fieldwork was handled in the same way.

9. Analyzing the data

The primary knowledge acquired through the research of conceptual theories of internationalization process, FDI and its process, as well as the analysis of the attractiveness of Brazil and its agribusiness sector for FDI, allowed the author, Ms. Yo, to get deeper insight on this matter. Therefore, grounded theory was developed through the creation of a FDI model, which was evaluated through fieldwork.

10. Writing it up

The writing it up is a pivotal point for the dissertation. The purpose of this stage was to summarize "the overall conclusions or message of the research in an assimilable and memorable form" (Johnson, 1994,p. 179). Hence, it has to be developed with rational structure in order to express the author's empirical understanding to a broader audience (Johnson, 1994).

11. Enabling dissemination

The purpose was to study when and why is FDI used as a form of internationalization by taking Brazil and its agribusiness sector as the case study. The relevancy of this work relies on the author´s, Ms. Yo, interests, as well as, raising awareness of the potential of the Brazilian agribusiness sector for attracting FDI.

2.2 Justification the research method

Many methodology approaches such as philosophical methods as epistemology and ontology were investigated and considered; however, they did not appear to be appropriate for this dissertation. Therefore, the author has chosen the Johnson model due to its analysis aspects of small-scale and qualitative research, which seem to be valid method for this research paper.

3. Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is one of the forms of internationalization of companies and the focus of this chapter is to expand on this matter. Therefore, it is important to firstly discuss what makes companies go abroad and how this process works. Secondly, the elements that define an entry strategy in a foreign market are shown. Thirdly, all of the existing forms of internationalization are pointed out, with emphasis on FDI by explaining its meaning, forms, advantages and disadvantages emphasizes FDI. Lastly, as the reasons of high FDI inflows in Brazil are the focus of this paper, how FDI is considered according to the Brazilian law is presented.

3.1 Motives for internationalization

Internationalization of companies occurs when they start to operate across national boundaries. There are many fundamental reasons that can explain why organizations go abroad. These reasons are called internationalization motives and they are divided into proactive and reactive motives (Hollensen, 2008, p. 35). Proactive motives signify the willingness to explore new markets, which creates a situation of control for the company. On the other hand, reactive motives represent the company´s reactions of having the need to go abroad due to pressure or threats in its domestic and/or foreign markets. The table below shows in detail those motives that in other words, indicate the critical point in the beginning of the internationalization process.

Figure 3.1: Motives for Internationalization of Businesses

Proactive motives	Reactive motives
• Profit and growth goals (ambition to grow) • Managerial urge (desire to export) • Technology competence/unique product (specialized advantages in technology or internationally uncommon product) • Foreign market opportunities • Economies of scale (increasing production for international market might lower production costs) • Tax benefits (profit motivation relying on international agreements)	• Competitive pressure (fear of loosing domestic market share) • Domestic market: small and saturated (many competitors) • Overproduction/excess capacity of storage • Low dependence on customers/suppliers • Stabilization of seasonal factors (product seasonally affected) • Proximity to international customers/suppliers

Adapted from (Hollensen, 2008, p. 35)

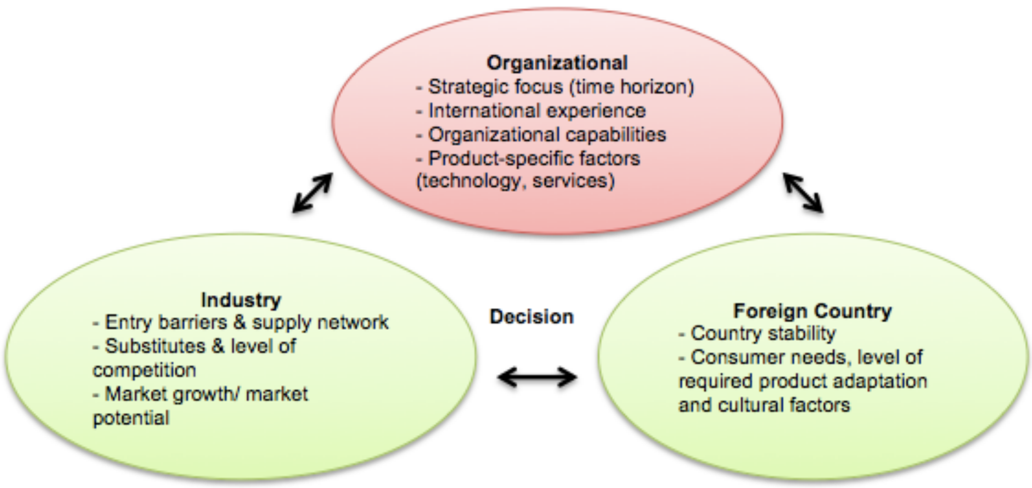
Any of the motives for internationalization above can lead to the situation where an organization will want or need to cross its national frontiers. Nonetheless, before going abroad, a company has to select and segment a foreign market by the following steps.

- Segmentation: to segment the market based on several variables, in order to form a market segment, in which almost same marketing strategies can be applied (Veldman, 2010, p. 94).
- Targeting: to target the market by evaluating the level of its attractiveness with the aim of choosing among marketing strategies as undifferentiated marketing, differentiated marketing and concentrated marketing (Veldman, 2010, p. 95).
- Positioning: to position the company´s differences in the competitive market (Veldman, 2010, p. 98)

3.2 Elements defining the export market strategy

After this entire process, companies must choose an entry strategy, also called distribution policy, since it indicates the channel that the goods will be sold through. Nevertheless, as the company´s success in a foreign market basically relies on the choice of an entry mode, it is important to bear in mind the influences of internal and external factors, as illustrated below.

Figure 3.2: Elements defining the export market strategy



(Leeman, 2010, p. 61)

The internal factors are the characteristics of a company and the external factors are about the country´s and industry´s attractiveness. Those elements analyzed together imply the decision of a company´s entry strategy.

3.2.1 Organizational (Internal factors)

The strategic focus of a company outlines the priority of exporting and its time horizon for a certain chosen country; organizational capabilities delineate the abilities, production capacity and manpower. The specifications of the firm´s product are very important when aiming to enter a new market depending on its target group, advantages, technologies and services provided. Also, another main aspects is the international experience that measures how ready a company is to go abroad, based on two extents: ¨The preparedness of the company for internationalization and the industry globally in general¨ (Leeman, 2010, p. 128). Hence, Figure 5.1 shows what type of market strategy a company should follow.

Figure 3.3: Nine strategic windows

Preparedness for internationalization	Local	Potentially global	Global
Mature	Entry new business	Prepare for globalization	Strengthen your global position
Adolescent	Consolidate your export market	Consider expansion in the international markers	Seek global alliances
Immature	Stay at home	Seek niches in the international markets	Prepare for a buy-out

Industry globally

(Leeman, 2010, p. 128)

The model shows that if an industry is globally oriented, companies must be more experienced (adolescent) or have broad international experience and expertise, in order to expand in international markets. Therefore, when these types of companies are intending to go abroad, they should concentrate on strengthening their global position or seeking global alliances.

3.2.2 Foreign country (External factors)

After considering the internal factors, it is essential to look at the foreign export market. As the figure 3.2 demonstrates, the county´s stability must be steady and companies have to attend the consumers and customers needs by offering products that are demanded and culturally accepted. However, according to Porter, the country´s attractiveness relies on the competitive advantages between nations and as previously mentioned the concept of competitiveness is a key factor to appeal investments. Thus, six factors are presented in Porter´s book, *The competitive advantages of nations,* which lead to the attractiveness of a country from an international perspective (Leeman, 2010, p8):

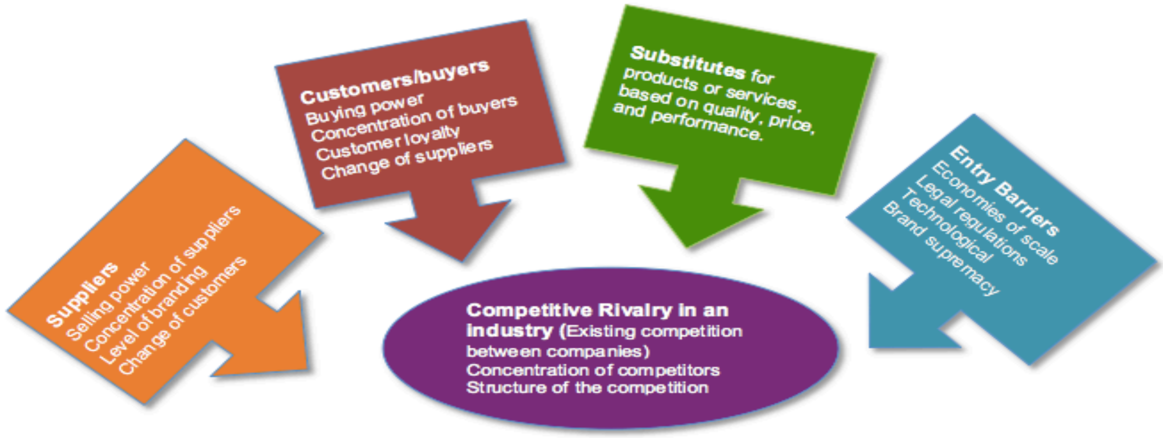
- Economic, political and geographical factors
- Domestic demand: size, potential, growth pattern.
- National competitiveness: The Global Competitiveness index measures the competitiveness level of countries based on 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation (World Economic Forum, 2014, p. 4-9).
- Network of internationally suppliers: information exchange method and speed, and the possibility of acquiring international suppliers.
- Coincidental factors: unplanned events.
- Government: incentives to stimulate the economy (Leeman, 2010, p. 9).

The different combinations of these factors result in distinctive levels of market attractiveness between economies (Leeman, 2010, p. 9) and, in this case, they will be the key drivers for when a company is choosing the entry mode in a particular country.

3.2.3 Industry (External factors)

The last factor that affects the entry mode decision is the situation of industry that the company is at present. Figure 3.2 showed few indicators to measure the industry´s attractiveness, such as market growth and potential, which is considered to be extremely relevant for further analysis. However, the author, Ms. Yo, wants to adapt the other indicators by adding another one, customer/buyers, and thus denoting them as the five forces of Porter. The model created by Porter (Figure 3.4), has the goal of evaluating the competitive environment of industries, in order words, how attractive it is compared to other ones, since ¨we defined a nation´s industry as internationally successful if it possesses competitive advantages relative to the best worldwide competitors¨ (Porter, M. E., 1990, p. 74). Additionally, this model can also be applied into business segments. Hence, when putting the model into practice, the industry and the business segment of a company will try to be analyzed according to the five forcer of Porter.

Figure 3.4: Five forces model of Porter



Adapted from (Leeman, 2010, p.130)

Therefore, after making clear the reason for internationalization and examining the three elements mentioned (Figure 3.2), the company is ready to decide on an entry mode.

3.3 Forms of Internationalization

Internationalization of companies can be held through different entry strategies; however, before selecting one, two fundamental choices need to be determined in order to indicate the best entry mode for a particular company, in a certain country and industry. Firstly, a company needs to decide whether it will take a direct or indirect method in the new market. Direct means that a company has full control over the entire product´s value chain, as well as its development and production. Indirect means that a company is selling indirectly to the final consumers through an intermediary. Secondly, a company must opt for equity or non-equity based entrance. Equity based means that a company wants to invest abroad by merging, acquiring or starting a new operation. Whereas, non-equity is when a company wants to sell in the international market (Leeman, 2010, p.129). The table below presents the export market entry options, signposted according to the fundamental choices:

Figure 3.5: Classification of export market entry options

Direct	**Export:** producing products at home, marketing it, and shipping it on its own behalf (Veldman, 2010, p.182).	**Foreign Direct Investment (FDI):** direct investment through partially or complete ownership of facilities in the target market (Ball, Geringer, McNett & Mino, 2012, p. 48).

Indirect	**Agent:** independent intermediary that sells on behalf of the exporter (Leeman, 2010, p.131). **Distributor:** importer company that stores the producer´s goods, with the control of the selling aspects (Leeman, 2010, p.131). **Licensing:** company grants a license to a foreign entity the right to produce and sell its product (Veldman, 2010, p.194). **Franchising:** company grants a franchisee the right to market and sell its product, under the company´s instructions (Leeman, 2010, p.131).	**Joint Venture (JV):** business agreement between two companies by creating a third one, which has the access of assets and know-how from both of them (Veldman, 2010, p.211).
	Non-equity	**Equity**

(Leeman, 2010, p. 132)

Amongst all the entry strategies above, FDI was chosen as the focus. It is noticeable that this form of investment is only selected when a company decides to **directly** enter a new market and **equity** based. In the following, how does FDI work and what are its pros and cons when compared to the other forms of internationalization will be explained in-depth.

3.4 What is FDI?

FDI is one of the entry modes of company´s internationalization process when entering a new market. According to The Organisation for Economic Co-operation and Development (OECD), ¨FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy¨(OECD Library, 2013). To be more specific, FDI happens when a company invests directly in a foreign country with the aim of fabricating or marketing a product. It is the entry strategy with the highest implementation control, costs, and risk, with the longest time horizon.

3.5 Forms of FDI

According to Charles W. L. Hill, there are two core forms of FDI. The first one is called *Greenfield investments*, which occurs when a company enters a new market by its own, starting a new operation. The second is called *Mergers and Acquisitions (M&As*) and it occurs when a company acquires or merges with an existing one in the new market. Acquisitions can be done through a minority stake up to a full outright stake, which consists in a foreign interest in the company´s voting stock from 10% to 100% (Hill, 2011, p. 232).

3.5.1 Choosing a form of FDI as an entry mode

According to the United Nations, the majority of FDI were done through M&As. Nonetheless, when it comes to developing nations, such as Brazil, only one-third counts for this form of FDI. The few desirable existing companies in the emerging country might explain the low percentage of acquisitions and mergers (Hill, 2011, p. 237).

Despite the data above, Thomas Müller observes that before choosing the optimal entry mode of FDI, the potential factors below have to be taken into account, not only about the company´s interests, but also about the characteristics of the new market:

- *Level of control:* the company´s control when entering a new market can be very important depending on its type and goals. Greenfield investment has a greater level of control and it will be chosen when companies pursue global strategies and/or own a specific know-how that cannot be shared through M&As.
- *Cultural distance:* the influence of this factor can be very relevant depending how big is the cultural distance. For instance, when choosing Greenfield investment, companies would use its existing experience based on markets where they are already present and/or also do a new market research. Whereas through M&As, companies would use the knowledge of the existing acquired/merged company.
- *Performance of the new market:* when a market/industry is rapidly growing, it is important for companies to choose and act fast, thus M&As are a better form of FDI, since they are faster to execute. In contrast, Greenfield investment has a much slower process.
- *Market´s competition environment:* depending on how the competition is in the new market; Greenfield investment will intensify it and contribute to the local capacity. However, if the competition is already high, the costs for building a presence in the market will be higher and therefore, M&As are more advantageous.
- *Adaptation of production:* if companies have a specific type of production, Greenfield investment is more favorable due to the high costs of production´s adaption in case of M&As

(Müller, 2007, p. 93-95)

3.5.2 Comparison of the two forms of FDI

Moreover, Hill (2011) indicates that it is important to highlight the advantages of M&As compared to Greenfield investments:

- It is faster to perform;
- It becomes a competitive advantage for the foreign company against its global rivals that would try to acquire or merge with the same existing company;
- The existing corporate strategies of the target company makes the process less risky;
- The foreign company can transfer capital, experience, and technology to the target one (p. 238).

Hence, it is more likely that a foreign company will succeed in a new market by acquiring or merging with an existing company, since it is an easier, faster, and less risky form of FDI.

Nevertheless, in order to choose the optimal entry mode, both advantages and disadvantages of Greenfield investment and M&As have to be strongly taken into consideration. Not to mention that the potential factors, such as *level of control, cultural distance, performance of the new market, market´s competition environment, and adaptation of production* are extremely essential to choose when and why each of the two forms of FDI should be applied.

3.6 Advantages of FDI

As mentioned before, it is more advantageous to M&A, as a form of FDI, rather than Greenfield investment. However, when comparing FDI in general, it is the entry option with the highest implementation control. Also, when transportation costs are high or trade barriers exist, FDI is more attractive than exporting mode. Also, FDI allows a company to keep its corporate strategies, experiences, and technology, which would be shared in case of licensing, franchising or JV (Hill, 2011, p. 242). Moreover, the advantages of FDI in the global trade rely on that fact that it creates straight, steady, and enduring relations amongst diverse economies. ¨FDI is a key element in international economic integration¨(OECD Library, 2013).

3.7 Disadvantages of FDI

Despite all the benefits of FDI, it is important to take into account that FDI is an expensive entry mode, since an enterprise has to consider the costs of producing in a foreign market or of acquiring a foreign company. Also, the lack of knowledge in regards to the external factors might turn into a pricy and risky operation (Hill, 2011, p. 239). Not to mention that FDI has the highest risk and longest time horizon amongst all the entry modes.

3.8 FDI in Brazil

When deeply looking at FDI, it is important to define its meaning and types according to the Brazilian Constitution, due to our further analysis about Brazil as an attractive hub for FDI. The law 4.1.3.1, article 1, states "Foreign capital is considered to be any goods, machinery and equipment that enter Brazil with no initial disbursement of foreign exchange, and are intended for the production of goods and services, as well as any funds brought into the country to be used in economic activities in the country, that belong to individuals or companies resident or headquartered abroad". Additionally, article 2 declares "To the foreign capital will be dispensed to the same legal treatment given to national capital on equal terms, being forbidden any discrimination" (Mello, 2012).

According to the Secretariat of the Federal Revenue of Brazil, an investment is considered to be a FDI when the foreign investor holds 10% or more of the Brazilian company´s voting right or shares. In case is lower than 10%, the investment is called as an indirect investment (Receita Federal, 2013).

3.8.1 Forms of Brazilian FDI

The FDI, knows in Brazil by the abbreviation IED, is divided in two kinds, as informed in the Web site of the Secretariat of the Federal Revenue of Brazil.

- *Equity capital* (Portuguese: *participação no capital*), involves ¨the inflow of funds for goods, currency conversions in foreign direct investment, including the amounts allocated to privatization programs, related to the purchase/subscription/capital increase, all or part of the share capital of companies established in the country¨ (Mello, 2012). In other words, this type of FDI works as acquisitions or merges, meaning that a company invests by acquiring a percentage higher than 10% of shares or voting rights of an exiting Brazilian company, as a form of FDI. This form is normally used when the Brazilian government wants to privatize a program, for example, the public transportation sector, by offering foreign companies the possibility to invest. Or also, when a company simply wants to enter a new market, but through an easier, faster and less risky way.

- *Intercompany loans* (Portuguese: *empréstimos intercompanhias*), involves ¨the loans granted by headquarters based abroad to its subsidiaries branches or affiliates established in the Brazil ¨ (Mello, 2012). This type of FDI can be compared to Greenfield investment, meaning that in order for the company to establish a new operation in Brazil, the company has to first open a branch in the country and then after make a loan to its branch, as a form of FDI. This form is usually applied when companies want to invest using a strategy of their brands equity. Meaning that a company is more likely to succeed when entering the Brazilian market by its own, based on the importance of having an international well-known brand name.

Overall, the two universal forms of FDI are very similar to the two forms of Brazilian FDI. General factors and aspects of *Greenfield investments* and *M&As* should be analyzed before choosing the optimal entry mode to invest in Brazil, considering the *Intercompany loans* is directly related to *Greenfield investments* as *Equity capital* is to *M&As*.

Additionally, before opting for FDI as the entry strategy, it is essential to primarily investigate the internal and external factors which will lead to motives for going abroad, followed by analyzing the forms of internationalization and how it will be done, in order to achieve success in a foreign market. Therefore, in the following chapter, the conceptual theories previously mentioned are applied into practice by taking the Brazilian agribusiness industry as a case study.

4. Brazil as an Attractive Hub for FDI in the Agribusiness sector

It is well known that the Brazilian economy have been standing out in the international setting and thus, it had been attracting more and more FDI. Based on that, this chapter tries to find out if all Porter´s theories concerning the attractiveness of countries and industries can be applied into practice, by analysing the case of Brazil and its agribusiness industry. To begin, general aspects of Brazil are briefly presented. Following, the reasons that have made Brazil an attractive hub for FDI are discoursed, by separating them into two streams: macroeconomic and institutional scenario. Subsequently, narrowing down to the motives of the Brazilian agribusiness sector´s attractiveness and finally, relating both external factors to the theories mentioned.

4.1 Introducing Brazil

The Federative Republic of Brazil, known as Brazil, is the largest country in size in South America and the fifth in the world. It also has the world´s fifth largest population with approximately 201 million inhabitants, from which 87% live in urban areas. The official language is Portuguese; however, due to the intense immigration from different countries, languages like Spanish, English, Italian, and German are still present and even taught in some schools. Occupying 47% of the continent, Brazil borders every country in South America with the exception of Chile and Ecuador. As part of the BRIC group of developing countries (Brazil, Russia, India, and China), Brazil is considered to be an emerging country with the seventh largest economy in the world, (CIA, 2013, *¨Brazil¨* section), which is one of the reasons why Brazil has been attracting high FDI inflows.

4.2 Macroeconomic scenario

¨The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country¨ (The Global Competitiveness Report, 2012, p. 5). One of the main drivers of this established environment is the rising economic growth, which is directly related to FDI, as it ¨shows also a positive and significant correlation with economic growth¨(Alguacil, Cuadros, & Orts, 2011, p. 13). Meaning that a high FDI inwards increases a country´s economic growth, attracting more FDI. According to the FDI in Figures report by the Organisation for Economic Co-operation and Development (OECD), Brazil was the fourth country in 2012 to attract more FDI inflows with USD 65 billion (Bertrand & Kothe, 2012, p. 1).

The Investing in Brazil report done by KPMG, one of the Big Fours auditors, reveals the reasons of the Brazilian FDI, by stating 2011 as a record year of investments with almost

USD 70 billion ¨(…) due to a combination of the upcoming World Cup in 2014, the 2016 Olympic Games and the discovery of very large deep-sea oil fields on top of economic growth¨ (KPMG, 2012, p. 8). The same report also appraises that the main investors countries are The Netherlands, The United States, and Spain.

4.2.1 Brazil – The seventh largest economy in the world

According to World's largest economies by CNN Money, Brazil became the sixth largest economy in the world in 2011 by overtaking the United Kingdom (UK) with USD 2.5 trillions GDP (CNN Money, 2011). Nonetheless, in 2012, Brazil dropped back to the seventh place ¨due to the weakness of its currency¨ (Aldrick, 2012, ¨Finance - Economics¨ section, ¶ 2), currently, CNN Money, forecast that Brazil will be taking back its position at the end of 2013 with the same amount as in 2011. When looking at the economic growth indicator of the last five years, Brazil ¨an economic superpower¨ (¨Brazil¨, 2008) had an annual average GDP growth of 4.2%. Moreover, it is important to point out that even with the global financial crisis in 2008, the country was one of the first emerging markets to start recovering, as in 2010 it had the highest growth rate of the last 25 years, reaching 7.5% (CIA, 2013, ¨Brazil¨ section).

4.2.2 High capacity of consumption

In the past 10 years, the Brazilian unemployment rate has drastically decreased from 12.4% to 5.5% (2012). The reasons for this achievement were the fall of interest rates that went from 19.5% to 10.4% over the same period (BCB, 2013, ¨Histórico das taxas de juros¨ section) and exemptions of some taxes that helped to boost the consumption. Consequentially, it created approximately 1.7 million formal jobs only in 2012 and roughly 10% counts for jobs in the agribusiness sector (Martello, 2013). Furthermore, in 2011, 27 million people incorporated in the middle class, becoming the majority of the Brazilian´s population (54%) and yet, 22% of the rest are part of the upper class. Resulting in a huge consumption potential, which has definitely increased as the disposable income for the middle class raised 50% (Portal Brasil, 2012). Thus, the large domestic market and the rise of the purchasing power per capita has attracted more investments in Brazil and is definitely seen as an advantage for any segment.

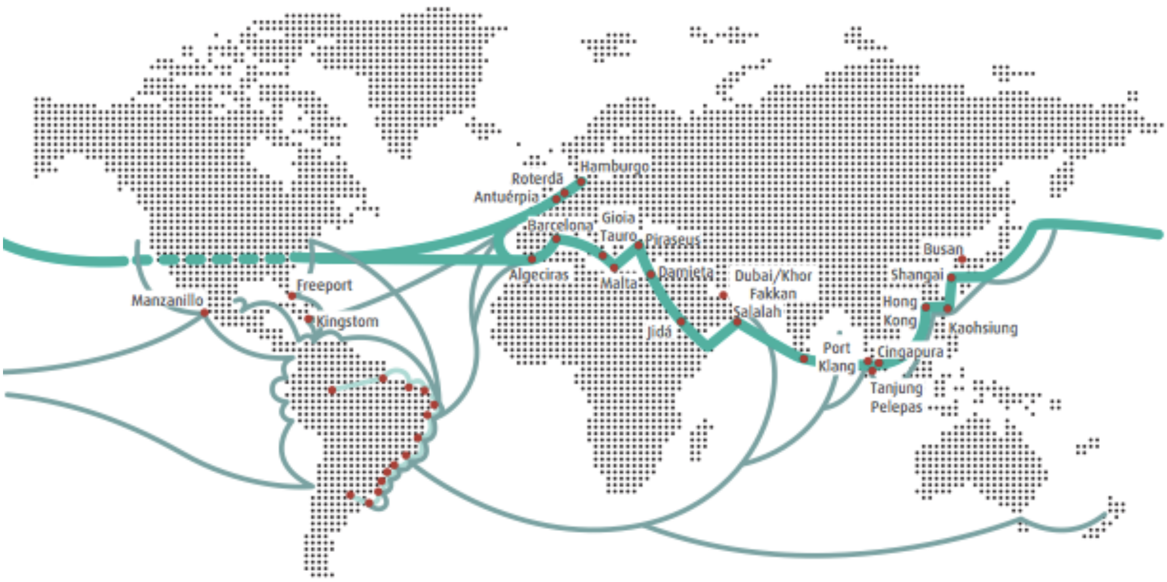
4.2.3 Relatively high competitiveness

In the *Global Competitiveness Report of 2013-2014*, Brazil is ranked at 56th place. The main reasons for a relatively low competitiveness level relies on poor government efficiency, corruption, lack of improvement in infrastructure etc. Despite these deficiencies, the country has many assets, such as its enormous market size and its earnest and sophisticated business community with pockets of innovation excellence (World Economic Forum, 2014). ¨Going forward, Brazil should not delay the necessary reforms to boost its competitiveness, and should further leverage its numerous and important strengths¨. (World Economic Forum, 2014).

4.2.4 Strong international connectivity

Considering the fact that Brazil is the largest country in its continent, bordering every nation except Chile and Ecuador, it is true to say that the links between international suppliers within South America are simplified. However, the continent is still not as connected when compared to other regions in the world, since a connectivity hub does not exist currently. Due to Brazil´s outstanding international performance, it is considered to be a potential country to become the hub of South America. The diagram below illustrates the flow of global transhipment.

Figure 4.1: Flow of Global Transhipment



(BRAiN, 2011, p. 40).

The low density of marine transport flow in South America makes it harder for its integration, as 65% of the flow happens in 25 ports all over the world. Nevertheless, Brazil is highlighted in this situation because, 9% is in ports of the South American east coast. (BRAiN, 2011, p. 40). Moreover, Brazil has high import tariffs, varying from 14% to 20%, but luckily, the members of the Common Market of the Southern Cone, called Mercosur, (Argentina, Paraguay, and Uruguay) are exempted from this duty (KPMG, 2012, p. 13). Overall, the network in Brazil is still weak, but the future is definitely promising.

4.3 Institutional scenario

¨(…) the institutional system also plays a role as a main attractor of FDI¨. (Alguacil, M., Cuadros, A. and Orts, V., 2011, p. 8). It is important to point out that this scenario has many dimensions. Easterly, for example, suggests that ¨Institutions reflect deep-seated social arrangements like property rights, rule of law, legal traditions, trust between individuals, democratic accountability of governments, human rights. (Easterly, 2005, p. 19). However, the emphasis is on the main existing legal aspects that have been playing an important role for Brazil´s attractiveness for FDI.

4.3.1 A democratic country

Brazil has a stable political environment and a consolidated democracy, guaranteeing individual rights. ¨With more than five centuries of history, the country combines a high degree of institutional, political, and economic maturity with an immense potential for growth and investment¨ (ApexBrasil, 2013). The country has one of the most modern and safe systems for elections, which are direct and have a four years cycle. This atmosphere of freedom enables public participation. An example of this involvement was the national movements that took place in 2013, regarding social problems, such as corruption, rise of public transportation costs and the outlay for the two upcoming big events, the World Cup and the Olympics Games, as well as other matters. The international environment is peaceful amongst Brazil and other countries, with no existence of conflicts.

4.3.2 The government´s support for foreign investments

It is important to highlight how the Brazilian government supports outside inventors through its favorable laws. The American business magazine Forbes affirms that ¨Brazil has one of the most liberal investment climates for outside investors¨ (Singh M. 2010). The legislation aims to ensure safety for all FDI´s activities by providing protection for industries properties, such as patents, trademarks, and other intangible assets, as well as conflicts resolution rights in a legal environment. In addition, foreign companies operating in the country have all the same legal rights as national ones and even non-resident inventors are able to invest in almost all security markets accessible for those who are residents (Agroinvest, 2013, ¨ Como investir no Brasil ¨ section). Since 2008, Brazil is considered to be a safe place for FDI according to the big three credit rating agencies: Fitch, Moody's, and Standard & Poors (ApexBrasil, 2013). Hence, all these factors have contributed to the rise of the Brazilian´s FDI.

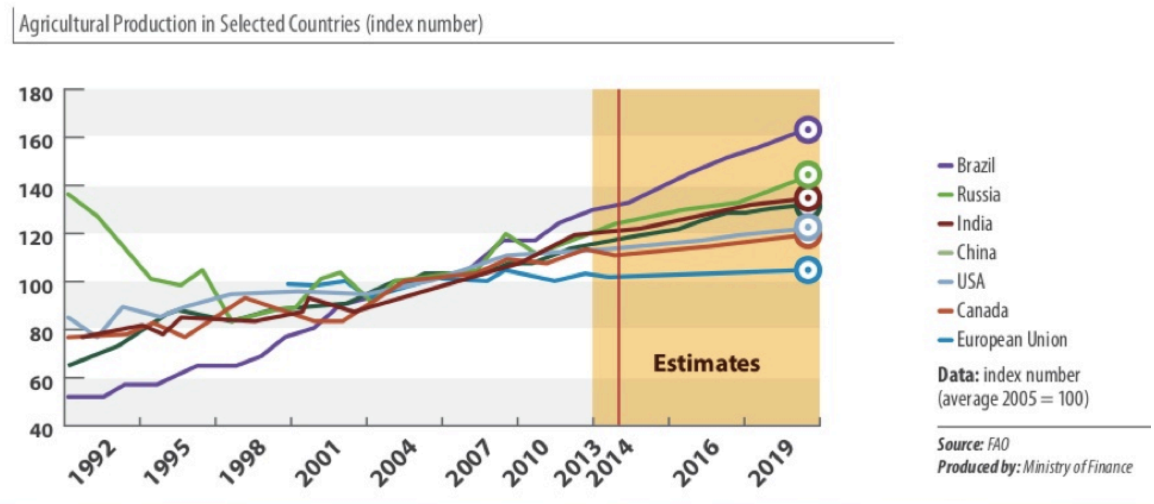
4.3.3 Taxes and Incentives on FDI

Brazil suffers with a very complicated tax system with an unstable format, with many different taxes that keep changing in all of its executive power stages: federal, state and, municipal. Fortunately, the country is aware of these difficulties for foreign investors and therefore it has created some tax incentives to attract more FDI. For instance, these incentives vary based on the region that will be invested (KPMG, 2012). Nevertheless, ¨the foreign capital that enters the country as direct investment (IED), does not suffer any taxation¨ (Mello, 2012). Also, there are some Export Processing Zones (EPZs) that are free trade zones, intended to promote the establishment of businesses involved with the manufacture of goods to be sold internationally, facilitating the customs control as import duties are exempted (ApexBrasi, 2013). Thus, Brazil has a very advantageous economic atmosphere for attracting and receiving foreign investment.

4.4 Strong potential in the Agribusiness sector

Brazil is a worldwide reference in the agribusiness and as you can see below in the graphic, it is already the largest producer as well, and therefore establishing itself as one of the main exporters of primary goods.

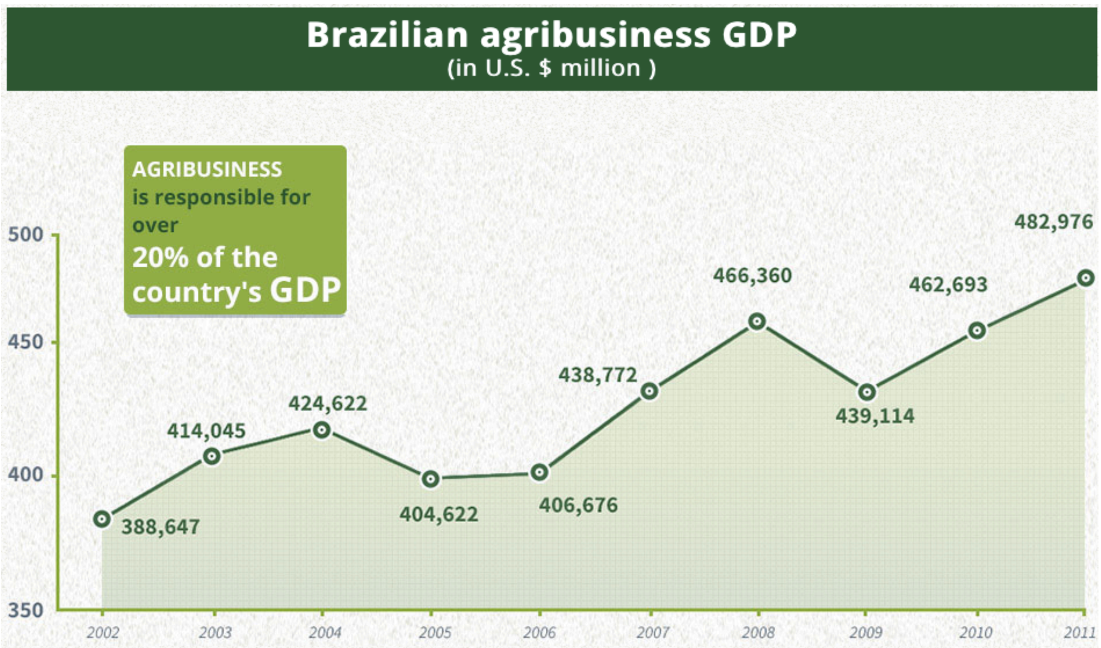
Figure 4.2: Agricultural Production in Selected Countries



(Brazilian Government – Ministry of Finance, 2012, p. 26)

Also, the country is the second largest exporter of agricultural goods, just behind the United States of America (Brazil Portal, 2014). Not to mention that Brazil had the strongest productivity gains in this industry since 1960 till now, increasing 2% annually. (Ernst & Young Terco, 2011, p7). Porter (1990) explains that ¨classical theory explains the success of nations in particular industries based on so-called factors of production such as land, labor, and natural resources. Nations gain factor-based comparative advantage in industries that make intensive use of the factors they posses in abundance¨. Therefore, the competitive advantage in the Brazilian agribusiness industry relies on the high productivity, the specialized labor force, the strong increasing internal and external demand, the government´s support as well as the wide availability of natural resources. However, ¨It boasts a world-class agricultural sector that has not yet reached its potential¨(Pereira, 2013), this sector can still grow a lot in Brazil even though this segment still lags behind in comparison to the other ones. The country has the possibility to increase its production without affecting the preserved area of 61% of Brazil-s total landmass, since only 27.7% is used for agricultural production. Not to mention that Brazil ¨(…) has the capacity to adapt more crops to its tropical soils and develop its vast land frontier¨ (Pereira, A., 2013). Currently, only 1.7% of this land belongs to foreigner investors. (Piñeiro & Villarreal, 2012, p. 21). Additionally, ¨Agribusiness currently accounts for 22.4% of Brazil´s GDP, 37% of its exports, and 1/3 of all jobs¨ (CNA, 2013, p. 14). The graph below shows that the contribution of the industry for the country´s GDP keeps growing.

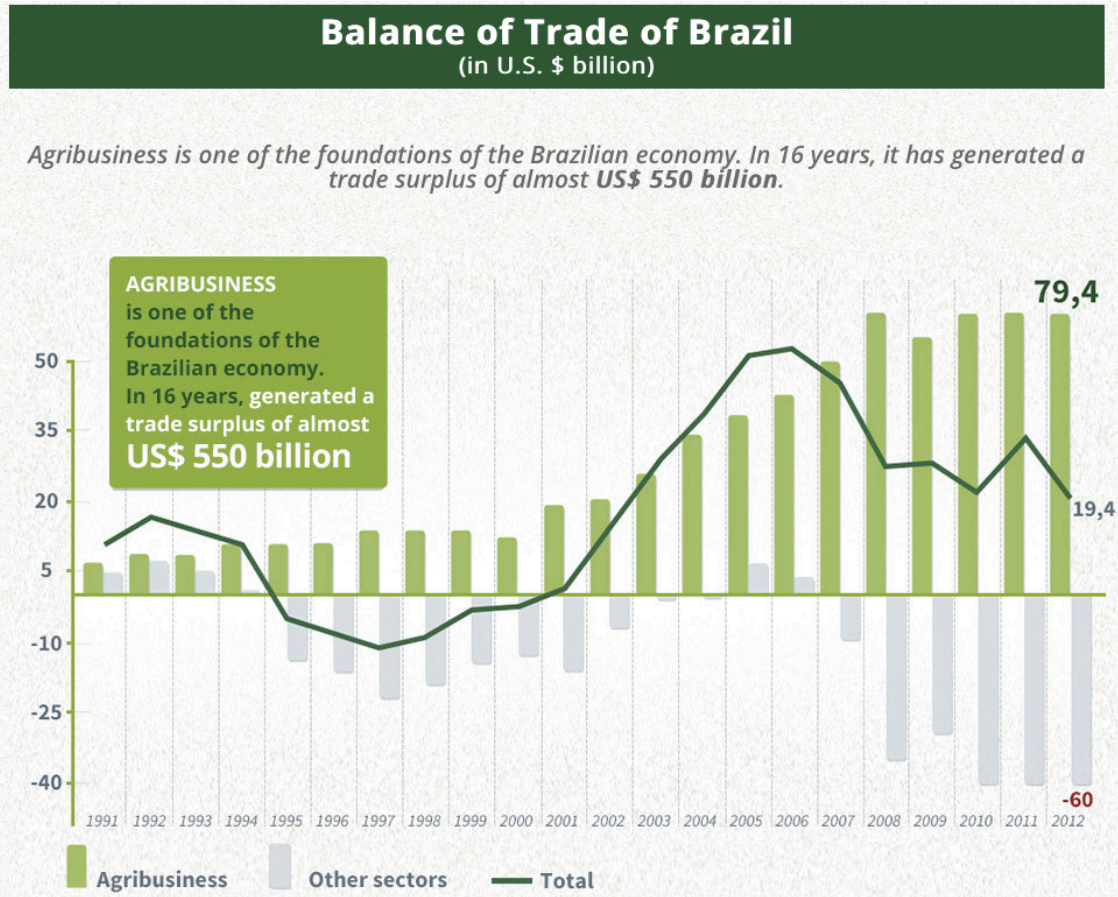
Figure 4.3: Brazilian Agribusiness GDP



(Brazil Portal, 2014)

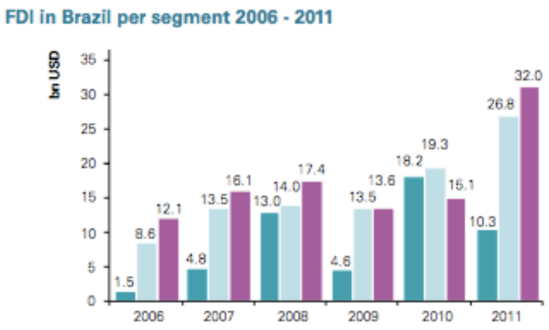
Besides that, throughout the history, the agribusiness sector has contributed a lot for the development of the Brazilian economy, generating an extremely high trade surplus in comparison to the other sectors (Figure 4.3).

Figure 4.4: Balance of Trade of Brazil – Agribusiness and other sectors



(Brazil Portal, 2014)

Figure 4.5: FDI in Brazil per segment 2006-2011



CAGR (%)	2006-2009	2009-2011
Agriculture and mineral extraction	44%	50%
Industry	16%	41%
Services	4%	53%
Total	13%	48%

(KPMG, 2012, p. 9)

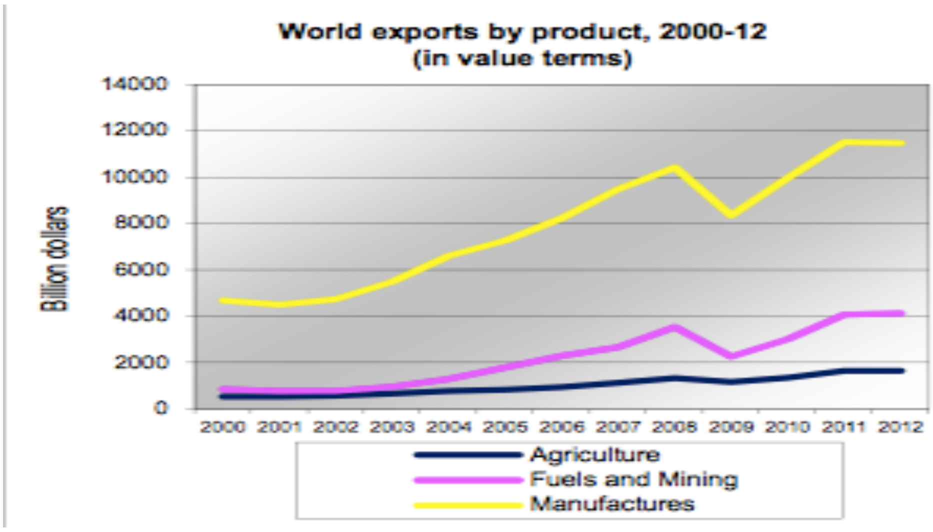
Hence, it is evident that Brazil has a strong prospective to develop its agricultural segment, which attracts even more FDI.

Nonetheless, when compared to other segments, currently, the agribusiness sector does not attract the majority of investments in Brazil. According to the graph (Figure 4.5) from the annual report of the Brazil Central Bank (BCB), industry and services have received more FDI than the agricultural and mineral extraction segment. On the other hand, when only observing the investments on the agriculture and mineral extraction segment by itself, a strong FDI increase can be noticed from 2006 to 2011 by USD 1.5 to 10.3 billion. Therefore, all this data shows the potential of this upcoming segment to attract more FDI.

4.4.1 The increasing worldwide demand for commodities

The main reason why the Brazilian economy became so powerful is the commodity boom that started 11 years ago, mainly due to China´s entrance in the world market. In 1979, economic reforms started in China in order to stimulate economic growth and to attract foreign investments. These changes resulted in trade liberalization of the Chinese market. Recognition of a world economic power began after China became a member of the World Trade Organization (WTO) in December 2001, followed by an intense period of its economic growth (WTO, 2013). China is now the world's largest trader in goods.

Figure 4.6: World export by product, 2000-2012



WTO (2012). International Trade Statics.

Above, the graphic of world exports by product shows the worldwide demand for goods initiating along with entrance of China in the WTO.

Moreover, China´s main imports are oil, copper, iron ore, and soybeans, which, except copper, in fact are all produced in Brazil. Iron ore is the Brazilian leading export product (BCB, 2011, ¨O Desempenho das Exportações¨, p. 56). Thus, it is clear that Brazil benefited from the prosperous Chinese economy, with the raise of investments on the agriculture and mineral extraction sector. The ongoing worldwide demand for commodities is likely to continue based on the fact that China is responsible for over 40% of demand of the world's iron ore and copper (Yueh, L. 2013). Meaning that if Brazil continues to develop the agricultural and mineral extraction sector, it will continue to grow and attract more FDI from various countries, in order to attend the ongoing demand for commodities in China.

Another fact is the enlargement of the planet´s population. Eduardo Corrêa Riedel, president of the MS Agriculture and Livestock Federation (Famasul) and the Deliberative Sebrae/MS Council, and vice-president director of CNA says that Brazil is ready to accomplish the challenge given by the United Nations Food and Agriculture Organization (FAO) to expand 60% of its production by 2050, when the world´s population will possibly get to nine billion inhabitants (Riedel, 2013). Hence, the Brazilian government has been encouraging FDI in this industry, by promoting its advantage abroad along with the help of the Brazilian Ministry of Agriculture, Livestock, and Supply, due to the fact that the country must increase its production in order to attend the world´s demand on goods in the future (Agroinvest*,* 2013 ¨Agronegócio no Brasil¨ section). Overall, this makes the agribusiness industry globally oriented (figure 3.3).

4.4.2 Raw materials reserves

Brazil is known for its extremely diverse flora and fauna. The country produces a wide variety of goods, but as the main focus of this paper is the agribusiness, only the agricultural and livestock natural resources are pointed out:

- Soybeans: world´s largest producer and exporter counting for 40% of the worldwide market share. The main importer is China.
- Coffee: world´s largest producer and exporter counting for 27% of the worldwide market share. The main importer is United States of America.
- Orange juice: world´s largest producer and exporter counting for 85% of the worldwide market share. The main market is the European Union.
- Cotton: fifth largest producer and exporter counting for 6.7% of the worldwide sales.
- Sugarcane derives into two products. Sugar: world´s largest producer and exporter counting for 50% of the worldwide market share. Ethanol: second largest producer and world´s largest exporter counting for 30% of the worldwide market share.

- Dairy: fourth largest producer in the world, counting for 5.17% of the worldwide production.
- Sheep: world´s 16th largest herd. Goats: world´s 17th largest herd.
- Beef: production counts for 19.6% of worldwide market share.
- Pork: production counts for 8.8% of worldwide market share.
- Poultry: production counts for 38% of worldwide market share.
- Aquaculture: less than 1% of worldwide production.

(Agroinvest, 2013, ¨Agronegócio no Brasil¨ section).

Unfortunately, the agribusiness sector in the country is still behind other segments of industry and services, even with all of its potential due to the abundance of raw materials. Hence, high FDI inflows do not mainly rely on the agriculture´s production, but obviously it has huge potential to be expanded through more FDI.

4.5 Measuring attractiveness with Porter´s theories

After exploring all the reasons why Brazil has been attracting so many investments and in particular the potential of its agribusiness industry, the analysis if all attractiveness theories of Porter are suitable with the country and its industry motives for high FDI inflows is made.

4.5.1 Attractiveness of Brazil

By taking into consideration all the elements in the macroeconomic and institutional scenario, Brazil definitely meets all the attractiveness six factors presented by Porter. Certainly, there are few factors that have not reached its potential yet, but overall this comparison can indeed explain high FDI inflows in the country. For instance, Brazil has economic and geographic favorable factors (sections 4.1, 4.2 & 4.2.1), as well as, big domestic demand (section 4.2.2), and governmental incentives and support for FDI (section 4.3.2 & 4.33). On the other hand, the national competitiveness (section 4.2.3) and network of internationally suppliers (section 4.2.4) are not very strong points of its attractiveness, but it has been said that Brazil has a promising future of improving them. Lastly, coincidental factors have happened recently (section 4.3.1), but did not affect its attractiveness, only proved the prevailing democratic environment. Therefore, the six factors of Porter can be used to analyze country´s attractiveness for FDI.

4.5.2 Attractiveness of the Brazilian Agribusiness industry

As mentioned previously, the author, Ms. Yo, wanted to try to apply the five forces of

Porter to analyze the attractiveness of an industry or business segment. In this case, only the Brazilian agribusiness sector could have been explored, as there is not yet an example of a company that is present in a particular sector. Therefore, firstly taken into account the indicators mentioned in figure 3.2, market growth and potential, which are undeniable when investigating the dimensions of this industry (section 4.4). Secondly, the customers/buyers force are related to the strong worldwide demand for agricultural and livestock goods (section 4.4.1). Thirdly, the huge availability of raw materials (section 4.4.2) is connected with the suppliers force, making the fifth force, competitive environment to be true, since large amount of suppliers and consumers create a perfect competition (Asmundson, 2012). Also, possible entry barriers cannot be found in this industry as the Brazilian government tries to incentive FDI, especially in the agribusiness (Section 4.4.1). Thus, the market growth and potential indicators in combination with the five forces of Porter, besides the substitute forces, can be used to measure the attractiveness of a sector and when narrowing down to one segment, all the forces are relevant.

5. Companies entering the Brazilian agribusiness industry through FDI

In this chapter, the aforementioned data on the attractiveness of Brazil and its agribusiness sector is applied into practice, as well as, the theory of the internationalization process and FDI. With the aim of answering when and why is FDI used as a form of investment in the Brazilian agribusiness sector, the need to develop a model that would illustrate what are the steps of this process arose. Primarily, the development of this model takes place, followed by its presentation and how it can be used to analyze an American company, GSI Group, which has entered the Brazilian agribusiness market through FDI.

5.1 Model of when and how companies invest through FDI in the Brazilian agribusiness sector

Based on all the information given on internationalization and FDI, the challenge was to create a model that fits within the process of companies that choose to invest in the Brazilian agribusiness industry through FDI. Thus, the conclusions after comparing the theories of Porter with the reasons why Brazil has high FDI inflows were taken into consideration.

5.1.1 Model´s development

In the previous chapter, Porter´s theories were applied into practice, in order to prove that they could be the key indicators to attract FDI. The outcome was positive, thus the model was adapted with the main elements that define the export market strategy (figure 3.2) in line with the relevant characteristics for choosing FDI as the entry strategy in the Brazilian agribusiness sector. Therefore, each of these three elements: organizational, foreign country and industry, and its depth analysis, can lead to motives for internationalization (figure 3.1), as well as the combination of two or more.

Meaning that if a country or an industry is attractive for investments, a company might get interested in investing there. Also, if the company itself has interests in going abroad, it is advised that it investigates beforehand the external factors. However, the internal factors can directly cause a motive for internationalization and depending on this reason, the company will search for a foreign country to invest.

Subsequently, when any of these three elements have developed into a reason to go abroad, the company must decide how to enter the foreign market. Nevertheless, it is believed that after analyzing the internal and external factors, a combination of three facts must be applicable in order to choose FDI as the entry strategy. Meaning that the company (figure 3.3) should have a high level of international experience (adolescent or mature), since FDI has the longest time horizon, with the highest investment´s costs and risk. As well as, the foreign country should be attractive for receiving FDI and the industry should be globally oriented with strong growth and potential (figure 3.3), as the company would aim for entering a competitive market with the highest possible implementation control.

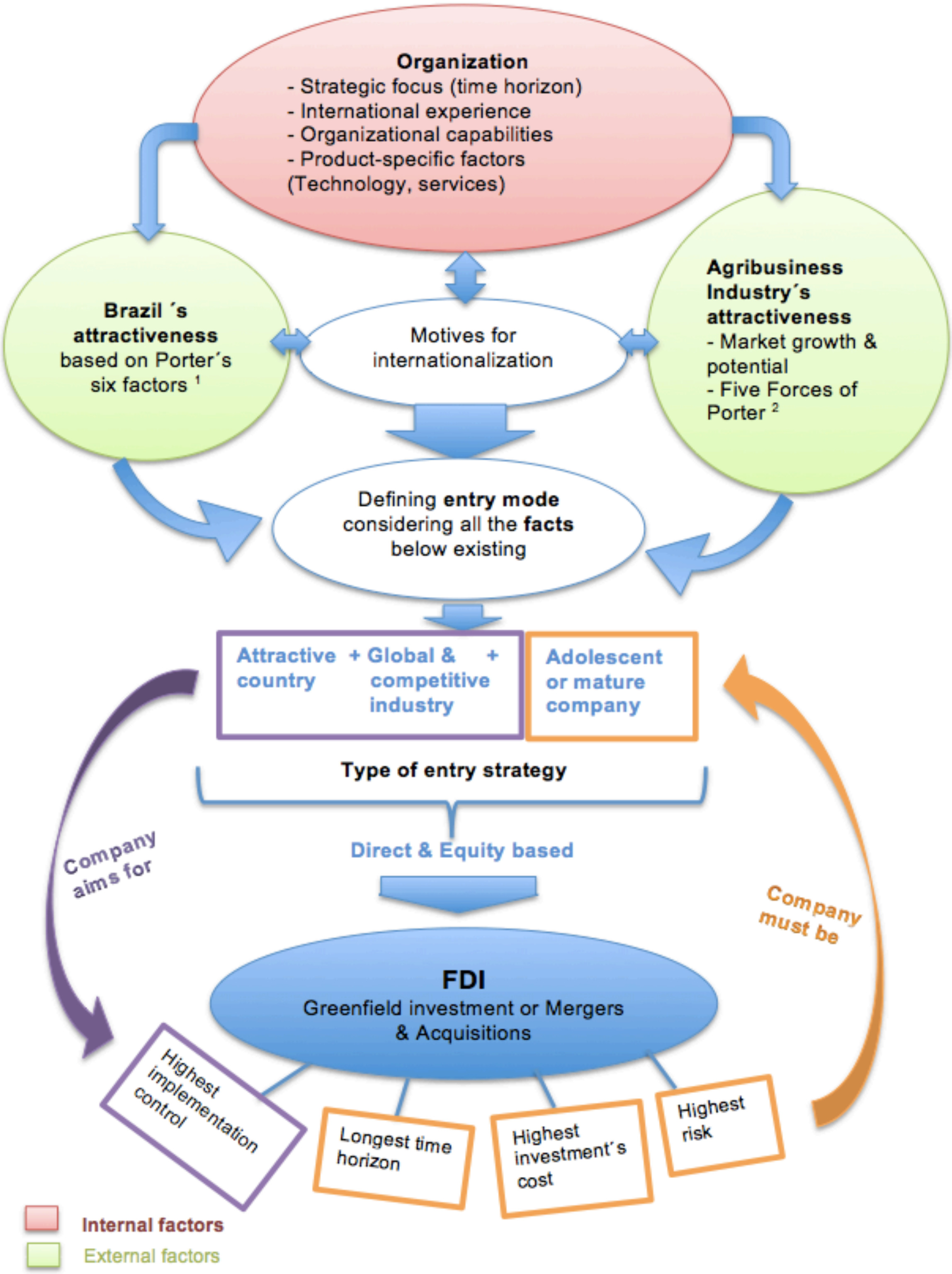
Furthermore, as explained in chapter 3, the following step when the company is selecting the entry mode is to decide whether it wants to enter directly or indirectly the foreign market and if the entrance will be equity or non-equity based. Hence, as showed in the figure 3.5, the company must opt for a direct and equity based strategy in order to use FDI as a form of internationalization. Afterwards, the company will finally consider which type of FDI, Greenfield investment or M&A, is most suitable based on the analyzed comparison founded in this paper in section 3.5.

In summation, based on all these steps of internationalization for companies when entering the Brazilian agribusiness market through FDI, a model was developed (figure 5.1), which in other words is a combination of three models along with the theory of FDI as an entry strategy. The three balloons on top (one red and two green) are from the model *Elements defining the export market strategy*, which have been adapted and thoroughly explained it in section 5.1. Also, the two green balloons are based on two models of Porter, *the five forces of Porter and the six factors to measure competitiveness of countries from his book: The competitive advantage of nations*.

Moreover, the three balloons are connected to the motives for internationalization illustrated in figure 3.1. Following this, there are the established conditions to invest through FDI, the choice for the type of entry strategy and how the pros and cons of FDI are related to the existing internal and external factors, as earlier explained in. Thus, based on our assumptions, is believed that the model created clearly demonstrates what conditions and factors must exist in order for FDI to occur. The development of the model relies on the Brazilian agribusiness case that was presented in chapter 4, along with the FDI theories from chapter 3.

Subsequently designing the model, the need to apply it into a real company´s case arose, in order to value its effectiveness. Also, as mentioned previously, that the five forces of Porter could be further explored when taking the example of a company that is present in a particular segment, in this case, a business segment of the Brazilian Agribusiness sector, the model developed is applied into an American company that entered a segment of this industry through FDI.

Figure 5.1: FDI Model for companies entering the Brazilian agribusiness industry



[1] Six factors to measure competitiveness of countries from Porter – explanation founded in section 5.1.2
[2] Five forces of Porter industry analysis – explanation founded in section 5.1.3

5.2 Applying the model into practice: GSI Group enters the Brazilian Agribusiness Industry

The GSI Group, Grain System Inc., has the largest range of equipment for increasing the efficiency of animal protein, by manufacturing storing grain systems and poultry and swine confinement technologies. The firm has entered the Brazilian agribusiness sector in 1998 through FDI, by acquiring all the capital stock of the Agromarau Company, the largest manufacturer and supplier of poultry feeding and swine equipment of South America. Therefore, it will be examined how the internalization process was carried out at that time, by putting into practice the FDI model for companies entering the Brazilian agribusiness industry.

5.2.1 Internal factors: organizational

GSI was founded in 1972 in Assumption, Illinois - United States of America. Since the beginning, the company had strong goals of growing, by becoming the largest manufacturer of grain storage in 1998. This achievement required a long time horizon focus and robust organizational capabilities. Its success also relied on the worldwide demand for its specific products with a high technology, the possibility of personalization and their installation and maintenance. By the time GSI entered the Brazilian market in 1998, it already had a high level of international experience (mature company). In 1985, the firm started manufacturing in Mexico and in 1995 it founded the GSI Group Asia in Malaysia (GSI Group, 2014). Thus, according to the model created, GSI Group had all the characteristics needed before entering the Brazilian market through FDI, by being a mature company.

5.2.2 External factors

As GSI entered the Brazilian market in 1998, the analysis of the following external factors will be made within this period.

Brazil´s attractiveness

- Factor advantages: the economic situation was not good; the country was suffering from a currency crisis, with highly unstable inflation rates. However, after the implementation of the new currency *Real* in 1994 along with high interests rates, the situation was stabilized. In 1997, FDI inflows grew by 140% over the previous year (Evangelist & Sathe, 2006, p. 2). Brazil was already amongst the ten largest economies in the world with approximately 1.4 trillion GDP and 3% annual GDP growth rate (World Bank, 1998). Moreover, the country always had wide availability of raw materials and its location is an advantage for distributing throughout South America.

- Domestic demand: this factor has always been high is the country due to its large population along with the worldwide demand for commodities.
- National competitiveness: the level of competitiveness in Brazil started to increase in the 1990's due to its currency appreciation after the implementation of Real (Bonelli, 2001, p. 4). Also, the current president in 1990, Fernando Collor decided to execute an economic plan in which one of the measures was the trade opening that reduced import tariffs, raising the competition between Brazilian producers (Cury & Gasparin, 2012).
- Network of internationally suppliers: the trade opening facilitated the acquisition of international suppliers as well as the founding of Mercosur in 1991, a free trade agreement between six South American countries, Argentina, Brazil, Paraguay, Uruguay, Venezuela, and Bolivia (Mercosul, 2014).
- Coincidental factors: the currency crisis in the 1990's that shook the Brazilian economy.
- Government: the economic plan from President Collor and the decline of inflation´s oscillation in the 1990's, stimulated the economy by attracting more investments

Overall, Brazil was an attractive country at that time. The economic reforms of introducing a new currency, the trade opening, and the trade agreement between South American countries, stimulated the economy, ended both the currency crisis and unstable inflation rates situation.

Agribusiness Industry´s attractiveness – Grain storage and poultry and swine confinement

- Market growth and potential: besides all the advantages concerning location, climate and availability of land and resources, the GSI Group states ¨ Brazil offers technology geared for local needs, technical assistance, market knowledge, and distribution throughout South America¨ (GSI Group, 2014), meaning that not only the industry but also the segment had a strong potential. Not to mention, ¨Brazil had the largest productivity gains in the agriculture and livestock raising sector from 1960¨ (Ernst & Young Terco, 2011, p. 7).
- Suppliers: by acquiring the largest manufacturer and supplier of poultry feeding

and swine equipment of South America, the GSI Group already entered the Brazilian market with the highest market share in this segment. Also, the know-how in grain storage contributed towards the company becoming the leader in this sector (GSI Group, 2014).

- Customers/Buyers: Brazil has always been a large producer and exporter of grains, as well as poultry and swine, which has been increasing along with the worldwide demand for commodities. Thus, the concentration of buyers was and continues to be very high.
- Substitutes: as GSI Group entered the Brazilian market, it became a global leader in its business segments (GSI Group, 2014). Hence, it is believed that substitutes were threatened by the company´s strengths of not only producing equipment with high quality, durability, technology, and benefit costs, but also because it offers their installation and maintenance.
- Entry barriers: by acquiring Agromarau, the firm excluded the entire possible brand supremacy barrier. Concerning legal regulations barriers, it is believed that GSI Group encountered some difficulties as many of the taxes and incentives on FDI mentioned in section 3.4.3 did not exist yet.
- Competitive Rivalry in the industry: the environment was competitive since Agromarau was already the Brazilian largest producer in the segment.

Generally, based on all indicators analyzed, the assumptions that the agribusiness industry and segment were attractive can be confirmed, since the market had and has a great potential and it was very competitive.

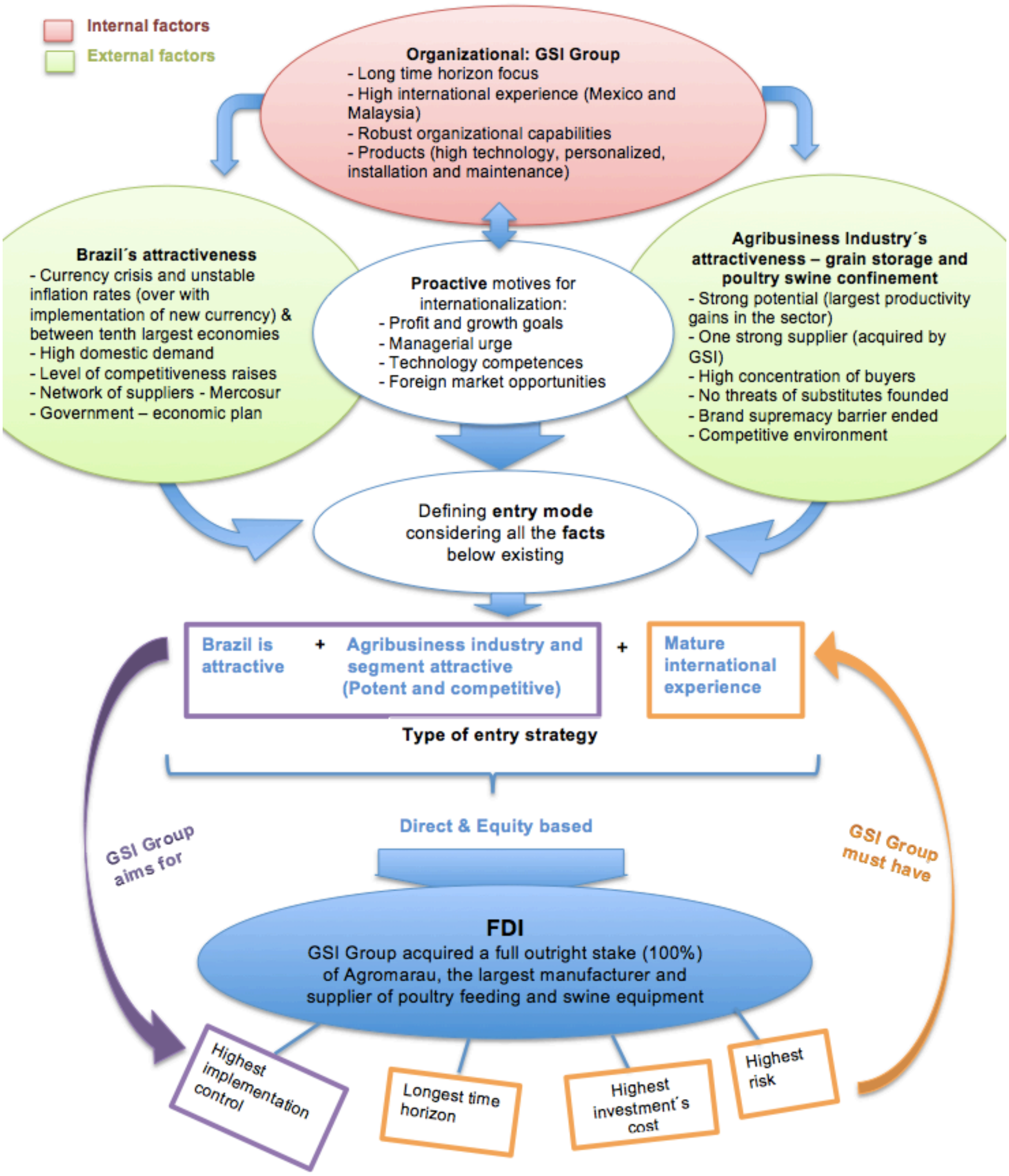
5.2.3 Motives for internationalization

After studying the internal and external factors of when the GSI Group entered the Brazilian agribusiness sector, it is assumed that amongst all the reasons for internationalization (figure 4.1), the company had the following proactive motives: profit and growth goals, managerial urge, technology competence, and foreign market opportunities. The desire to grow and export is evident since the company was already present in two other countries. The international success of the firm shows that it previously had technology know-how. Also, the conditions of the country and sector raised the company´s attention for opportunities. Therefore, these reasons led the company´s choice for a strong entry mode.

5.2.4 Entry strategy

The following crucial step for GSI Group was to select an entry strategy; hence, in the following, the model developed was put into practice by filling it out with the information about this case.

Figure 5.2: FDI Model for companies entering the Brazilian agribusiness industry (GSI Group case study)



Considering that our research concludes that in order to choose FDI as a form of internationalization, the country has to be attractive for investments, the industry has to be competitive and globally oriented and, the company must have an adolescent or mature level of international experience, it is confirmed that all of these facts were applicable during the entrance of the GSI Group into the Brazilian agribusiness industry, based on all the internal and external factors mentioned. Along with that, it is believed that the reasons the company had to internationalize, led by its choice for a direct and equity based strategy, FDI; since, as explained in the model designed, if the external factors are attractive, the company aims for the highest implementation control, which can only be achieved through FDI. Therefore, as the GSI Group is a mature firm, the disadvantages of FDI would not be an issue to face.

Subsequently, after deciding on FDI as the entry mode, the company had to opt between the two forms of FDI: Greenfield investments or M&A. It is supposed that some of the potential factors stated in the section 4.2 took place. Firstly, it is important to bear in mind that there was a desirable existing company, Agromarau, in the sector to be acquired or merged with. Thus, the GSI Group had to examine if it was better to compete against the existing company through Greenfield investment or invest in it with M&A. Seeing that Agromarau was already the leading company in the Brazilian market, producing some of the GSI´s products, the potential factors (cultural distance, market´s competition environment, and adaptation of production) advise the M&A were more advantageous. However, as GSI had a specific technological knowledge for the same products as well as others (grain storage), the level of control factor recommended the Greenfield investment.

Hence, by taking into consideration the pros and cons of the two types of FDI in this situation, it is believed that the GSI Group made the right decision for opting to acquire a full outright stake (100%) of Agromarau. Because, the American company can make use of the existing cultural proximity and production facilities of Agromarau and at the same time have a high level of control without sharing its know-how. Also, GSI avoided the risk of its global competitors trying to merge or acquire the largest manufacturer and supplier of poultry feeding and swine equipment of South America.

Overall, the model´s development and its application into a real scenario proved its efficiency; however, it is believed that more internal and external factors could be studied. Likewise, this made us realize that in order for FDI to occur, the motives for internationalization should be proactive, considering the cons of this entry mode.

6. Field research – Analyzing the efficiency of the model

In the past chapter, a FDI model was developed to answer what are the factors and conditions that led a company to choose FDI as a form of investment in the Brazilian agribusiness sector. Also, this model was applied into practice by analyzing how an American company opted for FDI as its entry strategy. Nonetheless, in order to obtain a more descriptive and in-depth conclusion in regards to all the theory behind this model´s development, a qualitative research was conducted. The study will have an inductive approach, in which a conclusion will be reached by finding important relationships in the data with the purpose to find out the effectiveness of our model´s structure (Schutt, 2012, p. 322). Therefore, an interview several stakeholders that are involved with FDI in general and/or FDI in the Brazilian agribusiness sector will take place.

6.1 Questionnaire

Considering all the information collected in this paper about choosing FDI as a form of internationalization, the following questions and their explanation were prepared.

Figure 6.1: Questionnaire and its relevancy

Questions	Reasons	In the text
1. What are the main aspects that should be considered in a company seeking to internationalize? **a) According to the model developed: (You can select more than one option)** ( ) Strategic focus (time horizon) ( ) International experience ( ) Organizational capabilities ( ) Product-specific factors (Technology, services) **b) What other aspects would you consider to be important?**	The goals of finding out if the stakeholders agree with all the main organizational aspects in the model developed that should be analyzed when a company is seeking to internationalize. Also, which other aspects they believe to be important, in order to improve the model designed.	Section 5.1.1
2. What are the key indicators that make a country attractive for FDI?	The goal of finding out if the stakeholders agree with all	Chapter 3 & Section

a) According to the model developed: (You can select more than one option) ( ) Economic, political and geographical factors ( ) Domestic demand ( ) National competitiveness ( ) Network of internationally suppliers ( ) Coincidental factors (unplanned events) ( ) Government incentives **b) What other indicators would you consider to be important?**	the key indicators in the model developed that make a country attractive for investments. Also, which other indicators they believe to be important, in order to improve the model created and if these aspects are linked with the reasons of high FDI inflows in Brazil.	5.1.2
3. What key indicators should be considered to analyze the degree of attractiveness of a sector and its segments? **a) According to the model developed: (You can select more than one option)** ( ) Market growth & potential ( ) Suppliers ( ) Customers/buyers ( ) Substitutes ( ) Entry barriers ( ) Competitive rivalry **b) What other indicators would you consider to be important?**	The goal of knowing if the stakeholders agree that the market growth & potential indicator and all the five forces of Porter could be used to analyze the degree of attractiveness for FDI of an industry and segments. Also, which other indicators they believe to be important, in order to improve the model developed.	Section 5.1.3
4. In the case of Brazil and its agribusiness industry and segments, which conditions must exist to permit FDI? **a) According to the model**	The goal of finding out if the stakeholders agree with our conclusion that in order to occur FDI some conditions should exist. Also, what other	Figure 5.3 Figure 5.4 Section 5.2.1 &

developed: (You can select more than one option) ( ) Attractive country ( ) Global & competitive industry ( ) Adolescent or mature company **b) What other conditions would you consider to be important?**	conditions they believe to be important, with the aim of improving the model developed and its conclusions.	5.3.4
5. Assuming the attractiveness of Brazil and its the agribusiness sector and segments, the company will aim for full control of international operations? False ( ) or True ( )	The aim of knowing if the stakeholders agree that due to the attractiveness of the external factors, the company would aim for an entry strategy with the highest implementation control.	Figure 5.3 Figure 5.4 section 5.2.1 & 5.3.4
6. Considering the long implementation time, high cost and risk of FDI, the company must have a high or average international experience? False ( ) or True ( )	The goal of knowing if the stakeholders agree that due to the disadvantages of FDI, the company should be adolescent or mature.	Figure 5.3 Figure 5.4 section 5.2.1 & 5.3.4
7. Do you think the model developed clearly shows the indicators and the conditions that would lead a company to opt for FDI to enter the Brazilian agribusiness sector? ( ) Yes, why? ( ) No, why?	The aim of discovering how clear and effective the stakeholders think the model developed is.	Section 5.2.1
8. Do you think the model developed can be applied to any company, country or industry?	The goal of knowing if the internal and external factors determined could be applied in	Section 5.1.2

( ) Yes ( ) Yes , with some modifications. Explain. ( ) No	any company, country or industry that seeks internationalization, possibly through FDI.	5.1.3 5.2.1
9. What would you change/add/adapt the model to increase its effectiveness? Explain.	With the aim of improving the model, the stakeholders´ opinion in what could be changed/added/adapted are taken into consideration.	Section 6.2

6.2 Outcome of the qualitative research

Six stakeholders that are relevant for this research based on their experience and knowledge on the topic of this paper, including one of the employees of the GSI Group Company were interviewed. The results of the questionnaire are categorized into three parts (aspects according to the model developed, evaluating the model, and its further improvements) with the aim of elaborating a clear investigation of the relationship between the outcome and the findings of this dissertation.

6.2.1 Aspects according to the model developed

In this first part, the results from the multiple-choice questions (1a, 2a, 3a, and 4a) are stated, which had the objective to check whether the stakeholders agree with all the indicators and conditions stated in the model developed are necessary for FDI to occur. Thus, the following table was built with the results that subsequently will be listed and analyzed.

Figure 6.2: Results of the questions (1a, 2a, 3a and, 4a)

According to the model developed	Choices	I1	I2	I3	I4	I5	I6	Total	%
1a) Main aspects considered in a company seeking to internationalize	**Strategic focus (time horizon)**		✔	✔	✔	✔	✔	5	83.33%
	International experience	✔	✔	✔	✔	✔	✔	6	100%
	Organizational capabilities	✔	✔	✔	✔	✔	✔	6	100%
	Product-specific factors (Technology, services)	✔	✔	✔	✔	✔		5	83.33%
2a) Key indicators that make a country attractive for FDI?	**Economic, political and, geographical factors**	✔	✔	✔	✔	✔	✔	6	100%
	Domestic demand	✔	✔	✔	✔	✔		5	83.33%

	National competitiveness		✔	✔	✔	✔	✔	5	83.33%
	Network of internationally suppliers		✔	✔	✔		✔	4	66.66%
	Coincidental factors (unplanned events)		✔	✔	✔			3	50%
	Government incentives		✔	✔	✔	✔		4	66.66%
3a) Key indicators should be considered to analyze the degree of attractiveness of a sector and its segments?	**Market growth & potential**	✔	✔	✔	✔	✔	✔	6	100%
	Suppliers		✔	✔	✔	✔		4	66.66%
	Customers/buyers		✔	✔	✔	✔	✔	5	83.33%
	Substitutes		✔	✔	✔	✔		4	66.66%
	Entry barriers		✔	✔	✔	✔	✔	5	83.33%
	Competitive rivalry			✔	✔	✔		3	50%
4a) In the case of Brazil and its agribusiness industry and segments, which conditions must exist to permit FDI?	**Attractive country**	✔	✔	✔	✔	✔	✔	6	100%
	Global & competitive industry	✔	✔	✔	✔	✔		5	83.33%
	Adolescent or mature company	✔	✔		✔	✔	✔	5	83.33%

Terminology: ¨I1¨ = Interviewee 1 and ✔ = selected

Following the colors of the model:

Internal factors External factor Conditions to occur FDI

Based on the results of this table, the outcome of each multiple-choice question and how it would affect the model designed and the findings of this paper are evaluated.

- Question 1a: What are the main aspects that should be considered in a company seeking to internationalize? According to the model developed.

All the stakeholders have considered that the international experience and organizational capabilities aspects of a company must be evaluated when it is planning to go abroad. In regards to other two aspects, strategic focus (time horizon) and product-specific factors (technology and services) 83.3% of the interviewees believe that they are important. Seeing that the majority agrees with all the aspects mentioned in the model developed, they should all be considered. However, with the purpose to improve this research and the model, suggestions given in question 1b in section 6.2.3 of this paper will be explored.

- Question 2a: What are the key indicators that make a country attractive for FDI? According to our model.

All interviewees agreed that the economic, political and geographical factors are one of the key indicators that make a country attractive for FDI. Two other indicators (domestic demand and national competitiveness) were considered to be important by five (83.3%) of the stakeholders and 66,6% said that network of internationally suppliers and government incentives are relevant. And, only half of them believe that coincidental factors is an indicator of country´s attractiveness. Based on the outcome, it is imagined that the interviewees analyzed the importance of the indicators by perhaps having in mind the industry element, since the suppliers and incentives indicators could also imply the attractiveness of a sector. Therefore, for further improvement of the model developed and research, coincidental factors will not play an important role when measuring the country´s attractiveness for FDI, since the manifestations in Brazil probably did not affect its FDI inflows. Also, suggestions given in question 2b about other key indicators in section 6.2.3 of this paper will be explored.

- Question 3a: What key indicators should be considered to analyze the degree of attractiveness of a sector and its segments? According to the model developed.

As previously mentioned in chapter 4, the attempt to apply the five forces of Porter into the Brazilian agribusiness industry was not achieved completely, since only the application of all forces into a business segment was possible. Thus, in chapter 5, the need to apply the model developed into a real case of a company that entered a specific segment of the agribusiness industry arose. The outcome of the qualitative research proves that the main indicator to analyze the degree of attractiveness of a particular sector is market growth and potential. However, the stakeholders doubt the relevancy of the five forces: buyers and entry barriers (83.3%), suppliers and substitutes (66.6%), and competitive rivalry (50%). Meaning that, to measure the attractiveness of an industry, the forces are not that important as the market growth and potential, but to only analyze a business segment all the indicators are possibly significant. Based on that, the model developed will be improved by separating the industry its segment element into two. Also, the suggestions given in question 3b about other key indicators in section 6.2.3 of this paper will be explored.

- Question 4a**:** In the case of Brazil and its agribusiness industry and segments, which conditions must exist to permit FDI? According to the model developed.

All stakeholders believe that the country must be attractive in order to occur FDI and by taking into account that all of them considered the economic, political and, geographic factors to be the most important key indicator to measure the attractiveness of a country, it is affirmed that the high FDI inflows in Brazil are due to these factors, since they are positives as mentioned in depth in chapter 4. Moreover, the fact that 83.3% of the interviewees said that the company must be adolescent or mature and the industry global and competitive does not imply a smaller relevancy of these conditions. It is still believed that these three circumstances must exist in order to occur FDI, because anyway the majority agreed on that. Therefore, in order to improve the model developed, other suggestions given in question 4b, founded in section 6.2.3, will be taken into consideration.

6.2.2 Evaluating the model

In this part it is evaluated the conclusions withdrawn from the model developed created, in which the respondents could select from two options: true/false or yes/no. The purpose was to check whether the stakeholders agree with the assumptions stated in the model and how well was the model built. The results are presented in the table below and subsequently they will be listed and analyzed.

Figure 6.3: Results of the question (5,6 and 8)

Questions	Choices	I1	I2	I3	I4	I5	I6	Total	%
5) Assuming the attractiveness of Brazil and its the agribusiness sector and segments, the company will aim for full control of international operations?	**True**		✔	✔	✔	✔		4	66.66% True
	False	✔					✔	2	33.33% False
6) Considering the long implementation time, high cost and risk of FDI, the company must have a high or average international experience?	**True**	✔	✔	✔	✔	✔	✔	6	100% True
	False							0	n/a
7) Do you think the model developed clearly shows the indicators and the conditions that would lead a company to opt for FDI to enter the Brazilian agribusiness sector? Why?	**Yes**	✔	✔	✔	✔	✔		5	83.3% Yes
	No						✔	1	16.66% No

Terminology: ¨I1¨ = Interviewee 1 and ✔ = selected

Following the colors of the model:

■Company aims for ■Company must be ■Conditions to occur FDI

Based on the results of the table above, the outcome of each question and how it would affect the model created and the findings of this paper are evaluated.

- Question 5: Assuming the attractiveness of Brazil and its the agribusiness sector and segments, the company will aim for full control of international operations?

The aim of this question was to find out if the external conditions established in this paper for the occurrence of FDI were in agreement with the stakeholders´ opinion. According to the results, 66.6% agreed with the statement. The other two interviewees believe that it is false and one of them explained his answer by saying that even if the highest implementation control is desirable in most of the cases when the country and its industries and sector are attractive, the form of internationalization depends on the company´s growth strategy, thus it cannot be stated as a general rule. Indeed, it is agreed with the stakeholder´s opinion, considering that the model developed also implies the internal factors mentioned must be rated high in order to use FDI to invest. On the other hand, with the purpose to improve the model designed, it is also important to consider the company´s growth strategy before defining the entry strategy.

- Question 6:Considering the long implementation time, high cost and risk of FDI, the company must have a high or average international experience?

The aim of this question was to find out if the internal conditions established in this paper for the occurrence of FDI were in agreement with the stakeholders´ opinion. In fact, all the interviewees agreed with the statement, meaning that the results comply with the theories and findings of this dissertation.

- Question 7: Do you think the model developed clearly shows the indicators and the conditions that would lead a company to opt for FDI to enter the Brazilian agribusiness sector? Why?

The goal of this question was to fully determine the effectiveness of the model developed. The majority of the stakeholders (83.3%) said that the model was clear and completed, but it should be adapted for certain countries or companies. Only one of the respondents disagreed by explaining that the first step of companies that intend go abroad should be a soft entrance in the foreign market to develop a stronger strategy. Nonetheless, if a company already has international experiences by being present in other countries, the FDI is an option as an entry mode.

6.2.3 Further improvements of the model

In this last part of the outcome´s analysis, the suggestions and opinions given by relating them with the possible improvements of the model developed are explored. As most of the questions are opened (1b, 2b, 3b, 4b, 8, 9), the overall responses of each question are summarized.

- Question 1b: What are the other aspects that you would consider important in a company seeking to internationalize?

The answers from the interviewees varied; however, it is taken into consideration the following suggestions with the aim of improving the model developed. The company´s aims, growth strategy, and target group as well as the financial feasibility for the investment should be analyzed beforehand, in order to choose the best entry strategy. Amongst these aspects, it is believed that the financial feasibility plays a major role in FDI, due to its high costs. Therefore, all these aspects should be included in the resulting model.

- Question 2b: What other key indicators would you consider that make a country attractive for FDI?

The answers from the interviewees varied; however, the following consideration and suggestions were presented with the aim of improving the model developed. The accessibility of getting loans and qualified work force, interest rates, labor laws, and legal factors of the foreign country. All these indicators are found to be important for the attractiveness of a country and therefore will be added in the resulting model.

- Question 3b: What other key indicators would you consider to analyze the degree of attractiveness of a sector and its segments?

The responses from the stakeholders were minor; nevertheless, two suggestions were taken into consideration, future trends and availability of qualified work force in the industry and its segments. It is believed that these recommendations are relevant for measuring the attractiveness. However, the accessibility of work force can be already mentioned in the country´s indicator. Therefore, only the future trends indicator will be added in the resulting model.

- Question 4b: In the case of Brazil and its agribusiness industry and segments, which other conditions must exist to permit FDI?

The respondents believed that the advantages of Brazil should be mentioned in order to attract more FDI. For instance, these advantages are availability of resources, such as raw materials and land. Nonetheless, they are considered to be part of the potential of the market and thus, there is no need to include them specifically.

- Question 8: Do you think the model developed can be applied to any company, country or industry?

All the interviewees believe that the model created can be applied to any company, country or industry, but for two of them some changes should be made. For instance, some types of businesses require continuous investments in technology and innovation, which are related to the potential of the market to be entered; therefore, in this case, the model should emphasize these aspects. Based on the outcome, it is believed that if all the suggestions mentioned are included, a general FDI model can be built.

- Question 9: What would you change/add/adapt the model to increase its effectiveness? Explain.

Overall, the stakeholders stated the previous suggestions, which will all be included in the resulting model. However, as taking Brazil into consideration, the geographical aspect was stressed, particularly the distance issue, since logistics planning would be more complex and expensive, due to the country´s size. Therefore, logistics should be also included as a key indicator for the country´s attractiveness.

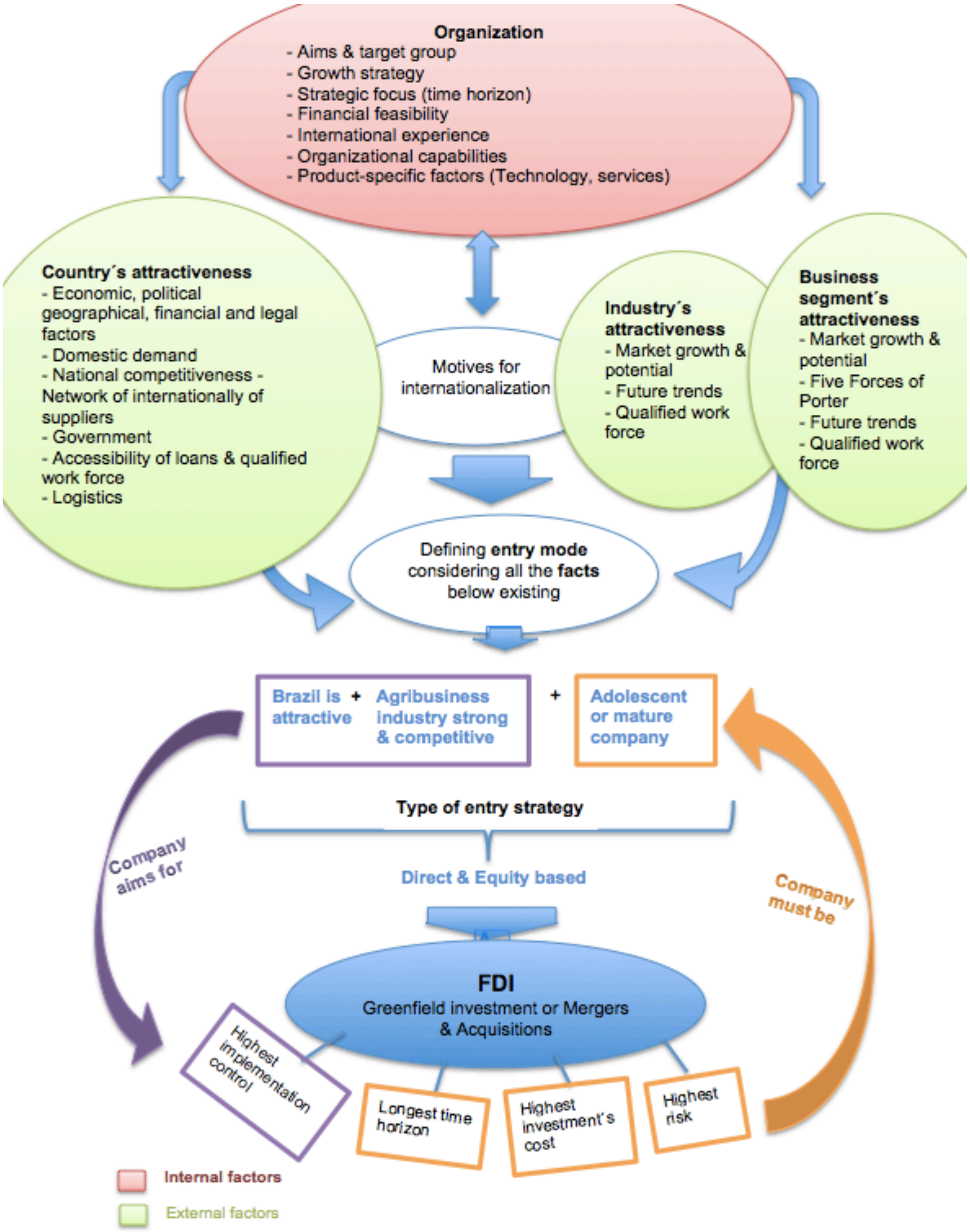
6.3 Outcome revision – applied to the model

Based on the valuable outcome of the qualitative research in which six stakeholders that have insight in the dissertation topic were interviewed, along with the findings of analyzing the reasons of high FDI flows in Brazil and the potential of its agribusiness sector, the resulting FDI model was improved with inclusion of other indicators and making it functional for any company that intends to enter a foreign market through this form of internationalization. As the new version of the model shows (figure 6.4), we added other aspects in the organization sphere, such as the company´s aims and target group, growth strategy, and financial feasibility, with the aim of making a completed analysis of the internal factors before a company decides to go abroad using FDI as the entry mode, since these aspects also intertwined with the motives for internationalization.

To measure the attractiveness of a country, the coincidental factor from the Porter´s six factors is no longer essential; however, it is important to keep in mind that depending on how these unplanned situations are, they can affect the country and therefore create barriers for FDI. In addition, logistics and availability of work force indicators, as well as financial and legal factors that include labor laws and interest rates respectively were added. Finally, the two spheres of the industry and its business segment elements were separated, since we concluded that the five forces are better applied to a specific segment. Afterwards, the future trends and availability of work force were added into the two elements, considering its strong relevancy for elements´ attractiveness.

Figure 6.4: Modified version of FDI model

Further research to improve the model is always valid, but based on our current findings the model below was completed.



7. Conclusion

Due to the influx of companies choosing to enter foreign markets via FDI, the need of a clear understanding as to whether FDI occurrence has certain reasons and conditions arose. By applying several conceptual theories of Porter and other authors into the Brazilian agribusiness sector with the aim of relating the established reasons and conditions for the high FDI inflows in this country and sector, it was determined that some indicators have to be analyzed in the internal and external factors, before companies choose their entry strategy. Based on that, a model was developed to illustrate when and why companies choose FDI to enter foreign markets. This model pointed out attractiveness indicators for FDI of a country, sector, and its segment, as well as the main organizational aspects that should be examined. Thus, a combination or not of these factors would lead to motives for internationalization and in order for FDI to occur, the country must be attractive, the industry and its segment must be competitive and strong, and the company must have a developed level of international experience (adolescent or mature).

Furthermore, the model designed was tested by selecting the GSI Group that entered the Brazilian agribusiness industry, in particular the segment of grain storage through FDI with the aim of checking this model´s efficiency when applied into a real scenario. The findings of this appliance achieve its goal and prove it, adding that the motives for internationalization should be proactive for FDI to occur. Nonetheless, it is believed that more aspects of the elements that define the entry strategy should be investigated and thus, interviews with relevant stakeholders were conducted. The outcome of the qualitative research was very informative, helping us to improve the FDI model created. Changes were made in all the spheres, as previously mentioned in section 6.3, the definitive portions were the extension of countries´ attractiveness indicators such as accessibility of getting loans, the financial feasibility of the company to invest though FDI, in addition to the separation of the industry and segment spheres, in which it is concluded that the five forces of Porter are more effective for studying the segment and that other indicators, as market growth and potential, measure the level of industries' attractiveness.
In summation, according to interviewees, the FDI resulting model could be applied into any country, company, industry, and its segment, meaning that based on grounded theory, a decision making process for companies that intend to enter a foreign market through FDI was built.

8. Recommendations

Improvements of the FDI resulting model can be further carried out in this research by applying it into other companies' cases that are already present in foreign markets via FDI, trying to be more diverse as possible. Also, the features that lead companies to choose between the two forms of FDI, Greenfield investment and M&As, could be further analyzed and perhaps it could be even added to the model.

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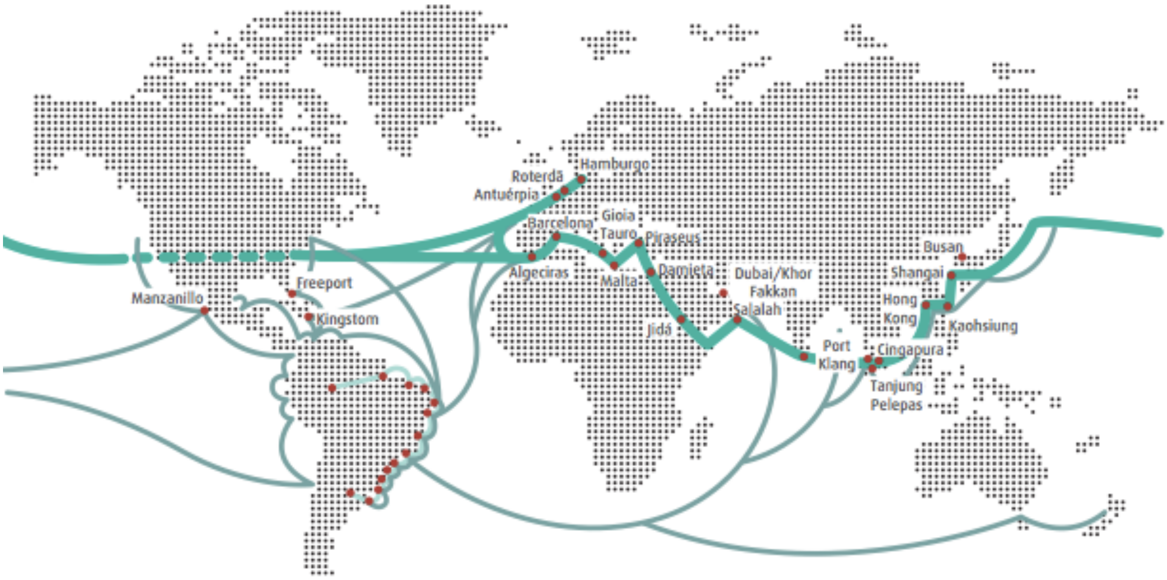
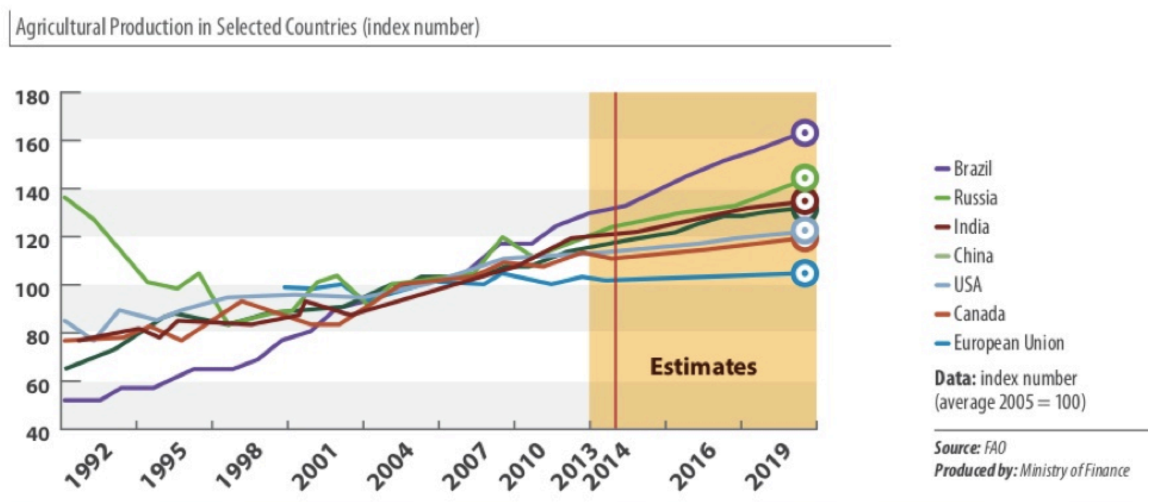
Appendix I – Statistics

Figure 4.1: Flow of Global Transhipment



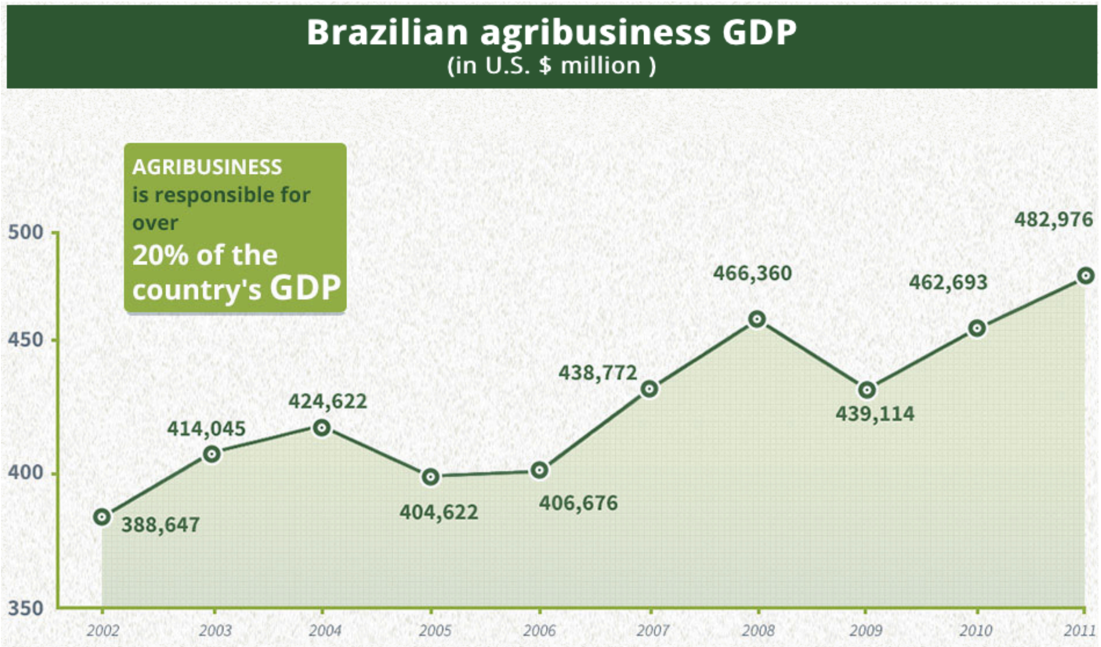
(BRAiN, 2011, p. 40).

Figure 4.2: Agricultural Production in Selected Countries



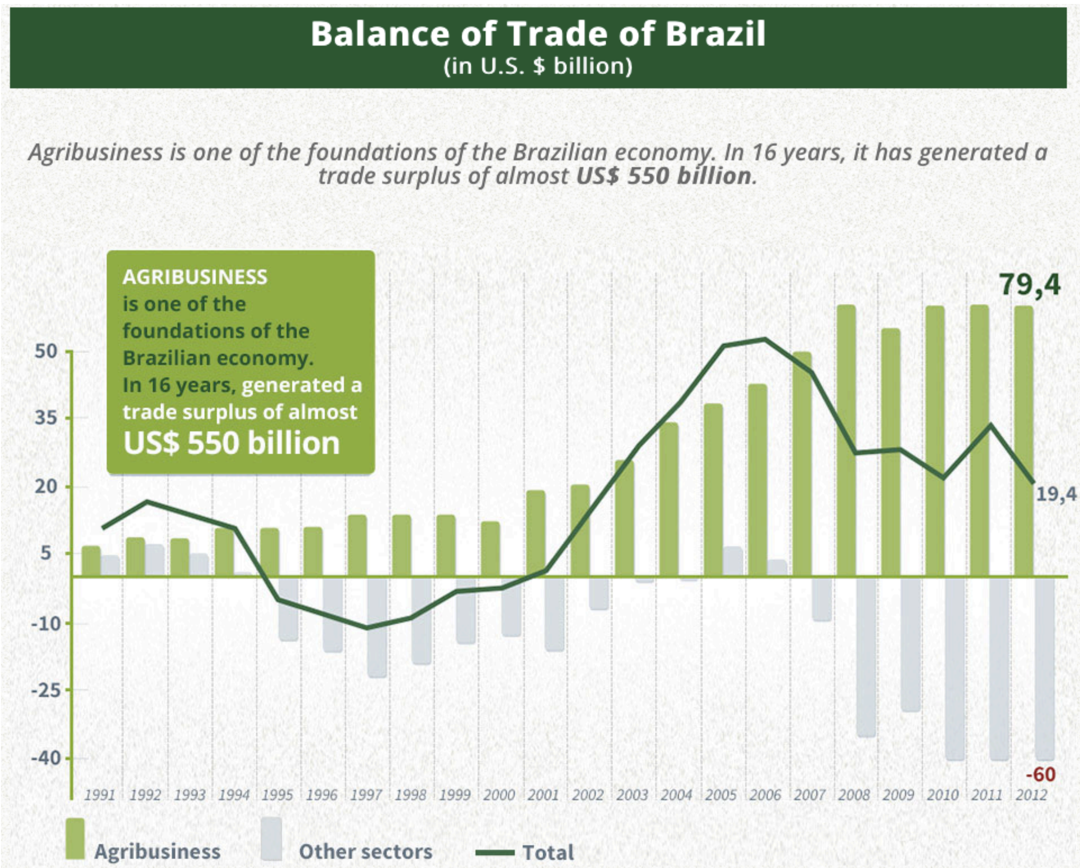
(Brazilian Government – Ministry of Finance, 2012, p. 26)

Figure 4.3: Brazilian Agribusiness GDP



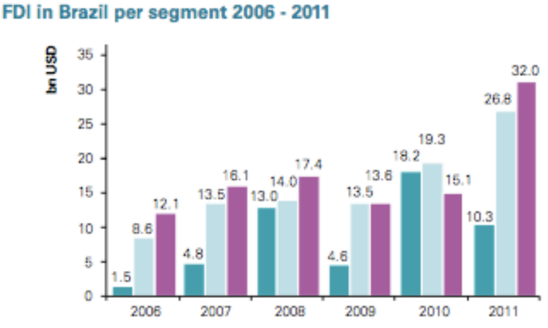
(Brazil Portal, 2014)

Figure 4.4: Balance of Trade of Brazil – Agribusiness and other sectors



(Brazil Portal, 2014)

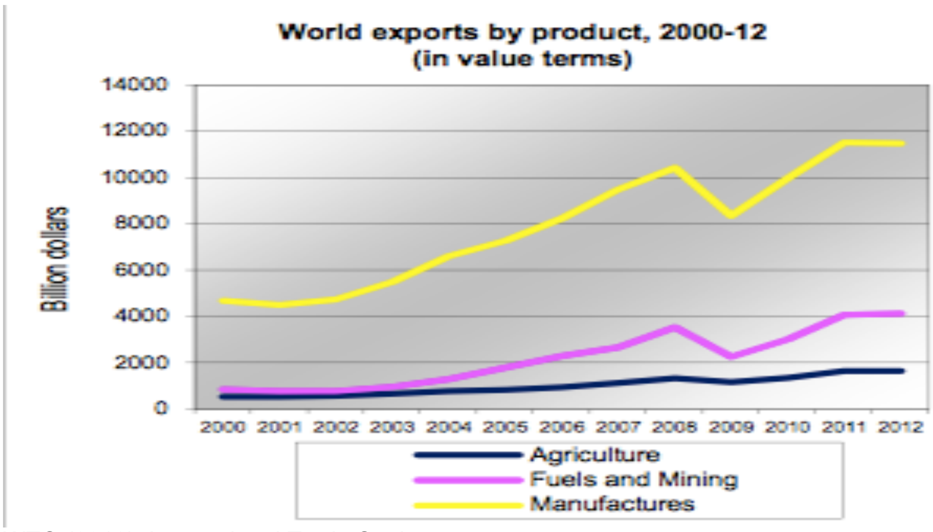
Figure 4.5: FDI in Brazil per segment 2006-2011



CAGR (%)	2006-2009	2009-2011
Agriculture and mineral extraction	44%	50%
Industry	16%	41%
Services	4%	53%
Total	**13%**	**48%**

(KPMG, 2012, p. 9)

Figure 4.6: World export by product, 2000-2012



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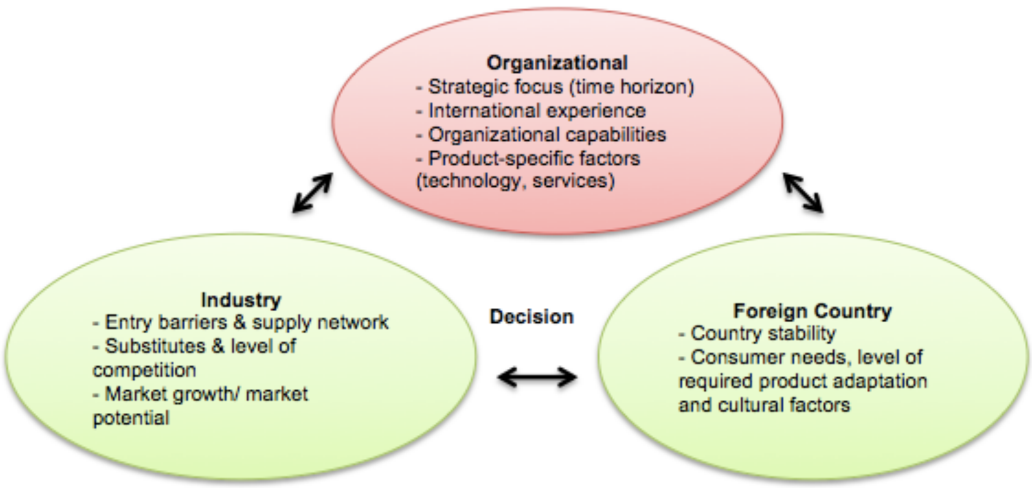
Appendix II – Models

Figure 3.1: Motives for Internationalization of Businesses

Proactive motives	Reactive motives
• Profit and growth goals (ambition to grow) • Managerial urge (desire to export) • Technology competence/unique product (specialized advantages in technology or internationally uncommon product) • Foreign market opportunities • Economies of scale (increasing production for international market might lower production costs) • Tax benefits (profit motivation relying on international agreements)	• Competitive pressure (fear of loosing domestic market share) • Domestic market: small and saturated (many competitors) • Overproduction/excess capacity of storage • Low dependence on customers/suppliers • Stabilization of seasonal factors (product seasonally affected) • Proximity to international customers/suppliers

Adapted from (Hollensen, 2008, p. 35)

Figure 3.2: Elements defining the export market strategy



(Leeman, 2010, p. 61)

Figure 3.3: Nine strategic windows

Preparedness for internationalization / **Industry globally**

	Local	Potentially global	Global
Mature	Entry new business	Prepare for globalization	Strengthen your global position
Adolescent	Consolidate your export market	Consider expansion in the international markers	Seek global alliances
Immature	Stay at home	Seek niches in the international markets	Prepare for a buy-out

(Leeman, 2010, p. 128)

Figure 3.4: Five forces model of Porter

Adapted from (Leeman, 2010, p. 130)

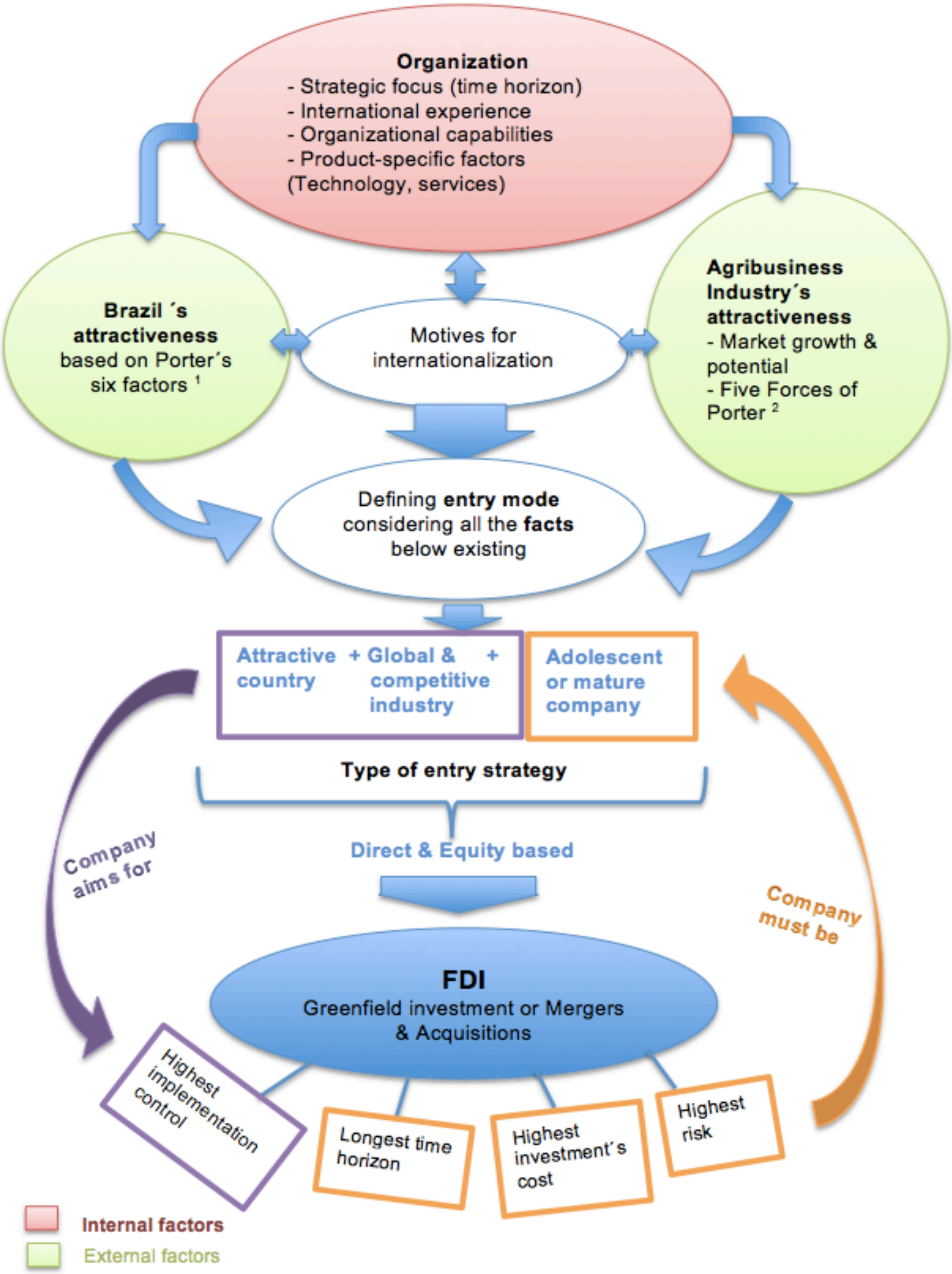
Figure 3.5: Classification of export market entry options

Direct	**Export:** producing products at home and marketing it and shipping it on its own behalf (Veldman, 2010, p. 182).	**Foreign Direct Investment (FDI):** direct investment through partially or complete ownership of facilities in the target market (Ball, Geringer, McNett & Mino, 2012, p. 48).

Indirect	**Agent:** independent intermediary that sells on behalf of the exporter (Leeman, 2010, p. 131). **Distributor:** importer company that stores the producer´s goods, with the control of the selling aspects (Leeman, 2010, p. 131). **Licensing:** company grants a license to a foreign entity the right to produce and sell its product (Veldman, 2010, p. 194). **Franchising:** company grants a franchisee the right to market and sell its product, under the company´s instructions (Leeman, 2010, p. 131).	**Joint Venture (JV):** business agreement between two companies by creating a third one, which has the access of assets and know-how from both of them (Veldman, 2010, p. 211).
	Non-equity	**Equity**

(Leeman, 2010, p. 132)

Figure 5.1: FDI Model for companies entering the Brazilian agribusiness industry



[1] Six factors to measure competitiveness of countries from Porter – explanation founded in section 5.1.2
[2] Five forces of Porter industry analysis – explanation founded in section 5.1.3

Figure 5.2: FDI Model for companies entering the Brazilian agribusiness industry (GSI Group case study)

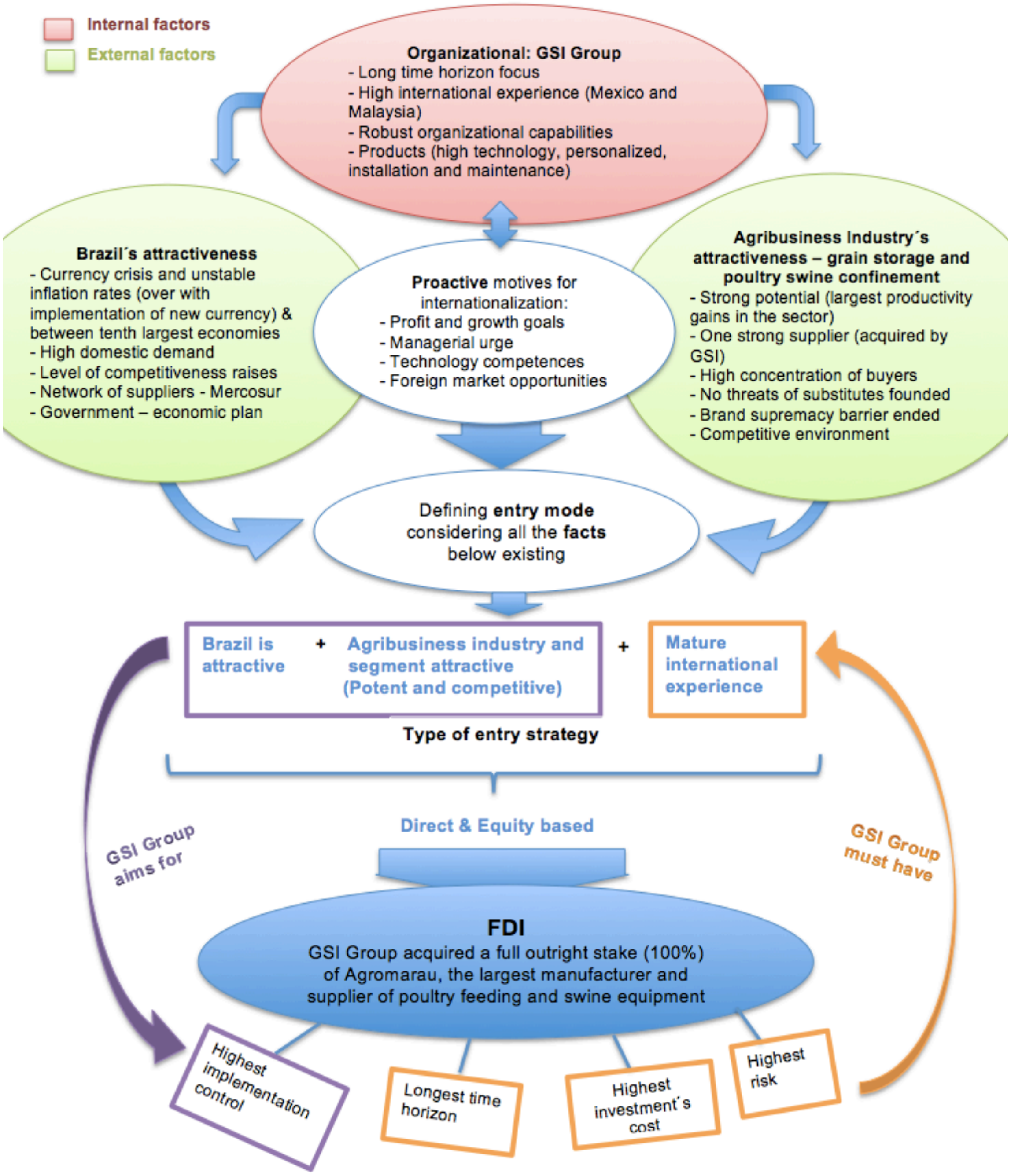
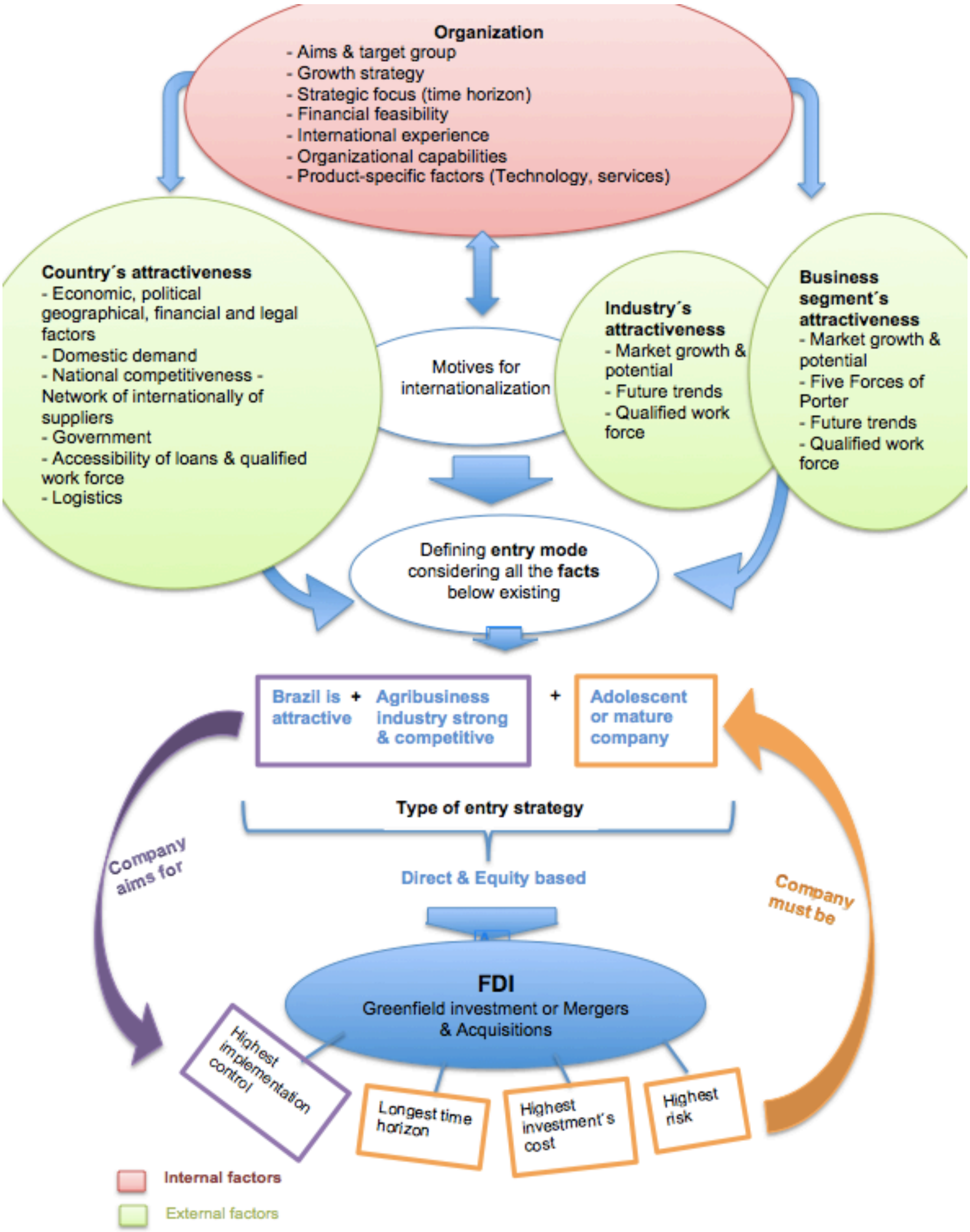


Figure 6.4: Modified version of FDI model



Appendix III – Questionnaire´s results

Figure 6.2: Results of the questions (1a, 2a, 3a and 4a)

According to our model	Choices	I1	I2	I3	I4	I5	I6	Total	%
1a) Main aspects considered in a company seeking to internationalize	**Strategic focus (time horizon)**		✔	✔	✔	✔	✔	5	83.33%
	International experience	✔	✔	✔	✔	✔	✔	6	100%
	Organizational capabilities	✔	✔	✔	✔	✔	✔	6	100%
	Product-specific factors (Technology, services)	✔	✔	✔	✔	✔		5	83.33%
2a) Key indicators that make a country attractive for FDI?	**Economic, political and geographical factors**	✔	✔	✔	✔	✔	✔	6	100%
	Domestic demand	✔	✔	✔	✔	✔		5	83.33%
	National competitiveness		✔	✔	✔	✔	✔	5	83.33%
	Network of internationally suppliers		✔	✔	✔		✔	4	66.66%
	Coincidental factors (unplanned events)		✔	✔	✔			3	50%
	Government incentives		✔	✔	✔	✔		4	66.66%
3a) Key indicators should be considered to analyze the degree of attractiveness of a sector and its segments?	**Market growth & potential**	✔	✔	✔	✔	✔	✔	6	100%
	Suppliers		✔	✔	✔	✔		4	66.66%
	Customers/buyers		✔	✔	✔	✔	✔	5	83.33%
	Substitutes		✔	✔	✔	✔		4	66.66%
	Entry barriers		✔	✔	✔	✔	✔	5	83.33%
	Competitive rivalry			✔	✔	✔		3	50%
4a) In the case of Brazil and its agribusiness industry and segments, which conditions must exist to permit FDI?	**Attractive country**	✔	✔	✔	✔	✔	✔	6	100%
	Global & competitive industry	✔	✔	✔	✔	✔		5	83.33%
	Adolescent or mature company	✔	✔		✔	✔	✔	5	83.33%

Terminology: ¨I1¨ = Interviewee 1 and ✔ = selected

Following the colors of the model:

■Internal factors ■External factor ■Conditions to occur FDI

Figure 6.3: Results of the question (5,6 and 8)

Questions	Choices	I1	I2	I3	I4	I5	I6	Total	%
5) Assuming the attractiveness of Brazil and its the agribusiness sector and segments, the company will aim for full control of international operations?	**True**		✔	✔	✔	✔		4	66.66% True
	False	✔					✔	2	33.33% False
6) Considering the long implementation time, high cost and risk of FDI, the company must have a high or average international experience?	**True**	✔	✔	✔	✔	✔	✔	6	100% True
	False							0	n/a
7) Do you think our model clearly shows the indicators and the conditions that would lead a company to opt for FDI to enter the Brazilian agribusiness sector? Why?	**Yes**	✔	✔	✔	✔	✔		5	83.3% Yes
	No						✔	1	16.66% No

Terminology: ¨I1¨ = Interviewee 1 and ✔ = selected

Following the colors of the model:

Company aims for Company must be Conditions to occur FDI

Appendix IV – CD Content

Content of the attached CD are the PDF reports used in the desk research:

1. Alguacil, Cuadros & Orts - The role of macroeconomic and institutional environment
2. APA Style Guide and Quick Reference
3. BRAiN – Conectividade
4. BRAiN - Brazil attractiveness
5. Caracterizaçao do cenário macroeconomico
6. Ernst&YoungTerco - Sustainable Brazil Brazil's perspectives in the agricultural industry
7. HEBO ES3 Guide for Final Project and Dissertation 2013-2014
8. KPMG - Investing in Brazil
9. The Global Competitiveness Report 2013-14